PORTLAND GENERAL ELECTRIC

OPUC REGULATORY REPORTING

Earnings Test Assuming Boardman Deferral Recovery and No Income Tax Refund

October 1, 2005 - September 30, 2006

(Thousands of Dollars)

Regulatory adjustments based on **Docket UE-115, Order 01-777.**	Actual Financial Statements	Type I Accounting Adjustments	Regulated Utility Actuals	Type I Adjustments	Regulated Adjusted Results	Boardman Deferral	Regulated Adjusted Results with Boardman
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Operating Revenues							
Sales to Consumers	1,330,776	0	1,330,776	0	1,330,776	0	1,330,776
Sales for Resale	143,436	(143,436)	0	0	0	0	0
Other Operating Revenues	16,820	(5,016)	11,804	(4,863)	6,940	26,439	33,379
Total Operating Revenues	1,491,031	(148,452)	1,342,579	(4,863)	1,337,716	26,439	1,364,155
Operation & Maintenance							
Net Variable Power Cost	804,821	(177,261)	627,560	(13,855)	613,705	0	613,705
Total Fixed O&M	139,754	0	139,754	0	139,754	0	139,754
Other O&M	160,555	3,462	164,017	(10,412)	153,605	0	153,605
Total Operation & Maintenance	1,105,129	(173,799)	931,330	(24,266)	907,064	0	907,064
Depreciation & Amortization	222,740	0	222,740	0	222,740	0	222,740
Other Taxes / Franchise Fee	74,604	0	74,604	(157)	74,447	0	74,447
Income Taxes	15,912	16,897	32,809	7,703	40,512	10,392	50,904
Total Oper. Expenses & Taxes	1,418,385	(156,901)	1,261,484	(16,720)	1,244,764	10,392	1,255,156
Utility Operating Income	72,646	8,449	81,095	11,857	92,952	16,047	108,999
Rate of Return	4.00%		4.47%		5.13%		6.01%
Return on Equity	1.56%		2.39%		3.55%		5.11%

P O R T L A N D   G E N E R A L   E L E C T R I C

O P U C   R E G U L A T O R Y   R E P O R T I N G

Earnings Test Assuming Boardman Deferral Recovery and Income Tax Refund

October 1, 2005 - September 30, 2006

(Thousands of Dollars)

Regulatory adjustments based on **Docket UE-115, Order 01-777.**	Actual Financial Statements	Type I Accounting Adjustments	Regulated Utility Actuals	Type I Adjustments	Regulated Adjusted Results	Tax and Boardman Deferral	Regulated Adjusted Results with Boardman
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Operating Revenues							
Sales to Consumers	1,330,776	0	1,330,776	0	1,330,776	0	1,330,776
Sales for Resale	143,436	(143,436)	0	0	0	0	0
Other Operating Revenues	16,820	(5,016)	11,804	(4,863)	6,940	(161)	6,779
Total Operating Revenues	1,491,031	(148,452)	1,342,579	(4,863)	1,337,716	(161)	1,337,555
Operation & Maintenance							
Net Variable Power Cost	804,821	(177,261)	627,560	(13,855)	613,705	0	613,705
Total Fixed O&M	139,754	0	139,754	0	139,754	0	139,754
Other O&M	160,555	3,462	164,017	(10,412)	153,605	0	153,605
Total Operation & Maintenance	1,105,129	(173,799)	931,330	(24,266)	907,064	0	907,064
Depreciation & Amortization	222,740	0	222,740	0	222,740	0	222,740
Other Taxes / Franchise Fee	74,604	0	74,604	(157)	74,447	0	74,447
Income Taxes	15,912	16,897	32,809	7,703	40,512	(63)	40,449
Total Oper. Expenses & Taxes	1,418,385	(156,901)	1,261,484	(16,720)	1,244,764	(63)	1,244,701
Utility Operating Income	72,646	8,449	81,095	11,857	92,952	(98)	92,854
Rate of Return	4.00%		4.47%		5.13%		5.12%
Return on Equity	1.56%		2.39%		3.55%		3.54%

PORTLAND GENERAL ELECTRIC

OPUC REGULATORY REPORTING

Earnings Test Assuming no Boardman Deferral Recovery and Income Tax Refund

October 1, 2005 - September 30, 2006

(Thousands of Dollars)

Regulatory adjustments based on **Docket UE-115, Order 01-777.**	Actual Financial Statements	Type I Accounting Adjustments	Regulated Utility Actuals	Type I Adjustments	Regulated Adjusted Results	Income Tax Deferral	Regulated Adjusted Results with Boardman
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Operating Revenues							
Sales to Consumers	1,330,776	0	1,330,776	0	1,330,776	0	1,330,776
Sales for Resale	143,436	(143,436)	0	0	0	0	0
Other Operating Revenues	16,820	(5,016)	11,804	(4,863)	6,940	(26,600)	(19,660)
Total Operating Revenues	1,491,031	(148,452)	1,342,579	(4,863)	1,337,716	(26,600)	1,311,116
Operation & Maintenance							
Net Variable Power Cost	804,821	(177,261)	627,560	(13,855)	613,705	0	613,705
Total Fixed O&M	139,754	0	139,754	0	139,754	0	139,754
Other O&M	160,555	3,462	164,017	(10,412)	153,605	0	153,605
Total Operation & Maintenance	1,105,129	(173,799)	931,330	(24,266)	907,064	0	907,064
Depreciation & Amortization	222,740	0	222,740	0	222,740	0	222,740
Other Taxes / Franchise Fee	74,604	0	74,604	(157)	74,447	0	74,447
Income Taxes	15,912	16,897	32,809	7,703	40,512	(10,455)	30,057
Total Oper. Expenses & Taxes	1,418,385	(156,901)	1,261,484	(16,720)	1,244,764	(10,455)	1,234,309
Utility Operating Income	72,646	8,449	81,095	11,857	92,952	(16,145)	76,807
Rate of Return	4.00%		4.47%		5.13%		4.24%
Return on Equity	1.56%		2.39%		3.55%		1.97%

PGE
Portland General Electric Company
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Douglas C. Tingey
Assistant General Counsel

November 30, 2007

Via Electronic Filing and Messenger

Oregon Public Utility Commission
Attention: Filing Center
550 Capitol Street NE, #215
PO Box 2148
Salem OR 97308-2148

Re: UM 1224 – URP Income Tax OPUC Deferral Request

Attention Filing Center:

Enclosed for filing in UM 1224 are an original and five copies of:

- **Direct Testimony of Patrick G. Hager, Bob Tamlyn and Jay Tinker; and**
- **Exhibits (PGE/101, 103).**

Also enclosed are three copies of:

- **Workpapers.** (Non-Confidential Workpapers are in Excel file format and will be sent electronically).

These documents are being filed electronically.

Also enclosed in a separate sealed envelope for the Salem Safe Room are an original and one hard copy of Exhibit 102C, which is Highly Confidential under Protective Order 07-520.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

DOUGLAS C. TINGEY

DCT: saa
Enclosures
cc: Service List-UM 1224

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

UM 1224
2005 Tax Deferral

PORTLAND GENERAL ELECTRIC COMPANY

&

OREGON PUBLIC UTILITY COMMISSION

Direct Testimony and Exhibits

November 30, 2007

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

2005 Tax Deferral

PORTLAND GENERAL ELECTRIC COMPANY
&
OREGON PUBLIC UTILITY COMMISSION

Redacted: Direct Testimony and Exhibits of

Patrick G. Hager – Bob Tamlyn – Jay Tinker

November 30, 2007

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I. Introduction

Q. Please state your names and positions with PGE.

A. My name is Patrick G. Hager. I am the Manager of Regulatory Affairs for PGE.

My name in Bob Tamlyn. I am the Tax Director for PGE.

My name is Jay Tinker. I am a Project Manager for PGE. My areas of responsibility include revenue requirement analyses and other regulatory analyses.

Our qualifications appear at the end of this testimony.

Q. What is the purpose of your testimony?

A. Our testimony:

- Summarizes the Commission's Order 07-351.
- Calculates the deferred amount for the relevant period of October 5, 2005, through December 31, 2005, using the methodology adopted by the Commission in its administrative rule (OAR 860-022-0041) and referred to as the SB 408 methodology.
- Presents considerations to the Commission for using alternative methods to derive the deferred amount other than the use of the SB 408 methodology, and
- Presents an earnings test which shows that, irrespective of the method selected to calculate the deferred amount, the Commission should find that PGE's earnings during the relevant period were insufficient to warrant amortization of the deferral.

Q. How is your testimony organized?

A. After this introduction, Section II summarizes the Commission's Order 07-351 related to both UM 1224 and UM 1226 and provides a calculation of the deferred amount pursuant to that Order. Section III provides a rationale for alternative calculations of the deferred amount using alternative methods. Section IV provides PGE's earnings test for the deferral period, and finally, Section V provides our qualifications.

Q. What are PGE's conclusions regarding this docket?

A. We conclude that:

- The Commission has broad authority and discretion under the deferral statute. Therefore, they need not adhere to the methodology for calculating "taxes collected" and "taxes paid" as defined in OAR 860-022-0041.
- There are good policy reasons for not adhering to the SB 408 methodology for calculating deferred amounts, including avoiding the double whammy problem inherent in the law as well as the asymmetry of the treatment of consolidated tax effects.
- Irrespective of how one calculates the deferred amount, an earnings test of the relevant period is required by ORS 757.259 and shows that PGE's earnings were deficient during the period. Therefore, no amortization (refund) of the deferred amount should occur.

II. Review of Order 07-351 and Calculation of Deferral Amount

Q. What did the Commission determine in Order 07-351?

A. The Commission dismissed URP's complaint docketed as UM 1226, granted deferred accounting treatment under ORS 757.259 for the period October 5, 2005, through December 31, 2005, and ordered PGE to provide a calculation of the deferred amount consistent with the SB 408 methodology. Since the Commission approved the deferral under ORS 757.259, the Commission also ordered PGE to file an earnings test to determine if amortization of any deferred amounts should be limited on the basis of earnings. Exhibit 101 is a copy of Order 07-351.

Q. What is the SB 408 methodology?

A. The SB 408 methodology is embodied in OAR 860-021-0041, approved by the Commission in Docket AR 499, with some modifications in Docket AR 517. The rule requires the development of both Taxes Collected and Taxes Paid on an annual basis and establishes an automatic adjustment clause to refund or collect differences in excess of $100,000. PGE files a report annually by October 15 detailing the development of these items for the prior three years.

Q. Has PGE already filed information relevant to calculating any deferred amounts pursuant to the SB 408 method?

A. Yes. On October 15, 2007, PGE filed its tax report covering the years 2004 through 2006. The report complies with OAR 860-022-0041. The report is currently under review in docket UE 178 with a tariff change expected to go into effect June 1, 2008, related to the difference between Taxes Paid and Taxes Collected under SB 408 associated with calendar year 2006. This same report provides information that can be used to calculate the deferred amount in this docket. Exhibit 102 is a copy of the 200 portion of the tax report filed in UE 178. Note that the tax report is highly confidential and is subject to Protective Order issued in this docket (Order 07-520), which provides the same protection as Order 06-033 provides in UE 178.

Q. How much did PGE report as the difference between Taxes Paid and Taxes Collected under SB 408 associated with calendar year 2005?

A. PGE reported a difference of $111.6 million. This calculation was derived by applying OAR 860-022-0041 to calendar year 2005 to derive Taxes Paid and Taxes Collected as provided in PGE's tax report.

Q. Did you adjust this result for purposes of the deferral calculation?

A. Yes. The $111.6 million difference for 2005 reflects $1.2 million of Multnomah County income Taxes Collected for 2005. We have adjusted the net result to remove the impact of presumed Multnomah County income Taxes Collected under SB 408. The net difference for 2005 after removal of these collections is $110.4 million.

Q. Why did you make this adjustment?

A. PGE was a party to a settlement regarding Multnomah County income tax collections covering the period through early October 2005. For the remainder of 2005, PGE's tariff rider to collect these taxes was set to zero. As a result, for purposes of this deferral calculation, any presumed collections of Multnomah County income taxes for 2005 should be set to zero to avoid double counting the refund under the settlement with a deferral in this docket.

Q. How can the net $110.4 million amount be used to calculate the deferral amount in this docket if the Commission uses the SB 408 methodology?

A. Since the deferral period is October 5, 2005, through December 31, 2005, we can calculate the deferral amount of $26.6 million as a fraction of the 2005 calendar year difference between Taxes Paid and Taxes Collected under SB 408, or:

$110.4 million * (88 days / 365 days) = $26.6 million

Thus, application of the SB 408 method to derive the deferral amount would yield a $26.6 million refund to customers associated with the difference between Taxes Paid and Taxes Collected under SB 408 during the period October 5, 2005, through December 31, 2005.

Q. Why was there such a substantial difference between Taxes Paid and Taxes Collected under SB 408 for 2005?

A. To understand why PGE had such a substantial difference between Taxes Paid and Taxes Collected under SB 408 in 2005, it is necessary to understand how SB 408 works. In broad terms, the law can be understood by reviewing the two components of the calculation, Taxes Collected and Taxes Paid.

Q. How are Taxes Collected determined under SB 408?

A. Taxes Collected are defined as the product of three figures: actual tariff revenue, and two ratios, the net to gross and effective tax rates. The ratios are derived using rate case data based on the assumptions used to set rates.

Q. What impact does the use of rate making ratios have in determining taxes collected?

A. The use of ratemaking ratios implies that a certain percentage of each dollar collected through tariff revenues can be thought of as representing collections of income taxes. For example, if the net to gross ratio is 10% and the effective tax rate is 30% as determined using rate case data, than the product of those two ratios is 3% (10% * 30%). In the context of Taxes Collected under SB 408, it will be assumed that 3% of each dollar of actual tariff revenue is a collection of income taxes.

Q. Isn't this a reasonable assumption to make regarding income tax collections?

A. No. PGE argued in the AR 499 rulemaking proceeding that this approach to determining Taxes Collected would result in unintended results. Specifically, since income taxes are dependent upon all other costs and revenues, to blindly attribute a percentage of each dollar of tariff revenues as for income taxes results in a "double whammy" problem, whereby the volatility of the utility's financial results are exacerbated by the application of the law. For example, if a utility incurs additional costs not forecast in a rate case, the utility will also have, all else equal, a lesser tax liability than forecast in the rate case. This amounts to a double whammy since the utility will incur the higher cost without recovery and as a result of incurring higher costs than recovered in rates, will also refund the tax effect of the higher costs through SB 408. Similarly, if a utility incurs a lower level of costs than forecast in a rate case, the utility will have, all else equal, a greater tax liability than forecast in the rate case. This is also a double whammy since the benefit of lower costs accrues to the utility, and as a result of accruing that benefit, will also collect the tax effect of lower costs through SB 408.

Q. Is the double whammy problem independent of any effects due to consolidation of income taxes at a parent company?

A. Yes. A utility could be purely stand-alone, meaning it has no subsidiaries, no sister companies and no parent company and still be faced with this problem. It is simply inherent in the simplistic nature of the SB 408 definition of Taxes Collected. Rate case estimates of costs are never perfect. The imperfections of those cost estimates are amplified by SB 408 which effectively penalizes those estimates by introducing additional financial implications for inaccurate cost estimates in a rate case.

Q. What was the main purpose of SB 408?

A. From our understanding, the 2005 Oregon Legislature was concerned with what was coined the "Enron problem", whereby a utility would send cash to its parent company to cover its stand-alone income tax liability, only to have the parent company not in turn pay taxing entities due to consolidated losses at other companies within a larger corporate structure.

Q. How does SB 408 solve the "Enron problem?"

A. SB 408 handled the effects of consolidation primarily though its determination of Taxes Paid. Specifically, it uses a lesser-of test between three different calculations of Taxes Paid:

1. Consolidated Taxes Paid,
2. Consolidated and apportioned Taxes Paid, and
3. Utility stand-alone Taxes Paid.

Thus, if a utility is part of a larger corporate structure with subsidiaries, sister companies or a parent company, if the net effect of those non-utility companies is to reduce the consolidated tax liability relative to the stand-alone utility tax liability, at least some of the consolidated tax savings will be ascribed to the utility in determining Taxes Paid under SB 408.

Q. Do customer rates reflect the costs that produce consolidated tax savings?

A. No. A long standing tradition in utility rate regulation is to only allow recovery of costs associated with electric service. As such, costs that may be incurred by a sister, subsidiary, or parent company are not authorized to be included in rates.

Q. Does SB 408 create an asymmetry with regard to the treatment of non-utility costs?

A. Yes. While the prohibition remains against recovery of costs outside those necessary for providing utility service, SB 408 introduces the potential for consolidated tax benefits to flow through to customers due to the impact of those costs on the consolidated tax return.

Q. Can't SB 408 produce additional collections from customers if consolidation effects increase the consolidated tax liability of the parent company?

A. No. By using the "lesser-of" test described above, SB 408 ensures that customers only benefit from consolidated tax savings. They cannot be charged more if the net effect of consolidation is higher income taxes than the stand-alone utility result.

Q. Getting back to PGE's 2005 results, what are the drivers of PGE's $110.4 million difference between Taxes Paid and Taxes Collected under SB 408?

A. The roots of PGE's difference between Taxes Paid and Taxes collected under SB 408 relate to both consolidation effects and double whammy impacts at the utility level. During 2005, PGE was a member of Enron's consolidation tax return. PGE sent funds to Enron to cover our stand-alone current tax liability, amounting to $91.9 million. However, Enron's consolidated tax return resulted in effectively zero current taxes due for the year. Thus, consolidated tax savings attributed back to the utility through SB 408 contributed significantly to the net result of SB 408. Further, PGE's utility financial results were poorer than rate case estimates. As shown later in section IV on the earnings test, PGE's earned ROE was substantially below the authorized level of 10.5% determined in UE 115. The net result of under-earning at the utility level contributes an additional $23.8 million[1] through the double whammy effect described above.

[1] Per application of SB 408 rules, the presumed collection of income taxes was $69.5 million for 2005. PGE's actual net (current and deferred) stand-alone utility tax liability for 2005 was $45.7 million per PGE's 2005 10K. The difference, $23.8 million, is a measure of the double whammy impact of SB 408.

Q. Did PGE's customers pay the costs associated with non-PGE losses in Enron's consolidated tax return?

A. No. Rates established in UE 115 reflected estimates of PGE's stand-alone costs for the 2002 test year.

III. Alternative Deferral Calculations

Q. Is the Commission required to use the SB 408 methodology for calculating the deferral amount?

A. No. This is a deferral under ORS 757.259. The Commission has broad authority to determine how to calculate any deferral amount associated with the deferral period. The Commission may have felt compelled by the Oregon legislature to adopt OAR 860-022-0041 as written to comply with SB 408. However, as explained in Order 06-532 in AR 499, the Commission indicated it would consider double whammy in the context of other proceedings.

Q. Why should the Commission use an alternative calculation for determining the deferral amount?

A. The Commission should consider alternatives to the SB 408 methodology due to the infirmities described previously. The SB 408 methodology introduces a double whammy problem through its definition of Taxes Collected and introduces asymmetries regarding the treatment of consolidated tax effects through its lesser-of test for determining Taxes Paid and further asymmetries regarding the treatment of non-utility costs by ascribing the tax benefits of non-utility costs to customers who bear no responsibility for the costs themselves. The Commission should conclude that an appropriate policy for deferrals under ORS 757.259 related to income taxes would not contain these drawbacks.

Q. Does the deferred accounting statute itself and the Commission's historical policies in applying deferred accounting suggest another reason for departing from SB 408 to determine a deferred amount in this docket?

A. Yes. ORS 757.259(2)(d) indicates that only utility revenues or expenses are eligible for deferral if they either minimize the frequency of rate changes or match appropriately the costs borne by and benefits received by customers. The principle of matching costs and benefits was the foundation of the Commission's stand-alone policy. Under that principle, customers should only be entitled to tax benefits associated with costs for which they bear responsibility. Customers bore no responsibility for either Enron losses or for PGE utility expenses in excess of those assumed in rates.

Q. What approach does PGE recommend to calculating the deferred amount?

A. PGE recommends that the Commission find that the deferred amount is zero since PGE has not, in fact, over-collected income taxes during the deferral period.

Q. Why do you say that PGE did not over-collect income taxes during the deferral period?

A. A more appropriate comparison to determine excess or deficient income tax collections is to compare two different stand-alone cases. The first stand-alone case is that which was assumed in the ratemaking process, consistent with the presumed level of costs and the Commission-allowed ROE. For PGE during 2005, the relevant rate case stand-alone computation comes from UE 115, in which the estimated tax collections consistent with ratemaking assumptions totaled $75.0 million (See Order 01-777, Appendix G). The second stand-alone case is the actual utility income tax liability, which reflects actual utility revenues and costs. As indicated above, this amount totals $45.7 million for 2005 and is a better indication of actual income tax collections as it reflects the derivative nature of income taxes. Thus, an appropriate comparison that is more consistent with deferred accounting policy would be a comparison of actual income tax collections based on financial results ($45.7 million for PGE) versus "presumed" collection of income taxes consistent with the ratemaking assumptions used in the last relevant rate case ($75.0 million). On this basis, PGE under-collected during 2005 and there should be no deferred amount.

Q. Are there any other reasons why this method of determining income tax deferred amounts is superior to the SB 408 method?

A. Yes. If PGE's income tax collections were excessive, then its earnings would also be excessive since income taxes depend on other utility costs and, as a result, its actual stand-alone income tax liability would exceed the rate case estimate. As section IV shows, PGE in fact significantly under-earned during the relevant earnings test period and, as a result, our stand-alone tax liability was in fact under the ratemaking estimate used in UE 115. The approach of reviewing the actual stand-alone income tax liability to determine a deferral amount for income taxes avoids the double whammy problem described previously because it does not introduce a notion of "fixed" rate recovery percentages for a cost that is in fact derivative of other costs. Second, an approach of looking at utility earnings to determine the deferral amount doesn't allow consolidation to factor into the calculation. This is appropriate since customers are not responsible for the costs that might produce tax benefits at the consolidated level. This is consistent with the policy long in place at the Commission prior to the passage of SB 408 and is consistent with historical deferred accounting policies.

Q. Does PGE suggest an alternative approach to calculating the deferred amount?

A. Yes. Absent a finding of a zero deferred amount, PGE recommends that the Commission at a minimum adjust the SB 408 result for the impact of the double whammy since it goes beyond fixing the "Enron problem" that was the focus of the legislature and because the Commission explicitly indicated it would consider this effect in other dockets.

Q. How can the SB 408 results be adjusted to remove the double whammy impact from 2005?

A. The double whammy impact can be removed from 2005 by replacing the SB 408 definition of taxes collected with the actual income tax liability for PGE reported in our SEC Form 10K for 2005, which reflects the actual stand-alone tax liability for PGE. This removes the double whammy effect by defining taxes collected based our actual costs and revenues from which taxes are derived instead of assumed fixed percentages of revenues. If the Commission removed the impact of the double whammy from the SB 408 method, the 2005 difference between Taxes Paid and Taxes Collected would be $86.6 million and, pro-rated to the deferral period would be $20.9 million. Table 1 below summarizes the various deferral amount calculations:

Table 1

Deferral Method	Calendar 2005	Pro-Rated Deferral Period
Review of PGE's Earnings	Zero	Zero
SB 408 Adjusted to Remove Double Whammy	$86.6 million	$20.9 million
SB 408 Unadjusted	$110.4 million	$26.6 million

IV. Earnings Test

Q. What is the purpose of the earnings test?

A. The purpose of the earnings test is to determine whether the utility's earnings during the relevant period warrant amortization of any deferred amounts. Deferred accounting relief is extraordinary and is only granted if earnings support amortization.

Q. Is an earnings test required in this case?

A. Yes. It is required under ORS 757.259 and the Commission ordered it in Order No. 07-351.

Q. What were PGE's earnings before consideration of any refunds to customers?

A. Without any refund, PGE's regulated adjusted ROE for the 12-month period that includes the income tax deferral period is only 3.55%, far below its authorized 10.5% ROE for the period. Exhibit 103 provides the earnings test.

Q. Isn't PGE seeking recovery of deferred Boardman replacement power costs that could impact the earnings test for this proceeding?

A. Yes. In docket UE 196, PGE is seeking $26.4 million in Commission approved deferred power costs associated with a Boardman outage over the period November 18, 2005, through February 6, 2006. However, even if PGE is granted amortization of the full deferred amount in UE 196, its regulated adjusted ROE will rise to only 5.11% during the earnings test period, still far below its authorized ROE of 10.5%. Thus, the Commission should deny the amortization of any deferred amounts in this proceeding.

Q. What is the period used for review of PGE's earnings?

A. The period is October 1, 2005, through September 30, 2006.

Q. Why did PGE select this period for the earnings test?

A. The earnings period needs to encompass the entire deferral period. We chose this period because it covered the deferral period and it provides a review of the most recent level of earnings possible. Therefore, we believe that this period is a reasonable period for an earnings review.

Q. Does this earnings test period also correspond to the earnings test period used in UE-196?

A. Yes. This is the same earnings test period used in UE 196. We believe this is appropriate since the deferral period in that docket and in this proceeding are very similar.

Q. What standards did PGE apply to develop the earnings test?

A. Generally, the standards that apply to the earnings test are:

- Commission decisions from UE 82 (Order No. 93-257), UE 115 (Order No. 01-777), and UM 1234 (Order No. 07-049).
- Staff letter on Results of Operations Reports dated March 25, 1992.

Q. How did PGE perform the earnings test for this income tax deferral?

A. PGE performed the earnings test similar to the method we use to prepare our annual Results of Operations Report. To do this, we applied accounting and regulatory adjustments (based on the UE 115 rate case) to our actual operating results. This calculation produces an ROE that represents our regulated adjusted results. We then compared this regulated ROE to our authorized ROE.

Q. Did PGE make any changes to the standard method used to prepare the Results of Operations Report?

A. Yes. Based on Commission Order No. 93-257, referenced above, we did not normalize power costs during the review period. Instead, we only controlled for the second Boardman outage, which occurred from February 6, 2006, to May 31, 2006, and for which PGE agreed to hold customers harmless. To accomplish this, PGE estimated power costs by applying a forced outage rate equal to (1 – 0.935) during Boardman's second outage. This results in an earnings test that assumes Boardman was operating from February 6 through May 31 at a performance level consistent with that used to set rates during the period. It is also consistent with PGE's rebuttal testimony in Docket UM 1234.

Q. Is PGE "under-earning" even if it does not refund any deferred amounts from this docket?

A. Yes. Without refunding the deferral amount, PGE's earned ROE on a regulated adjusted basis is 3.55% before recovery of deferred amounts in UE 196 and only 5.11% after recovery of deferred amounts in UE 196. Both levels of ROE are well below the 10.5% ROE authorized in UE 115 and hence, no refund of deferral amounts should occur in this proceeding.

Q. Is PGE's state of "under-earning" exacerbated by a refund in this docket?

A. Yes. If, for example, PGE were required to refund $26.6 million in this docket, PGE's ROE would be reduced to 3.54% assuming PGE recovered deferred power costs in UE 196, and only 1.97% if PGE were also denied recovery of deferred power costs in UE 196.

V. Qualifications

Q. Mr. Hager, please describe your qualifications.

A. I received a Bachelor of Science degree in Economics from Santa Clara University in 1975. I received a Masters of Arts degree in Economics from the University of California at Davis in 1978, with a concentration in public finance, international trade and finance, and applied econometrics. I've completed all course work and examinations towards my Ph.D. I joined PGE in 1984 as a business analyst. I have also taught financial markets at the undergraduate and graduate levels at Portland State University. In 1995, I passed the examination for the Certified Rate of Return Analyst (CRRA). I have also passed all three levels of the Chartered Financial Analyst (CFA) exam and received my charter in December 2000.

Q. Mr. Tamlyn, please describe your qualifications.

A. I am a graduate of Portland State University receiving a Bachelor's degree in Political Science in 1974. I also have a Masters of Taxation degree from Portland State University, received in 1996 and have been a certified public accountant since 1979. I am a member of the American Institute of CPAs as well as the Oregon Society of CPAs and a director for the Portland chapter of Tax Executives Institute.

I worked for the Portland Oregon based CPA firm of Fellner & Kuhn, PC from 1976 to 1987, advising clients on various accounting and tax matters. Subsequent to that I worked in various tax capacities at PacifiCorp, NERCO, PacifiCorp Financial Services and Standard Insurance Company.

I have been the tax director at PGE from March 2005 until the present time.

Q. Mr. Tinker, please describe your qualifications.

A. I received a Bachelor of Science degree in Finance and Economics from Portland State University in 1993 and a Master of Science degree in Economics from Portland State University in 1995. In 1999, I obtained the Chartered Financial Analyst (CFA) designation. I have worked in the Rates and Regulatory Affairs department since joining PGE in 1996.

Q. Does this conclude your testimony?

A. Yes.

g:\ratecase\opuc\dockets\um-1224\direct testimony - pge\draft 112707.doc

List of Exhibits

PGE Exhibit	**Description**
Exhibit 101	Copy of Order 07-351
Exhibit **102C**	Copy of Tax Report covering 2004-2006 (**Highly Confidential** and Subject to Protective Order No. 07-520)
Exhibit xx3	Earnings Test Results

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

Work Papers

PORTLAND GENERAL ELECTRIC COMPANY
&
OREGON PUBLIC UTILITY COMMISSION

Patrick G. Hager – Bob Tamlyn – Jay Tinker

November 30, 2007

Work Papers Provided Electronically Only

ORDER NO. 07-351

ENTERED 08/14/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1224 and UM 1226

In the Matters of	)	
	)	
UTILITY REFORM PROJECT and KEN LEWIS	)	
	)	
Application for Deferred Accounting, (UM 1224)	)	
	)	ORDER
and	)	
	)	
UTILITY REFORM PROJECT and KEN LEWIS,	)	
	)	
Complainants,	)	
	)	
v.	)	
	)	
PORTLAND GENERAL ELECTRIC COMPANY,	)	
	)	
Defendant. (UM 1226)	)	

DISPOSITION: DEFERRAL GRANTED IN PART; COMPLAINT DISMISSED WITHOUT PREJUDICE

In this order, we grant, in part, an application for deferred accounting filed by the Utility Reform Project and Ken Lewis. We dismiss, without prejudice, a concurrently filed but separate complaint filed by the Utility Reform Project and Ken Lewis against Portland General Electric Company.

I. PROCEDURAL BACKGROUND

These dockets have a long and complex procedural history, during which the parties essentially filed three separate rounds of pleadings. The dockets were initiated on October 5, 2005, when the Utility Reform Project and Ken Lewis (hereafter collectively referred to as URP) made two separate filings. First, URP filed a complaint pursuant to

ORS 757.500 against Portland General Electric Company (PGE) (UM 1226). Second, URP filed a Notice of Application for Deferred Accounting, pursuant to ORS 757.259 (UM 1224). The filings allege that rates charged by PGE after September 2, 2005, violate Senate Bill 408 because they contained charges for income taxes that would not be paid to any governmental entity.

Following a reply and procedural challenge filed by PGE and supplemental filing by URP, both dockets were held in abeyance pending resolution of an application for reconsideration of PacifiCorp's general rate proceeding (UE 170). Because URP's filings are primarily founded on our application of SB 408 to reduce the amount of income taxes included in PacifiCorp's rates, the presiding Administrative Law Judge (ALJ) concluded that URP's filings should be held in abeyance until resolution of PacifiCorp's request for reconsideration of that decision. *See* ALJ Ruling, Dec. 27, 2005.

On July 10, 2006, the Commission issued Order No. 06-379, resolving all issues under reconsideration in UE 170. Shortly thereafter, the presiding ALJ adopted a new procedural schedule for these dockets. Pursuant to that schedule, PGE filed amended comments on URP's filings, as well as an amended procedural challenge seeking the Commission to either dismiss the filings or direct URP to make them more definite and certain. URP filed a response, to which PGE replied.

On October 10, 2006, the ALJ established a new procedural schedule at the parties' request. Among other things, that schedule allowed URP to file an amended complaint and renewal of an application for deferred accounting. PGE subsequently filed a renewal of its comments and motion to dismiss, to which URP filed a reply.

II. FINDINGS

At all times relevant to these proceedings, PGE was collecting from customers rates approved by the Commission in docket UE 115, a general rate proceeding. *See* Order No. 01-777 (Aug. 31, 2001). Those rates included an estimated amount of income tax liability PGE would incur as an operating expense. These amounts were calculated on the regulated revenues and costs of PGE as a stand-alone entity, without regard to the unregulated operations of affiliates or parent company.

Federal and state tax laws allow a corporate holding company to file consolidated tax returns. As a result, losses in some corporate operations can offset profits in others, thereby reducing corporate tax liability. Consequently, the use of consolidated tax reporting may cause a utility to collect amounts for taxes in rates that exceed the income taxes actually paid to taxing authorities.

On September 2, 2005, the Governor signed into law SB 408, passed by the Legislative Assembly to address growing concerns that Oregon energy utilities were collecting income tax expenses that were not ultimately paid to taxing authorities. The bill, generally codified at ORS 757.267 and ORS 757.268, requires a utility to true-up any differences between the amounts of income taxes collected in rates from customers and taxes paid to the government that are "properly attributed" to the utility's regulated operations. *See* ORS 757.268(4). If amounts collected and amounts paid differ by more than $100,000, the utility must adjust rates accordingly through an automatic adjustment clause. *See* ORS 757.268 (4), (6)(a).

SB 408 became effective upon enactment on September 2, 2005. *See* Or Laws 2005, ch. 845, §15. However, the bill expressly limits the use of the automatic adjustment clause mechanism to taxes paid to units of government and collected from ratepayers on or after January 1, 2006. *See* Or Laws 2005, ch. 845, §4(2).

Shortly after the passage of SB 408, on September 28, 2005, this Commission concluded a general rate investigation for PacifiCorp. In our rate order, we concluded that SB 408 required a departure from our historic use of the "stand-alone" methodology for calculating the amount of income taxes to be incorporated into PacifiCorp's rates. Rather, we determined that SB 408 required us, in setting base rates for PacifiCorp, to consider the taxes that would ultimately be paid to units of government. Finding that an interest deduction on an inter-company loan would reduce PacifiCorp's consolidated group's tax liability, we reduced the utility's proposed tax expense by $16.07 million. *See* Order No. 05-1050 at 18.

PacifiCorp challenged our decision to prospectively adjust its tax expense, arguing that SB 408 establishes only a retrospective "true-up" mechanism. In our order on reconsideration, we agreed that the bill's primary feature is a backward-looking true-up mechanism designed to align taxes paid with those collected from ratepayers. Nevertheless, we affirmed our earlier decision to prospectively adjust PacifiCorp's base rates due to the timing of the rate proceeding. We explained:

> Although the legislature included an emergency clause to immediately implement its findings and amendments to ORS 757.210, it expressly reserved the application of the automatic adjustment clause "to taxes paid to units of government and collected from ratepayers on or after January 1, 2006." Section 4(2). Due to those timing differences, an approximate four-month period existed during which the legislature had mandated that rates reflect taxes paid to government units but did not yet allow the use of the true-up mechanism to accomplish that mandate. We were required to approve rates that became effective during this interim period. Absent use of the automatic adjustment clause to more closely align taxes collected from ratepayers with taxes paid to units of government, our only option to meet the legislative mandate to ensure that rates were fair, just, and reasonable was to make the necessary adjustments to PacifiCorp's base rates.

Order No. 06-379 at 6.

III. DISCUSSION

As noted above, the parties have made numerous filings. While the last round of filings constitute a complete set of filings, they often incorporate, or refer to, prior pleadings. Consequently, for purposes of our discussion, we deem it appropriate to review all pleadings to summarize the assertions and arguments made by both parties.

In its complaint filings, URP alleges that PGE's rates after the effective date of SB 408 "should reflect the taxes that are paid to units of government in order to be considered fair, just and reasonable." *See* ORS 757.267(1)(f). URP contends that, as of September 2, 2005—the date SB 408 became law—PGE has been in violation of this requirement because its rates have included amounts for taxes that have not and will not be paid to units of government.

URP contends its complaint provides a legal basis for granting its application for deferred accounting. URP identifies the appropriate deferral period to be "from September 2, 2005, until such time at which all unpaid tax charges are removed from PGE's ongoing rates, in accordance with SB 408." *See* First Amended Complaint, 3 (Nov. 1, 2006). URP acknowledges that this period might end as soon as January 1, 2006, the effective date of SB 408's automatic adjustment clause. URP refers to this period as the "Pre-Adjustment Clause Period."

URP relies on our decision to prospectively adjust rates in UE 170 for PacifiCorp by reducing the utility's proposed annual tax expense. Through its filings, URP contends that PGE's rates should be similarly modified for the pre-adjustment clause period, using the deferral process.

PGE makes numerous arguments in opposition of URP's filings. While URP alleges that the rates were unlawful, PGE maintains that URP never identifies the violated statute. PGE states that the challenged rates were both authorized and lawful under ORS 757.210, the statute under which a utility files new rates. PGE contends that rates cannot be challenged under ORS 757.210 between rate case proceedings, as the Commission has articulated:

> A basic premise of utility regulation is that when the Commission prescribes or approves a utility's rates, it does so according to the rules of rate setting in a rate case. If it follows those court-prescribed rules in the review of a utility's proposed rates, its job is finished, until the next rate case. * * * The Commission moves from rate case to rate case, reviewing proposed rates each time by the same rules. Between cases, the utility is on its own.

Motion to Dismiss Amended Complaint at 2, quoting UM 47/48, Order No. 89-687, 8-9.

PGE asserts that a complaint under ORS 757.210 may be made only with regard to newly proposed rates filed under the statute. On this basis, PGE distinguishes its rate situation from that of PacifiCorp. PGE explains that, in UE 170, the Commission clarified that its application of SB 408 was required by the unique situation of having to set new rates for PacifiCorp during the period after passage of SB 408, but before implementation of the SB 408 automatic adjustment clause. *See* Order No. 06-379 at 6-7. Because the Commission was not required to establish new rates for PGE during that period, PGE contends no adjustment for taxes may be made before January 1, 2006, the effective date of SB 408's automatic adjustment clause.

PGE also argues that URP's complaint improperly combines a request for a rate proceeding with an application for deferred accounting.[1] PGE claims that the effect of URP's simultaneous filings is to declare existing rates interim, subject to refund based on the outcome of a rate case, in violation of pertinent statutes, the rule against retroactive ratemaking and ORS 757.225.

For these reasons, PGE seeks dismissal of URP's complaint. PGE concludes that the complaint seeks a remedy—deferred accounting—that is unavailable under ORS 756.500, the statute under which complaints are brought. PGE also argues that the complaint fails to set forth facts sufficient to demonstrate that PGE has violated any statute, administrative rule or Commission order.

PGE also argues that URP's application for a deferral fails on its own, regardless of its coupling with a rate complaint. PGE argues that it fails to meet the legal requirements of ORS 757.259, and does not merit an exercise of discretion by the Commission to grant it. PGE contends that the financial impact of the proposed deferral on its earnings is too great to warrant it being granted. PGE observes that URP does not dispute that PGE's earnings for 2005 were 6.64 percent, and that the deferral would drop PGE's earnings more than 500 basis points below the authorized level. PGE contends that this financial impact of a proposed deferral is relevant when the Commission is determining whether to authorize a deferral, as well as during the amortization phase of an approved deferral.

In response, URP contends that SB 408's modification to ORS 757.210 to provide that "[t]he Commission may not authorize a rate or schedule of rates that is not fair, just and reasonable," does not, as PGE claims, apply only to rates established under ORS 757.210. Rather, URP contends that SB 408 applies to all rate processes, noting that the bill simply refers generically to amounts "collected from ratepayers" and "utility rates." ORS 757.268(4). URP derides PGE's attempt to distinguish between the substantive standard for rates set under ORS 757.210 and other processes, and argues that all rates, regardless of how set, must be "fair, just and reasonable."

---

[1] In Docket UE 76, PGE explains, URP combined a complaint under ORS 756.500, alleging unlawful late fees, with an application for deferred accounting. PGE states that the Commission rejected retroactive rate adjustment via deferral, in favor of a prospective rate adjustment regarding PGE's late fees. PGE observes that the Commission stated in Order No. 92-1182 at 8-9: "And, except in limited circumstances not applicable here, it was never contemplated that this statute would serve any function, once a rate proceeding was underway."

URP also rebuts PGE's contention that deferred accounting is not a remedy, by arguing that no statute, rule, order or case law limits when or how deferred accounting is imposed. URP calls deferred accounting a provisional remedy that preserves disputed funds, pending an ultimate decision.

Additionally, URP rebuffs PGE's assertion that the Amended Complaint is inappropriate because it complains of rates between rate proceedings, making the following points:

1) PGE does not adequately explain why the timing of PGE's rate case matters;

2) PacifiCorp also didn't ask the Commission to set new rates under ORS 757.210 during the Pre-Adjustment Clause Period, but rather filed a general rate case application in November 2004;

3) General standards apply equally to all rates, regardless of whether set pursuant to ORS 757.210 or other statutes.

4) Deferred accounting for PacifiCorp's unpaid income taxes was established "between rate proceedings." Although the effective date of Order No. 05-1050 was October 4, 2005, deferred accounting was not established until October 8, 2005; and

5) Rates at issue for both PGE and PacifiCorp were established pursuant to ORS 757.210.

IV. RESOLUTION

URP filed two separate filings: the Renewed Application for Deferral and the Amended Complaint. Accordingly, we opened two separate dockets, as captioned above. We did not consolidate these proceedings. As such, we find it appropriate to initially consider each of the filings on a stand-alone basis. We turn first to URP's Renewed Application for Deferral.

A. Application for Deferral (UM 1224)

PGE primarily challenges URP's deferral request as a companion filing to URP's complaint. When viewed as a stand-alone filing, however, PGE's principal objections to URP's deferral application dissipate. Indeed, PGE observes that URP needed only to make the deferral application, calling the complaint superfluous.

As a stand-alone filing, however, the deferral application is procedurally insufficient, providing little information about the reasons why a deferral is justified. Although we could ask URP to refile the deferral application, we are reluctant to do so, given that there have already been three rounds of pleadings in these proceedings. Consequently, for the sake of administrative efficiency, rather than direct URP to file a new deferral application, we will liberally construe URP's deferral application as a stand-alone filing, using its complaint to provide needed context.

In so doing, we interpret URP's application to request deferred accounting for revenue attributable to PGE's liabilities for federal and state income taxes for a period of time starting either September 2, 2005, the date of passage for SB 408, or October 5, 2005, the date URP originally filed the application. URP alleges that SB 408 requires, as of its passage, that utility rates must reflect taxes actually paid. In UE 170, we made the decision that SB 408's amendments to ORS 757.210 required us, when approving rates for PacifiCorp during the pre-adjustment clause period—*i.e.,* after passage of SB 408 but before implementation of the statute's automatic adjustment clause—to approve rates reflecting only taxes that would actually be paid to governmental units. *See* Order No. 06-379, at 6. We infer URP's deferral application to assert that PGE's rates should be similarly modified for the pre-adjustment clause period, using the deferral process.

Although PGE's rates were not being set during the pre-adjustment clause period, URP raises the question of whether the deferral mechanism could be used to examine the appropriateness of adjusting PGE's rates to align revenues collected for federal and state income taxes with revenues actually paid to governmental units for such taxes.

The legislature has delegated this Commission the authority to use deferred accounting to address utility expenses or revenues outside a general rate proceeding, and we have used that authority in the past to implement legislative mandates. *See e.g., In the Matter of Citizens' Utility Board*, UM 374, Order No. 91-930 (approving deferred accounting for Measure 5 property tax reductions). Recently, we have developed a methodology for considering proposed deferrals that involves two stages of review. *See, e.g.,* Order No. 05-1070. One stage involves a determination of whether a proposed deferral meets legal criteria pursuant to ORS 757.259(2). We find that the requested deferral will appropriately match ratepayer costs and benefits pursuant to ORS 757.259(2)(e). The other stage involves a question of whether the deferral request warrants an exercise of our discretion. In exercising this discretion, we consider the type of event causing the deferral request, and the magnitude of the event's effect. If the deferral request is motivated by an unexpected event, such as a law change, then the magnitude of the event's effect must only be material. We conclude that the impact resulting from passage of SB 408 is sufficient to warrant an exercise of our discretion.

For these reasons, we grant URP's deferral request as of the date of its filing, October 5, 2005, to December 31, 2005. We begin the period on October 5, 2005, because, under the deferral statute, we do not have the authority to begin a deferral prior to the date of request. We close the period on December 31, 2005, because the automatic adjustment clause contained in SB 408 will capture any necessary adjustments in rates for unpaid taxes on a going forward basis beginning January 1, 2006. The deferred amounts shall accrue interest at PGE's authorized rate of return. PGE shall calculate the deferred amounts using the methodologies for determining taxes collected and taxes paid adopted in OAR 860-022-0041. By December 1, 2007, PGE shall make a filing that contains the calculation of the deferral amount and the earnings test, so that the Commission can make a determination for a rate adjustment concurrent with the first automatic adjustment clause rate change, currently scheduled for June 1, 2008.

In reaching this decision, we acknowledge PGE's arguments about the impact that the deferral, if allowed in rates, may have on its earnings. While we do not share PGE's opinion that such impact is to be considered in determining whether to grant a deferral, we agree that PGE's earnings will be reviewed at the time we consider amortization of the deferral. *See* ORS 757.259(5).

B. Complaint (UM 1226)

URP may pursue any tax-related revenues for PGE outside the deferral period—that is, prior to October 5, 2005, and after December 31, 2005—in a complaint proceeding. However, we dismiss, without prejudice, URP's complaint filed in docket UM 1226. We find the complaint superfluous to URP's request for deferred accounting during the deferral period we have authorized above. If URP intends to pursue its complaint for time periods outside this period, URP should file a new complaint under ORS 757.500. In any such complaint proceeding, PGE may renew its arguments raised here, as applicable, in opposition to the complaint.

ORDER

IT IS ORDERED that:

1. The application for deferred accounting, filed by the Utility Reform Project and Ken Lewis pursuant to ORS 757.259(2)(e), is granted as of the date of its filing, October 5, 2005, through December 31, 2005. The deferred revenues shall accrue interest at Portland General Electric Company's authorized rate of return.

2. Ratemaking treatment of these deferred revenues is reserved for a ratemaking proceeding.

3. The complaint filed by the Utility Reform Project and Ken Lewis against Portland General Electric Company is dismissed, without prejudice.

Made, entered, and effective AUG 14 2007.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204
PortlandGeneral.com

October 15, 2007

Via Messenger

Oregon Public Utility Commission
550 Capitol Street, N.E., Ste 218
Salem OR 97301-2551

Re: UE 178; October 2007 Tax Report

Attention Filing Center:

Enclosed you will find the October 2007 Tax Report for Portland General Electric Company (PGE), to be filed in docket UE 178 pursuant to Senate Bill 408 (SB 408) (codified at ORS 757.267 and 757.268 and OAR 860-022-0041). This Tax Report covers the calendar years 2004, 2005, and 2006, and substantially complies with the rules set forth by the Commission in AR 499 and modified in AR 517. We are also separately filing tariff sheets to implement a price decrease effective June 1, 2008, reflecting our 2006 results.

It is important to consider that the information presented in this Tax Report represents past history of PGE that is unique and unlikely to be repeated. PGE's situation during 2004, 2005, and the first quarter of 2006, with a bankrupt parent corporation, is unprecedented in Oregon, and is no longer characteristic of the utility, which is now independent and publicly-traded. This tax report is in no way a prediction of PGE's future.

We also note that OAR 860-022-0041(2)(q) requires us to use old rate case data to calculate the amount of "taxes authorized to be collected in rates." The use of old rate case data rather than actual financial results, which we do not believe is required by ORS 757.268, leads to misleading and unintended outcomes. These unintended consequences will force the utility to surcharge customers in years in which it earns more than was allowed in its last rate case, and refund money to customers in years in which the utility is already under-earning. We do not believe the Legislature intended this effect when it passed SB 408. This problem affects all utilities, including stand alone utilities like PGE, and is unrelated to the problem of a consolidated parent corporation not paying taxes due to offsetting losses at other companies in the consolidated group. For example, PGE received permission to defer only a portion of its replacement power costs associated with the Boardman outages that impacted 2006 financial results. The impact of un-recovered plant outage costs is to increase the refund to customers under SB 408.

In the table below, we provide the difference between the amount of "taxes paid that are properly attributed to the regulated operations of the utility," and the amount of "taxes authorized to be collected in rates" for each of the years 2004, 2005 and 2006, pursuant to SB 408 and OAR 860-022-0041.

Year	Difference between "taxes paid" and rate case estimates of "taxes authorized to be collected"
2004	79,237,682
2005	111,597,585
2006	37,119,770

Consolidation effects contribute significantly to the net result for 2006. First, PGE paid Enron approximately $17 million to cover its standalone tax liability for the first quarter of 2006 for which Enron largely had tax losses which offset this liability. We note that since PGE is now separated from Enron, this impact represents a one-time occurrence that will not be reflected in future tax reports. Second, PGE realized a tax benefit of approximately $5 million in the second quarter of 2006 related to the sale, at a loss, of a non-utility turbine that was purchased years before SB 408 was either contemplated or approved by the Oregon Legislature. While the Commission denied PGE's application to subject the tax benefit to deferred accounting (See UM-1271, Order 07-421), we note the application of SB 408 to 2006 effectively ascribes this tax benefit to customers, even though they bore no responsibility for the costs that created the tax benefit.

PGE already uses a balancing account and a dedicated tariff to collect local income taxes. For 2006, the difference between local income taxes paid pursuant to SB 408 and collections of Multnomah County Business Income Taxes (McBIT) will be booked to a balancing account and will be reflected in a future change to the McBIT rate charged to customers through Schedule 106.

The Oregon Legislative Assembly and the Commission have recognized that information contained in the tax report represents commercially sensitive information, the disclosure of which could cause harm to the business producing that information. *See* UE 178, Order No. 06-033 at 2-3 (2006); ORS 757.267(1)(g) (2006). We understand that the Protective Order issued in Order No. 06-033 will govern the disclosure of confidential tax information and other commercially sensitive financial information included in this Tax Report.

We have treated our tax report and certain work papers as "highly confidential information" and have marked it accordingly.

have marked it accordingly.

The following are the name and addresses of the persons authorized to receive notices and communications with respect to this proceeding:

Patrick G. Hager, Manager Rates and Regulatory Affairs Portland General Electric Company, 1WTC0702, 121 SW Salmon Street Portland, OR 97204 (503) 464-7580 (telephone) (503) 464-7651 (fax) pge.opuc.filings@pgn.com	Douglas C. Tingey, Assistant General Counsel Portland General Electric Company, 1WTC1301 121 SW Salmon Street Portland, OR 97204 (503) 464-8926 (telephone) (503) 464-2200 (fax) doug.tingey@pgn.com

Sincerely,

Randall J. Dahlgren
Director, Regulatory Policy & Affairs

Enclosure
cc: UE 178 Service List – Cover Letter only

g:\ratecase\opuc\dockets\ar-499\oct 15 report\2007\2007 tax report cvrltr.doc

Exhibit **102C**
Highly Confidential and is Subject to Protective Order No.07-520

Will Only be Provided for Viewing in the Saferoom

2005 Workpapers

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PORTLAND GENERAL ELECTRIC
OPUC REGULATORY REPORTING
RESULTS OF OPERATIONS
January 1, 2005 - December 31, 2005
(Thousands of Dollars)

COMPOSITE COST OF CAPITAL

Order 01-777, UE 115	Average Outstanding	Percent of Capital	Percent Cost	Weighted Percent Cost
Long Term Debt	887,900	46.32%	7.51%	3.48%
Preferred Stock	29,250	1.53%	8.43%	0.13%
Common Equity	999,781	52.16%	10.50%	5.48%
Total	1,916,931	100.00%		9.08%

Actual Averages	Average Outstanding	Percent of Capital	Percent Cost	Weighted Percent Cost
Long Term Debt	874,500	40.49%	7.32%	2.96%
Preferred Stock	18,848	0.87%	8.43%	0.07%
Common Equity	1,266,470	58.64%	6.41%	3.76%
Total	2,159,817	100.00%		6.80%

Actual End of Period	End of Period Outstanding	Percent of Capital	Percent Cost	Weighted Percent Cost
Long Term Debt	863,250	41.49%	7.36%	3.05%
Preferred Stock	17,473	0.84%	8.43%	0.07%
Common Equity	1,199,737	57.67%	4.79%	2.76%
Total	2,080,460	100.00%		5.89%

Note: End of period capital structure and costs used for Pro Forma ROR and ROE calcs.

Order 91-186 Methodology
Interest Adjustment (Utility Tax Adjustment)

Rate Base	1,773,646	
Wtd Cost of Debt	2.96%	
Int. for tax deduction	52,581	
Int. for tax calculation	72,076	From F&O report. Long-term debt, short-term debt & other (no AFDC).
Utility tax adjust.	(19,495)	

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PORTLAND GENERAL ELECTRIC
OPUC REGULATORY REPORTING
RESULTS OF OPERATIONS
January 1, 2005 - December 31, 2005
(Thousands of Dollars)

		Actual Financial Statements	Type I Accounting Adjustments	Regulated Utility Actuals	Type I Adjustments	Earnings Test Adj. Results	Type II Adjustments	Pro Forma Results
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Average Rate Base								
Utility Plant in Service		3,955,412	0	3,955,412	(361)	3,955,051	91,206	4,046,257
Accumulated Depreciation		2,110,823	0	2,110,823	0	2,110,823	63,946	2,174,769
Accumulated Def. Income Taxes		149,262	0	149,262	(687)	148,575	(17,710)	130,865
Accumulated Def. Inv. Tax Credit		11,236	0	11,236	0	11,236	(1,252)	9,984
Net Utility Plant		1,684,091	0	1,684,091	326	1,684,417	46,222	1,730,639
Net Trojan Investment		0	0	0	0	0	0	0
Weatherization Investment		36	0	36	0	36	(30)	6
Deferred Programs & Investments		2,458	0	2,458	(176)	2,282	954	3,236
Operating Materials & Fuel		48,276	0	48,276	0	48,276	5,449	53,725
Misc. Deferred Credits		(13,672)	0	(13,672)	0	(13,672)	1,016	(12,656)
Unamortized Ratepayer Gains		0	0	0	0	0	0	0
Working Cash		52,457	198	52,655	81	52,736	2,479	55,215
Total Average Rate Base		1,773,646	198	1,773,844	231	1,774,075	56,090	1,830,165
Income Tax Calculations								
Book Revenues			(121,729)		4,228		16,136	
Book Expenses			(126,946)		(402)		42,358	
Not used			0		0		0	
Interest Rate Base @ Weighted Cost of Debt			(19,489)		7		1,712	
Schedule M Differences			0		80		0	
State Taxable Income			24,706		4,543		(27,934)	
State Income Tax @	6.6547%		1,644		302		(1,859)	
Additional Tax Depreciation			0		0		0	
Federal Taxable Income			23,062		4,241		(26,075)	
Fed Tax @ 35%	35.00%		8,072		1,484		(9,126)	
ITC @ 0%	0		0		0		0	
Current Federal Tax			8,072		1,484		(9,126)	
ITC Adjustment								
Deferral			0		0		0	
Restoration			0		0		0	
Deferred Taxes			0		31		0	
Current/Deferred Taxes True-up			0		409		0	
Total Income Tax			9,716		2,227		(10,985)	

N.1

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Portland General Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2005/Q4

DISTRIBUTION OF SALARIES AND WAGES (Continued)

Line No.	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll charged for Clearing Accounts (c)	Total (d)
48	Total Operation and Maintenance			
49	Production-Manufactured Gas (Enter Total of lines 28 and 40)			
50	Production-Natural Gas (Including Expl. and Dev.) (Total lines 29,			
51	Other Gas Supply (Enter Total of lines 30 and 42)			
52	Storage, LNG Terminaling and Processing (Total of lines 31 thru			
53	Transmission (Lines 32 and 44)			
54	Distribution (Lines 33 and 45)			
55	Customer Accounts (Line 34)			
56	Customer Service and Informational (Line 35)			
57	Sales (Line 36)			
58	Administrative and General (Lines 37 and 46)			
59	TOTAL Operation and Maint. (Total of lines 49 thru 58)			
60	Other Utility Departments			
61	Operation and Maintenance			
62	TOTAL All Utility Dept. (Total of lines 25, 59, and 61)	116,964,848	12,522,951	129,487,799
63	Utility Plant			
64	Construction (By Utility Departments)			
65	Electric Plant	45,583,435	5,160,623	50,744,058
66	Gas Plant			
67	Other (provide details in footnote):			
68	TOTAL Construction (Total of lines 65 thru 67)	45,583,435	5,160,623	50,744,058
69	Plant Removal (By Utility Departments)			
70	Electric Plant	1,546,008	748	1,546,756
71	Gas Plant			
72	Other (provide details in footnote):			
73	TOTAL Plant Removal (Total of lines 70 thru 72)	1,546,008	748	1,546,756
74	Other Accounts (Specify, provide details in footnote):			
75	Other Income and Deductions	4,565,798	423,988	4,989,786
76	Co-owner shares of generating facilities	6,537,801	313,529	6,851,330
77	Other	3,702,085	286,110	3,988,195
78	Payroll Allocated	18,707,949	-18,707,949	
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94				
95	TOTAL Other Accounts	33,513,633	-17,684,322	15,829,311
96	TOTAL SALARIES AND WAGES	197,607,924		197,607,924

N.2

PORTLAND GENERAL ELECTRIC
OPUC REGULATORY REPORTING
RESULTS OF OPERATIONS
January 1, 2005 - December 31, 2005
(Thousands of Dollars)

Regulatory adjustments based on **Docket UE-115, Order 01-777.**	Actual Financial Statements	Type I Accounting Adjustments	Regulated Utility Actuals	Type I Adjustments	Earnings Test Adj. Results	Type II Adjustments	Pro Forma Results
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Operating Revenues							
Sales to Consumers	1,304,928	0	1,304,928	5,728	1,310,656	16,136	1,326,792
Sales for Resale	116,338	(116,338)	0	0	0	0	0
Other Operating Revenues	24,339	(5,391)	18,948	(1,500)	17,448	0	17,448
Total Operating Revenues	1,445,605	(121,729)	1,323,876	4,228	1,328,104	16,136	1,344,240
Operation & Maintenance							
Net Variable Power Cost	670,848	(119,346)	551,502	9,238	560,740	30,545	591,285
Total Fixed O&M	128,443	0	128,443	0	128,443	4,710	133,153
Other O&M	168,285	(7,600)	160,685	(9,440)	151,245	2,652	153,897
Total Operation & Maintenance	967,576	(126,946)	840,630	(202)	840,428	37,907	878,335
Depreciation & Amortization	233,328	0	233,328	0	233,328	3,273	236,601
Other Taxes / Franchise Fee	73,900	0	73,900	(200)	73,700	1,178	74,878
Income Taxes	45,731	9,716	55,447	2,227	57,674	(10,985)	46,689
Total Oper. Expenses & Taxes	1,320,535	(117,230)	1,203,305	1,825	1,205,130	31,373	1,236,503
Utility Operating Income	125,070	(4,499)	120,571	2,403	122,974	(15,237)	107,737
Rate of Return	7.05%		6.80%		6.93%		5.89%
Return on Equity	6.84%		6.41%		6.64%		4.79%
ROE based on actual capital structure.							
Average Rate Base							
Utility Plant in Service	3,955,412	0	3,955,412	(361)	3,955,051	91,206	4,046,257
Accumulated Depreciation	2,110,823	0	2,110,823	0	2,110,823	63,946	2,174,769
Accumulated Def. Income Taxes	149,262	0	149,262	(687)	148,575	(17,710)	130,865
Accumulated Def. Inv. Tax Credit	11,236	0	11,236	0	11,236	(1,252)	9,984
Net Utility Plant	1,684,091	0	1,684,091	326	1,684,417	46,222	1,730,639
Net Trojan Investment	0	0	0	0	0	0	0
Weatherization Investment	36	0	36	0	36	(30)	6
Deferred Programs & Investments	2,458	0	2,458	(176)	2,282	954	3,236
Operating Materials & Fuel	48,276	0	48,276	0	48,276	5,449	53,725
Misc. Deferred Credits	(13,672)	0	(13,672)	0	(13,672)	1,016	(12,656)
Unamortized Ratepayer Gains	0	0	0	0	0	0	0
Working Cash	52,457	198	52,655	81	52,736	2,479	55,215
Total Average Rate Base	1,773,646	198	1,773,844	231	1,774,075	56,090	1,830,165

N.3

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PORTLAND GENERAL ELECTRIC
OPUC REGULATORY REPORTING
RESULTS OF OPERATIONS
January 1, 2005 - December 31, 2005
(Thousands of Dollars)

	Actual Financial Statements	Type I Accounting Adjustments	Regulated Utility Actuals	Type I Adjustments	Earnings Test Adj. Results	Type II Adjustments	Pro Forma Results
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Operating Revenues			(1+2)		(3+4)		(5+6)
Residential	591,664	79,984	671,648	6,114	677,762	7,432	685,194
Commercial	491,793	3,108	494,901	(361)	494,540	8,704	503,244
Industrial	179,459	3,125	182,584	(25)	182,559	0	182,559
Other	43,012	(86,217)	(43,205)	(0)	(43,205)	0	(43,205)
Unbilled Revenues	(1,000)	0	(1,000)	0	(1,000)	0	(1,000)
Sales to Consumers	1,304,928	0	1,304,928	5,728	1,310,656	16,136	1,326,792
Sales for Resale	116,338	(116,338)	0	0	0	0	0
Other Operating Revenues	24,339	(5,391)	18,948	(1,500)	17,448	0	17,448
Total Operating Revenues	1,445,605	(121,729)	1,323,876	4,228	1,328,104	16,136	1,344,240
Operation & Maintenance							
Steam VPC	44,863	0	44,863	551	45,414	0	45,414
Nuclear VPC	0	0	0	0	0	0	0
Gas / Other VPC	54,753	0	54,753	1,373	56,126	17,062	73,188
Production	99,616	0	99,616	1,924	101,540	17,062	118,602
Purchased Power	515,356	(1,713)	513,643	261,371	775,014	13,114	788,128
RPA Exchange	0	0	0	0	0	0	0
Sales for Resale	0	(117,633)	(117,633)	(257,422)	(375,054)	0	(375,054)
Wheeling	55,876	0	55,876	3,364	59,240	369	59,609
Net Variable Power Cost	670,848	(119,346)	551,502	9,238	560,740	30,545	591,285
Fixed Plant Cost	64,118	0	64,118	0	64,118	1,090	65,208
Transmission	8,137	0	8,137	0	8,137	138	8,275
Distribution	56,188	0	56,188	0	56,188	3,482	59,670
Total Fixed O&M	128,443	0	128,443	0	128,443	4,710	133,153
Customer Accounts / Bad Debt	51,956	0	51,956	417	52,373	971	53,344
Customer Service & Sales	8,831	0	8,831	(1,540)	7,291	124	7,415
Admin. & General / OPUC Fee	107,498	(7,600)	99,898	(8,317)	91,581	1,557	93,138
Other O&M	168,285	(7,600)	160,685	(9,440)	151,245	2,652	153,897
Total Operation & Maintenance	967,576	(126,946)	840,630	(202)	840,428	37,907	878,335
Depreciation & Amortization	233,328	0	233,328	0	233,328	3,273	236,601
Other Taxes / Franchise Fee	73,900	0	73,900	(200)	73,700	1,178	74,878
Income Taxes (Non-Federal)	8,112	1,644	9,756	302	10,058	(1,859)	8,200
Federal Income Tax Net of ITC	84,421	8,072	92,493	1,484	93,977	(9,126)	84,851
Deferred Income Taxes	(45,341)	0	(45,341)	31	(45,310)	0	(45,310)
Current/Deferred Taxes True-up	0	0	0	409	409	0	409
I.T.C. Adjustment	(1,461)	0	(1,461)	0	(1,461)	0	(1,461)
Total Oper. Expenses & Taxes	1,320,535	(117,230)	1,203,305	1,825	1,205,130	31,373	1,236,503
Utility Operating Income	125,070	(4,499)	120,571	2,403	122,974	(15,237)	107,737

N.4

Rev. Req. Model
Inputs In yellow
Figures Based on UE-115 Final / Modified NVPC per UE161

	At Current Rates	Additional Rev for '10.5% ROE	Proposed	
1 Sales to Consumers	1,095,662	238,611	1,334,273	Gross revenue from rate case + 2005 RVM
2 Sales for Resale	-		-	
3 Other Revenues	15,969		15,969	
4 Total Operating Revenues	1,111,631	238,611	1,350,242	
5 Net Variable Power Costs	590,949		590,949	491304 Cost of Service
6 Production O&M, excludes Trojan	64,356		64,356	99645 Cost Of Opt Out Load
7 Trojan O&M	6,102		6,102	590949 Total NVPC
8 Transmission O&M	6,273		6,273	
9 Distribution O&M	56,968		56,968	
10 Customer & MBC O&M	36,949		36,949	
11 Uncollectibles Expense	5,478	1,193	6,671	
12 A&G, Ins/Bene., & Gen. Plant	93,980		93,980	
13 Total Operating & Maintenance	861,055	1,193	862,248	
14 Depreciation	151,769		151,769	
15 Amortization	26,824		26,824	
16 Property Tax	31,481		31,481	
17 Payroll Tax	8,708		8,708	
18 Franchise and Other Tax	34,904		34,904	
19 Utility Income Tax	(18,768)	93,309	74,540	
20 Total Operating Expenses & Taxes	1,095,973	94,502	1,190,475	
21 **Utility Operating Income**	15,658	144,109	159,768	
22 **Average Rate Base**				
23 Avg. Gross Plant	3,636,125		3,636,125	
24 Avg. Accum. Deprec.	(1,704,303)		(1,704,303)	
25 Avg. Accum. Amort.	(51,835)		(51,835)	
26 Avg. Accum. Def Tax	(158,426)		(158,426)	
27 Avg. Accum. Def ITC	(21,178)		(21,178)	
28 **Avg. Net Utility Plant**	1,700,383	-	1,700,383	
29 Net Trojan Investment	-		-	
30 Weatherization Investment	-		-	
31 Deferred Programs & Investments	10,171		10,171	
32 Operating Materials & Fuel	33,979		33,979	
33 Misc. Deferred Credits	(38,552)		(38,552)	
34 Working Cash	48,880	4,215	53,095	
35 **Average Rate Base**	1,754,862	4,215	1,759,077	
36 **Rate of Return**	0.892%		9.082%	
37 **Implied Return on Equity**	-5.21%		10.50%	

Rev. Req. Model
Inputs in yellow
Figures Based on UE-115 Final / Modified NVPC per UE161

	At Current Rates	Additional Rev for '10.5% ROE	Proposed	
38 Effective Cost of Debt	7.508%	7.508%	7.508%	
39 Effective Cost of Preferred	8.432%	8.432%	8.432%	
40 Debt Share of Cap Structure	46.32%	46.32%	46.32%	
41 Preferred Share of Cap Structure	1.53%	1.53%	1.53%	
42 Weighted Cost of Debt	3.478%	3.478%	3.478%	
43 Weighted Cost of Preferred	0.129%	0.129%	0.129%	
44 Equity Share of Cap Structure	52.15%	52.15%	52.15%	
45 State Tax Rate	6.655%	6.655%	6.655%	
46 Federal Tax Rate	35.000%	35.000%	35.000%	
47 Composite Tax Rate	39.326%	39.326%	39.326%	
48 Bad Debt Rate	0.500%	0.500%	0.500%	
49 Working Cash Factor	4.460%	4.460%	4.460%	
50 Gross-Up Factor	1.648	1.648	1.648	
51 ROE Target	10.50%	10.50%	10.500%	
52 Grossed-Up COC	12.72%	12.72%	12.72%	
Utility Income Taxes				
48 Book Revenues	1,111,631	238,611	1,350,242	
49 Book Expenses	1,114,741	1,193	1,115,934	
50 Interest Deduction	61,029	147	61,176	
51 Permanent Ms	(21,802)	-	(21,802)	
52 Deferred Ms	(38,734)	-	(38,734)	
53 Book Taxable Income	(3,603)	237,271	233,668	
54 State Taxes	(240)	15,790	15,551	
55 State Tax Credits	(917)	-	(917)	
56 Net State Taxes	(1,157)	15,790	14,634	
57 Federal Taxable Income	(2,446)	221,481	219,035	
58 Federal Taxes	(856)	77,518	76,662	
59 ITC Amort	(1,523)	-	(1,523)	
60 Deferred Taxes	(15,232)	-	(15,232)	
61 Total Income Tax Expense	(18,768)	93,309	74,540	
62 Effective Tax Rate	29.3%		43.05%	31.81%
63 Pre-Tax Margin	-5.9%		12.98%	17.56%
64 Check Tax Expense	(18,768)		74,540	74,540

ratemaking ratios

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing **DIRECT TESTIMONY OF PORTLAND GENERAL ELECTRIC COMPANY AND EXHIBITS (PGE/100-103)** to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service from OPUC Docket No. UM 1224 except for **EXHIBIT (PGE/102C)** which is highly confidential and being sent to the Salem Safe Room in accordance with Protective Order 07-520.

Dated at Portland, Oregon, this 30th day of November 2007.

DOUGLAS C. TINGEY

SERVICE LIST

OPUC DOCKET # UM 1224

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