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November 10, 2005

VIA ELECTRONIC MAIL
AND U.S. MAIL

Oregon Public Utility Commission
Attn: Filing Center
550 Capitol Street, N.E., #215
P.O. Box 2148
Salem, Oregon 97308-2148

RE: In the Matter of the Adoption of Permanent Rules Implementing SB 408 Relating to Utility Taxes
Docket No. AR-499

Dear Filing Center:

Enclosed please find an original and one (1) copy of the **Northwest Industrial Gas Users' Reply Comments and Opening Comment on Additional Question** in the above-referenced Docket. This was filed electronically with the OPUC on this date, and will be served both electronically and by U.S. Mail on those parties listed on the OPUC's current Service List.

Thank you for your assistance.

Respectfully submitted,

Edward A. Finklea

Edward A. Finklea

EAF/nh
Enclosures
cc: Current Service List

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

AR 499

In the Matter of the Adoption of Permanent Rules Implementing SB 408 Relating to Utility Taxes	NORTHWEST INDUSTRIAL GAS USERS' REPLY COMMENTS AND OPENING COMMENTS ON ADDITIONAL QUESTION

Pursuant to the schedule adopted by Administrative Law Judge Logan in the above-referenced docket, the Northwest Industrial Gas Users ("NWIGU") submit these Reply Comments. By Order dated November 3, 2005, Administrative Law Judge ("ALJ") Logan posed an additional question. For simplicity, NWIGU has included its Opening Comments on this additional question within these Reply Comments.

The parties have opined on SB 408, and there can be not doubt that the Legislature intended for utility rates, including the amount collected for taxes to be "fair, just and reasonable." Section 2(1)(f). Staff's temporary rules, while maybe not perfect, are appropriate and achieve the fair, just and reasonable standard.

NWIGU will primarily reply to the Opening Comments of Northwest Natural Gas Company ("NW Natural"), although the Joint Comments of PacifiCorp and Avista raise many of the same issues concerning the proper construction of SB 408. In these Reply Comments, NWIGU demonstrates that the interpretation of SB 408 advocated by NW Natural leads to results expressly

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rejected by the Oregon Legislature. The interpretation of the words "properly attributed" adopted by the Oregon Public Utility Commission ("OPUC" or "Commission") in the temporary rule is consistent with the plain meaning of the language of SB 408, is consistent with the policy thrust of SB 408 and entirely supported by the history of the law as it was amended and finally enacted by the Oregon Legislature.

The investor-owned utilities ("IOU"), including NW Natural, have raised creative and differing interpretations of law relying on statutory interpretation and the legislative history. The intent of the law, however, cannot be squared with the narrow and self-serving interpretation raised by the utilities. The law is intended to achieve "alignment of taxes collected by public utilities from utility customers with taxes paid to units of government by utilities, or affiliated groups that include utilities." The utilities, however, support an approach that could continue many of the inequities SB 408 was intended to correct.

In its Opening Comments, NWIGU explained why the temporary rule adopted by the Commission at the urging of the OPUC Staff is consistent with the literal meaning of the terms and intent of the law and consistent with the rules of statutory construction. Accordingly, the temporary rules should be adopted as the permanent rules.

In these Reply comments NWIGU will address the assertions made by NW Natural that would, if adopted, undermine the law as enacted. Also, NWIGU is submitting its Opening Comment on the additional question posed by Order issued November 3, 2005 in this docket.

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1. How should the Commission apply the "properly attributed" standard as it appears in the individual sections of the bill?

It would be inconsistent with the purpose behind SB 408 if the law was implemented in the manner urged by NW Natural. NW Natural's approach to implementing SB 408 would attribute the bulk of the tax burden of a consolidated company to the regulated utility. NW Natural's approach inappropriately minimizes the tax liability attributable to profitable non-regulated affiliates of a consolidated company, and in the process, harms ratepayers.

Under the temporary rule, OAR 860-022-0039, the Commission calculates the amount of tax payments "properly attributed" to the regulated operations of a consolidated company that owns both a regulated utility and unregulated subsidiary by comparing the relative tax liability of both the regulated utility and any non-utility affiliates. NW Natural and the other utilities advocate for a result that would favor affiliates by allocating tax burden at the expense of the utility's ratepayers. By essentially treating taxes paid within a consolidated company as if the utility always pays taxes first, the ratepayers are shouldered with more tax liability than the shareholders of a consolidated company that includes regulated and unregulated affiliates.

NW Natural urges the Commission to adopt an interpretation of SB 408 whereby the consolidated company would allocate 100% of each dollar of taxes paid to the utility affiliate, up to the utility's stand-alone tax liability, with only the remainder liability being allocated to profitable unregulated affiliates. This result is untenable and inconsistent with SB 408 because a utility would adjust the rates of a utility to account for taxes paid that are properly attributed to the profitable unregulated affiliate, not to the utility. The Commission should not adopt such an approach.

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There is no dispute that if all affiliates of a consolidated company are profitable (both the regulated and the non-regulated), each will have a positive stand-alone tax liability. In such a case, the ratepayers of the regulated entity will pay through rates the actual tax liability of the stand-alone regulated entity. SB 408 was not intended to change the rate result under a scenario when all affiliates of the consolidated company are profitable.

Similarly, if the consolidated company had no tax liability, then the ratepayers of the regulated entity will not pay through rates taxes that are not being paid. It is undisputed that if the consolidated company has no tax liability, ratepayers will be insulated from paying phantom taxes through rates.

The controversy in implementing a permanent rule centers around two likely scenarios. In the first, one affiliate has a net loss, but total taxes paid are greater than the utility's stand-alone tax liability. In the second, one affiliate has a net loss and total taxes paid are less than the utility's stand-alone tax liability. In both cases, the temporary rule leads to a fair result that is consistent with the law, while the rule promoted by NW Natural and the other IOUs would lead to an unfair result and one that was expressly rejected by the Oregon legislature.

The example used by Staff in its September 7, 2005 Staff Report shows the logic of the temporary rule and the strained result NW Natural would have this Commission apply:

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	Stand Alone Tax Liability	Temporary Rule	NW Natural Approach
Regulated Utility Operations	130	100	130
Affiliate X	130	100	70
Affiliate Y	(60)	-0-	-0-
Consolidated Tax Payment	200	200	200

Under the temporary rule, the amount of taxes paid that are properly attributed to the utility equals total taxes paid by the consolidated company ($200) times the ratio of the utility's stand-alone tax liability divided by the sum of the tax liabilities of the affiliates with positive stand-alone tax liabilities (200 x 130/260 = $100). By performing the calculation in this manner, the interpretation of the phrase "properly attributed" reflects the fact that both the affiliate that is a utility and the one that is not a utility contributed equally to the liability for taxes paid. Ratepayers and the shareholders of the consolidated company are treated equally under the temporary rule.

NW Natural advocates a result that is neither supported by the language of Section 3(7) of SB 408 nor by any notion of fairness as required under the law. In the example above, NW Natural wants included in its rates 100 percent of the taxes paid by the utility affiliate, up to the stand-alone tax liability, which in the above example would be $130. NW Natural's approach violates Section 3(7) of SB 408 because a lower amount of taxes paid is attributed to the non-regulated Affiliate X (in the above example 70) than to the utility affiliate, even though both contributed equally to the liability for taxes paid. Under NW Natural's approach, in essence the shareholders of the consolidated company capture all the tax savings resulting from the losses realized by Affiliate Y.

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For purposes of ratemaking, NW Natural would have this Commission engage in a legal and accounting fiction that taxes are paid first by any utility affiliate of a consolidated company, and that profitable unregulated affiliates only pay the difference between the consolidated company's total tax liability and the tax liability of the utility affiliate if it was a stand-alone company.

If taxes paid are positive, but less than the utility's stand-alone tax liability, the problem with NW Natural's interpretation of the statute is brought even more into focus. As the Commission is well aware, the impetus for SB 408 was the abuses resulting from Enron's ownership of Portland General Electric ("PGE"). The example below is but one version of what could occur when taxes paid are positive, but are less than the utility's stand-alone tax liability.

	Stand-alone tax liability	Staff "properly attributed" approach	IOU's approach
Affiliate X (utility)	400	240	300
Affiliate Y	100	60	0
Affiliate Z	(200)	-0-	-0-
Consolidated taxes paid	300	300	300

Affiliate Z lost $200, so consolidated tax is $300

Under the temporary rule, of the $300 in total tax liability, $240 is attributed to the utility affiliate, while $60 is attributed to the unregulated Affiliate Y. Under the method urged by NW Natural, the entire $300 is attributed to the utility, with the profitable Affiliate Y having no taxes

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paid attributed to it, even though 20 percent of the tax liability of the consolidated company was the direct result of Affiliate Y's profitability.

To reach the result advocated by NW Natural, the Commission would have to assume that within a consolidated company the first taxes owed are always those attributed to the utility's operations -- with taxes properly attributed to profitable unregulated affiliates always treated as a "remainder" liability (the difference between the consolidated companies total tax liability less the stand alone utilities liability). There is no logic or legislative history to support such a result.

The genesis of NWIGU's concern with phantom taxes stemmed from NW Natural's attempt in 2001-2002 to purchase PGE—and to do so through a heavily leveraged acquisition, with the debt held by a holding company. At the time this Commission was considering the proposed acquisition, NWIGU estimated that the deal as structured by NW Natural would have forced NW Natural customers to pay approximately $188 million over six years in phantom taxes due to the assumption of over $1 billion in debt to finance the purchase by NW Natural. The funding would have been held in a holding company. *See* NY Times Article attached as Exhibit A. The following is a simplified version of a utility acquisition of another utility using debt financing and a holding company structure.

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	Stand-alone tax liability	Temporary Rule "properly attributed
HoldCo	(150)	-0-
Original Utility Affiliate A	100	25
Acquired Utility Affiliate B	100	25
Consolidated Tax Payment	50	50

Under the temporary rule, the ratepayers of both the original utility and the acquired utility would realize the benefit of the interest deduction the Holding Company would otherwise have gained for itself, with the ratepayers of both utilities being allocated $25 of taxes paid attributed to the utility. Without SB 408, the ratepayers of both utilities would have helped finance the acquisition by allowing the Holding Company to keep all the benefits of the interest deduction, while collecting what would have amounted to a forced gift from the ratepayers of the utilities to finance the acquisition. NW Natural does not explain how its interpretation of SB 408 would allocate the reduced taxes between the two profitable utility affiliates.

The temporary rule leads to both a correct and a fair result, thus validating further that the approach in the temporary rule should be adopted in the permanent rule. NW Natural's approach is much more susceptible to manipulation by creative corporate take-over specialists than the approach adopted in the temporary rule.

NWIGU endorses the careful interpretation of the legislative history of SB 408 as set forth in the Industrial Customers of Northwest Utilities' ("ICNU") Reply Comments. NWIGU has reviewed

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ICNU's analysis and finds it compelling because it focuses on the language of SB 408 as enacted, and contrasts the law with amendments offered by the IOUs that were not adopted. ICNU's careful analysis demonstrates that the approach advocated by NW Natural was forwarded as a different version of SB 408 that was not adopted in committee, and not enacted by the Oregon Legislature.

In contrast to ICNU's careful analysis of the legislative history, NW Natural has attempted to glean from particular quotes taken from the legislative history support for its interpretation of the language. NW Natural carefully avoided any discussion of the alternative language for the bill that the IOUs sought, but was ultimately rejected.

For all of these reasons, the Commission should adopt in the permanent rule the definition of "properly attributed" contained in the temporary rule.

2. What did the legislature intend in adoption of section 3(13)(f)(B)?

NW Natural attempts to confuse one provision of SB 408 that is clear and precise. SB 408 provides that the term "taxes paid," is increased:

> "by the amount of tax savings realized as a result of tax credits associated with investment by the utility in the regulated operations of the utility, to the *extent the expenditures giving rise to the tax credits and tax savings resulting from the tax credits have not been taken into account by the commission in the utility's last general ratemaking proceeding;*"

Section 3(13)(f)(B)(emphasis added).

This provision provides a utility with the ability to retain a tax credit by increasing its *taxes paid* as reported on the tax report filed with the Commission if the tax credit is associated with an

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investment in the regulated part of the company that occurs after the utility's most recent general rate case. Once the investment that gives rise to the tax credit is included in rates, *taxes paid* are no longer increased by the value of the tax credit.

NW Natural attempts to stretch the language of 3(13)(f)(B) beyond any logical reading of the words to allow "adjustments to taxes paid for the full tax impacts of any utility expenditures that have not been taken into account in utility rates." *See* NW Natural's Opening Comments P. 18. There is no textual support for this expansive reading of the statute. NW Natural tries to broaden Section 3(13)(f)(B) by claiming that the drafters were using the term *tax credits* generically to mean anything in the tax code that gives rise to tax savings. *See* NW Natural Opening Comments pp 17-20. NWIGU finds NW Natural's assertion incredible and without merit.

While legislators are not experts in utility ratemaking, they certainly know what tax credits are, being that the legislature writes the tax laws. Legislators know that tax credits are not the same as tax deductions, for example. Thus to claim that the legislators didn't necessarily understand the words of Section 3(13)(f)(B) stretches credibility.

Furthermore, Section 3 (13)(f)(B) makes perfect sense in the context of utility ratemaking. If the investment that gave rise to the tax credit was not taken into account in the utility's last rate case, then the amount of the tax saving resulting from the investment rightfully belongs to the shareholders. It is fundamentally fair within the regulatory compact that shareholders of a utility should realize the value of a tax credit between the time the investment is made and the time the investment is reflected in the utility's rates by being included in rate base when establishing rates. Once the investment is in rate base, however, the ratepayers are providing the shareholders with a

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return on that investment, and the tax credits associated with the investment should be realized by the ratepayers. The language of Section 3(13)(f)(B)reflects a perfect matching of the tax laws and the regulatory compact.

Whether the tax credit is a standard investment tax credit, a Business Energy Tax Credit ("BETC") or any other "tax credit", the same interpretation should apply. While the investment is in a regulatory gap between the time it is made and the time it is reflected in rates, the value of the tax credit is added to taxes paid so that the shareholders of the utility realize the value of the investment during the regulatory gap time period. Once the investment is in rates, however, then the value of the tax credit belongs to the ratepayers and the adjustment in Section 3(13)(f)(B) is no longer necessary or appropriate.

The language of Section 3(13)(f)(B) does not apply to investments that have tax consequences between rate cases if no "tax credit" is generated by the investment. NW Natural tries to bootstrap into Section 3(13)(f)(B) expenditures between rate cases that have tax consequences, even though no tax credit is triggered by the expenditure. Nothing in SB 408 supports such a broad stretch to the language of this provision.

There is nothing unfair to utility shareholders brought about by not recognizing every expenditure made by a utility between rate cases that has a tax consequence. If a utility realizes lower revenues than projected, that utility's tax obligation is lowered compared to what was assumed in a rate case. Higher expenditures, such as additional pension contributions, have the same impact. Section 3(13)(f)(B) was not intended to address every change in tax obligations between rate cases. The provision is narrowly focused on tax savings stemming from tax credits from investments that are not in rate base. The Commission should so specify in the permanent rule.

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3. May the Commission terminate the automatic adjustment clause upon showing by a utility that the automatic adjustment clause has a material adverse effect on the utility?

As stated in NWIGU's Opening Comments, the text of SB 408 is absolutely clear that the Commission may only terminate an automatic adjustment clause if it has a material adverse effect on customers. There is no ambiguity in this provision of the bill. This provision of the bill is not reciprocal. The utilities argue that the Commission can terminate the automatic adjustment clause if there is a material adverse effect on the utility. NWIGU strongly disagrees.

A utility may request that the Commission terminate the automatic adjustment clause only if the utility can demonstrate that the impact of the automatic adjustment clause would have a material adverse effect on customers. To make such a showing, a utility would have to demonstrate it was facing severe financial circumstance. This is unlikely to occur because utilities have the ability at any time to request a general rate increase, and, if warranted, a utility can request interim relief.

4. If the utility pays quarterly estimated taxes, must the automatic adjustment clause be applied quarterly, or does the law allow it to be applied yearly?

As stated in NWIGU's Opening Comments, because the law is silent regarding the application of the automatic adjustment clause to a utility that pays quarterly estimated taxes, the Commission should, in its discretion, decide how to implement the law to protect the interest of ratepayers. The question of how the law applies to a utility that pays quarterly estimated taxes, however, is merely a transitional issue. It will not have a long-term substantive impact on the application of the law.

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OPENING COMMENT ON ADDITIONAL QUESTION

5. Does SB 408 require that the Commission, in determining the amounts identified in 3(13)(e)(B) and (C), use the numbers calculated from test year data that the Commission has previously authorized.

The Commission must use numbers calculated from test year data authorized by the Commission in determining amounts identified in Section 3 (13)(e)(B) and (C). The pertinent language used in these provisions of the law contains the phrase "as determined by the commission in establishing rates" and "used by the commission in establishing rates." Thus, the law is clear on its face that the numbers used when establishing current rates should be used when determining the taxes authorized to be included in rates. If anything between rate cases cause either the net to gross calculation to change or the effective tax rate to change, those changes that occurred after the rate case should not be passed onto customers until the next rate case.

SB 408 was not intended to make the taxes included in rates a pass through item that would give rise to single issue rate adjustments between rate cases. If, for example, the corporate tax rate was changed by Congress or the Oregon Legislature since the time of the last rate case, taxes paid would obviously change. Section 3 (13) (e) (C), however, requires the Commission to use the tax rate used by the Commission when current rates were established. A change in corporate tax rates between rate cases is no different than a change in any other expenditure between cases. A rise in cost for a particular expense item is not automatically passed through to ratepayers. It is part of the regulatory compact that adjustments up or down in expenses or revenues between cases are part of the risk that utility shareholders are compensated for through their authorized rate of return on

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equity. If a particular expenditure changes so dramatically as to cause an erosion of the utility's earnings, the utility can file for a general rate increase. If an expenditure item declines, the ratepayers of the utility do not realize that saving unless the company's overall financial picture changes so much that a complaint proceeding would be justified to require a rate decrease.

Only in extreme situations will this Commission authorize between case adjustments to rates through a particular pass-through item. Nothing in SB 408 indicates that the legislature intended to make taxes an automatic pass-through item. The phrase "used by the commission in establishing rates" eliminates any ambiguity regarding this treatment.

CONCLUSION

NWIGU appreciates the opportunity to participate in the development of permanent rules to implement SB 408. NWIGU urges the Commission to adopt permanent rules that will realize the intent behind SB 408. The temporary rule reflects the correct interpretation of "properly attributed" as contained in SB 408.

DATED: This 10th day of November, 2005.

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Enron's Havoc Spills Over To a Utility In Oregon

By DAVID CAY JOHNSTON

SALEM, Ore., Feb. 1 — **Enron**, desperate for cash, hopes to raise $1.4 billion by selling its electric utility here in a deal that the utility's biggest industrial clients say enriches executives at the expense of customers big and small.

Electric rates would remain high here, corporate and consumer critics said, because the money for this deal would carry high junk-bond interest rates and require rapid repayment both to investors and to lenders led by **Merrill Lynch** and **Credit Suisse First Boston**.

The sale would also impose costs that would, in effect, force the average customer to lend the company $260 interest free, indefinitely, according to a group of industrial energy users; the buyer of the utility disputes that estimate.

Since Enron bought the utility, Portland General Electric, five years ago, electric rates in the Portland area, which had been among the lowest in the country, have risen to among the highest. The terms of the sale of the utility to a smaller local utility, **Northwest Natural Gas**, will mean high rates for years, critics say.

As such, Portland businesses and residents are now counting themselves among the victims of Enron's collapse. The troubles at Enron have already cost many of the 2,800 employees of Portland General their life savings, because their retirement savings were in Enron stock.

Enron's Dec. 2 bankruptcy filing is likely to cost Portland General customers an average of more than $500 each in excess payments already made that the utility eventually would have had to refund, according to a consulting firm, Regulatory and Cogeneration Services of Vancouver, Wash.

An alliance of companies like **Intel**, **BoiseCascade**, **Georgia-Pacific** and **Fujitsu**, as well as advocates for residential customers, say the damage could spread. Businesses say that the high electricity rates will discourage business investment and further retard the economy in Oregon, where the unemployment rate of 7.5 percent is the highest in the nation.

Opponents of the sale, which was announced last May, passionately made their points Tuesday in a hearing by the Oregon Public Utility Commission.

Many details of the deal, including its impact on customers and the size of the executives' bonuses, are unknown because Enron sealed most of the documents it filed with the utility commission.

Melinda Davison, a lawyer for major industrial customers, waved a large sealed envelope at the hearing and said that inside were details of the bonuses. She obtained those documents as a party to the case but was not permitted to disclose their contents. "There are more dollars in this transaction for P.G.E. executives than for ratepayers," Ms. Davison said. "P.G.E. executives get paid first and customers get

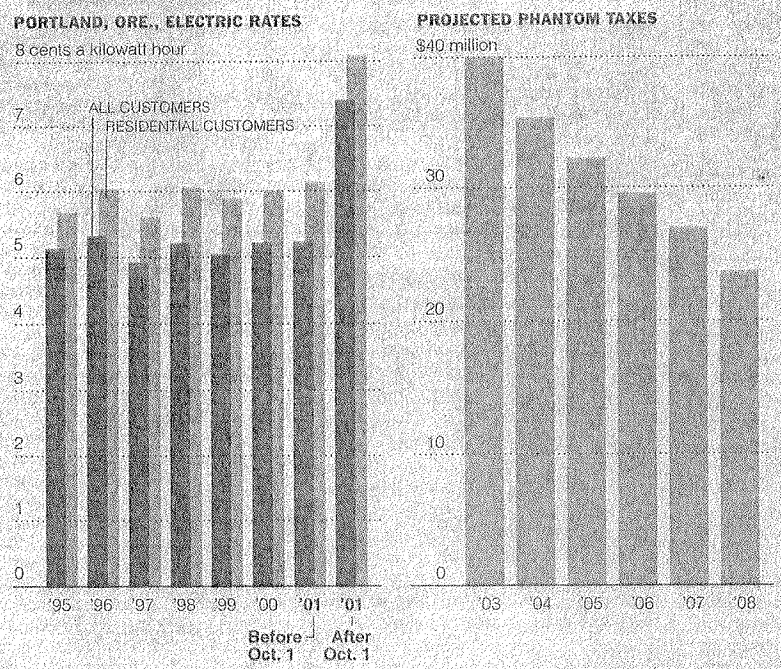
Continued on Page 5

Michael Wilhelm

Larry the Lightbulb, Portland General Electric's mascot, with Enron's former chairman, Kenneth L. Lay, left, and former chief executive, Jeffrey K. Skilling, in Portland, Ore., in 1997 when Enron acquired the utility.

Rate Shock

Since Enron bought Portland General Electric, electric rates have gone from among the lowest in the country to among the highest. Major customers say that selling the utility to Northwest Natural Gas would mean high rates for years. According to critics, a merger would force customers to pay millions in "phantom taxes" — higher rates to cover taxes the utility may not owe because it can deduct interest on loans used to pay for the acquisition.



Source: Oregon Public Utility Commission (1995-2000 rates); Portland General Electric (2001 rates); Regulatory and Cogeneration Services of Vancouver, Wash. (phantom taxes)

The New York Times

A UTILITY DEAL

The Havoc From Enron Spills Over to Oregon

Continued From First Business Page

benefits years from now."

Bonuses to retain important executives are common in mergers, but keeping them secret is unusual.

John Ambler, an Enron spokesman, described the sale of Portland General as a change of strategy, rather than a sign of desperation. Enron, he said, "got involved in Portland General Electric to better understand the utility market, as it appeared there would be opportunities in an environment of deregulation." But, he continued, "as time went on, P.G.E. was not as important to Enron."

"While the returns were good with P.G.E.," he added, "our cash could be better placed in other areas."

Executives of both utilities said customers would receive some immediate benefits from the deal. Pamela Lesh, a Portland General vice president, said that rates would drop at the end of this year, though not by as much as major customers and consumer advocates wanted. The biggest benefits will come beginning about 2008 to 2010, once debt from the deal is paid off, she said.

"The industrial customers and the consumer advocates are complaining because this deal will save costs through synergies and they want to benefit right away, not in eight years," she said.

Bruce DeBolt, the Northwest Gas chief financial officer, said that rates would not be any higher because of the merger. But Northwest Gas shareholders, he said, would benefit substantially from the leveraged buyout.

Enron, which bought Portland General in 1997, has been trying to sell it at least since November 1999. Usually, the sellers in such deals receive payment in shares of the acquirer, an arrangement that would have little effect on a utility's customers. But Enron has been seeking to sell Portland General for cash — reflecting, local critics say, its deteriorating financial condition.

Talk of 'phantom taxes,' interest-free loans and high electric rates.

The deal has come under fire from both corporate customers and consumer groups who say its terms would violate longstanding principles of utility rate-making law by putting the burdens on ratepayers and giving virtually all the benefits to the gas utility's shareholders.

"Because of Enron, Oregon ratepayers are seriously in harm's way," said Dan Meek, a lawyer for the Utility Reform Project, a consumer group.

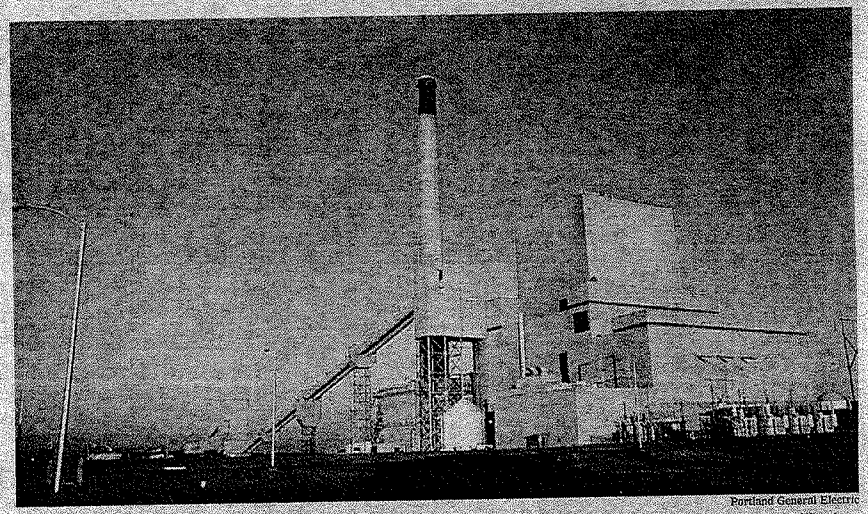
Higher rates over the long term will shrivel new investment by companies that come here to obtain cheap power, said Ms. Davison, the lawyer for big electric customers. Intel has already announced a halt to its multibillion-dollar expansion in the Portland area until rates come down.

At the hearing Tuesday, no ordinary citizens, or Oregon journalists, observed the two hours of testimony, parts of which were also missed by Commissioner Lee Byers, who arrived late and repeatedly nodded off.

The hearing was filled with stories of the damage witnesses said Enron brought, of the lost retirement savings of utility linemen because of the collapse of Enron's stock, of the bonuses for executives and of the added burdens that customers said they would suffer. Any deal would be subject to a bankruptcy court's approval.

Edward A. Finklea, a lawyer representing big gas customers, said it was unfair for customers to wait years before sharing in the benefits of merging the local gas and electric utilities. He belittled the benefits that the utilities promise immediately and over the first eight years, saying they amount to $3 annually for each customer "or about enough to heat a house for one day."

Several witnesses warned that if business conditions worsen, or exceptionally mild weather prevails, the combined company would have trouble paying back the $1.4 billion in debt. Then the company would have to raise electric and gas rates further to avoid bankruptcy, they said.



Portland General Electric

Portland General Electric's Boardman Power Plant near Boardman, Ore. Enron's efforts to sell the utility has stirred controversy among ratepayers who fear rates will rise and hurt the area's economic growth.

Enron plans to sell Portland General for $1.4 billion in cash, $250 million in a special class of stock and the assumption of more than $1 billion of debt by Northwest Natural Gas. The debt burden would lower the combined company's credit rating to junk-bond status until the beginning of 2006, Mr. DeBolt said.

The deal would force customers to pay an additional $188 million in "phantom taxes" over six years, according to Energy Advocates, which represents major natural gas customers in Portland.

Phantom taxes occur when utility customers pay rates that assume the company pays higher taxes than it actually does. Because the merged utility here would pay reduced taxes, as it deducted its high debt payments, electricity and gas rates would include what amounts to a forced loan from customers to the utility at zero interest.

These loans would average $260 a customer and last for at least six years, according to calculations by Don Schoenbeck of Regulatory and Cogeneration Services, who said he relied on public documents from Northwest Natural Gas.

The average of more than $500 that each Portland General customer has already paid in phantom taxes almost certainly will never be repaid because of Enron's bankruptcy.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I caused to be served the foregoing **Northwest Industrial Gas Users' Reply Comments and Opening Comment on Additional Question** on the attached Service List obtained on November 10, 2005 from the Oregon Public Utility Commission's Website as follows:

[XX] by **MAILING** a full, true and correct copy thereof in a sealed, postage-paid envelope, addressed as shown on the attached Service List, and deposited with the U.S. Postal Service at Portland, Oregon, on the date set forth below;

[XX] **and** by **electronic mail** ("e-mail") to those parties on the Oregon Public Utility Commission's Website Service List who listed an e-mail address.

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