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**SENATE BILL 408, TAX FILINGS  
STAFF'S INITIAL FINDINGS  
FOR PACIFIC POWER & LIGHT – UE 177**

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**TO:** ALL PARTIES  
DOCKET NO. AR 499  
**PACIFIC POWER & LIGHT**  
**SB 408 TAX FILINGS – UE 177**  
**2003, 2004 AND 2005**

**FROM:** ED DURRENBERGER, UTILITY ANALYST,  
PUBLIC UTILITY COMMISSION

**DATE:** DECEMBER 15, 2006

**CC:** LEE SPARLING, ED BUSCH, JUDY JOHNSON AND JASON  
JONES

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On October 16, 2006, Pacific Power & Light (PacifiCorp or company) filed UE 177, its tax report covering the calendar years 2003, 2004 and 2005 pursuant to Senate Bill 408 (SB 408) (codified at ORS 757.267, 757.268 and OAR 860-022-0041).

The information contained in these tax reports represents highly confidential and sensitive information. Staff has adhered to the handling of the confidential information in these filings consistent with Commission Order No. 06-033. In addition, Staff has structured its initial findings in this report in a generic manner in order to avoid the possibility of disclosing confidential, or sensitive, information.

Staff finds that PacifiCorp's original filing was very detailed and adequately documented its procedures and methodologies compliant with the current AR 499 rules. Staff acknowledges the effort of PacifiCorp's Tax Manager, Ryan Fuller, to facilitate Staff's review of their work papers.

Staff reviewed in great specificity one of the tax years reported, each calculation and all supporting documentation provided by the Company were

examined and evaluated. In the case of PacifiCorp, the year examined in the most detail was 2003. For the subsequent years reported Staff reviewed the filings to assure that the same source documents were used and that the calculations and findings were accurate. It is worth noting that the PacifiCorp's 2005 taxes were not yet finalized and will not be filed with the taxing authorities until today, December 15, 2006 at the earliest. In the case of the findings for 2005, the company used the best estimates of the tax obligations and plans to update the filing when appropriate documentation is available

In the process of these reviews, Staff has discovered a few issues specific to PacifiCorp's filing, as well as inconsistencies that appear to relate more globally to AR 499 rules as they currently exist and/or to the interpretation of AR 499 by the utility companies versus Staff's understanding of the current rules.

Following is a description first of the issues Staff found with the company's filing, followed by the more generic issues regarding the rules in general.

### **Issue 1) Gross Revenues**

In calculating the Federal and State Income Taxes Collected, line 7, tax work sheet page 1 of 7, PacifiCorp used a value for Gross revenue in line 2 that came from a document that had slightly different Revenue Requirement numbers than those contained in the General Rate Case Order documents. The differences were very minor and had no material effect on the outcome.

Staff Comment:

The Gross Revenue value for 2003 was apportioned between two rate cases. Staff's ability to replicate the values reported by PacifiCorp depends on a common starting point. In this case a rounding error or some other minor change to the company version of the revenue requirement calculation produced a number different than the documents contained in the Commission Orders.

### **Staff recommendation:**

In the case of calculating the Federal and State Taxes Collected on page 1 or 7 of the tax worksheets, the utilities need to use the values contained in the Commission Order work papers. Although, as mentioned above, the differences were not material, it did lead to unnecessary confusion about the source documents used.

**Issue 2) Origin of numbers used to represent ratio calculations.**

Staff Comment:

The calculations used to compute the percentage of the revenues and taxes properly attributed to Oregon required the use of cost categories that could not be readily segregated from annual reports or confidential tax documents. In the absence of having these cost categories segregated out from other costs in the annual results of operations report, the company made a good faith effort to derive values which enabled the calculations to go forward. This was a problem with the other utilities also and an agreement needs to be reached with all the parties, not just PacifiCorp, to segregate the necessary cost categories in future results of operations reports.

**Staff recommendation:**

Staff recommends that PacifiCorp follow through with segregating the cost categories in future financial reports to facilitate SB 408 reporting requirements.

**Generic issues:**

Staff discovered two generic issues that appear to be global misconceptions between Staff, the Utilities and the rules as they currently exist.

**Generic Issue 1) Appropriate Gross Revenues and Taxes.**

Although PacifiCorp doesn't have this issue with the current filing, one of the other utilities has a Commission authorized program that can lead to permanent base rate adjustments between rate cases. The income and taxes associated with the any permanent change to base rates that occurred between general rate cases must be included in the calculation for taxes authorized to be collected in rates.

Staff Comments:

Although this issue did not come up with PacifiCorp, Staff suggests the rule could be clearer about the Gross revenues and State and Federal Income taxes used to calculate the value for Federal and State taxes authorized to be Collected in rates on page 1 of 7 in the tax work sheet.

**Generic Issue 2) Calculation of Stand-alone Utility (the floor).**

Staff Comments:

Pursuant to OAR 860-022-0041(3)(b)(B) and (3)(d)(B), the amount of federal income taxes paid that is properly attributed to the regulated operations is not to be less than the Utility's stand-alone calculation reduced by a proportionate share of the tax losses after adjusting for tax effects of Public Utility Property (PUP). It is Staff's opinion that the adjustment for the tax effects of PUP should ONLY include depreciation for those entities that are regulated AND are experiencing a loss in that tax period and not an adjustment for the tax effects of all public utility property. Staff believes that in order to avoid IRS normalization violations, there is no need to add back the tax effect of depreciation related to PUP of regulated utilities that do not have losses.

Staff found that the utility companies tended to make this adjustment for depreciation by including all PUP and not just PUP from entities that experienced a loss in that tax year.

**Staff recommendation:**

Staff suggests a housekeeping change to this section of the rule clarifying that the "floor" calculation should be based either solely on the losses of unregulated entities in the consolidated group (eliminating the need to make any PUP-related add backs), or alternatively, that the add back should be the amount related to those regulated entities with losses. Staff will make a recommendation in the rulemaking expected next spring.

1 **CERTIFICATE OF SERVICE**

2 I certify that on December 15, 2006, I served the foregoing upon the parties in this  
3 proceeding hereto by electronic mail and sending a true, exact and full copy by regular mail,  
4 postage prepaid or by shuttle mail/hand deliver to the parties accepting paper service.

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