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Douglas C. Tingey
Assistant General Counsel

January 29, 2010

Via US Mail

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

Re: UM 1252 – 2005 Corporate Tax Kicker

Attention Filing Center:

Enclosed for filing in UM 1252 are an original and five copies of :

Direct Testimony of Portland General Electric Company:

- (PGE/100-102/Hager-Tinker/UM 1252 2005 Corporate Tax Kicker).

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
Assistant General Counsel

DCT:jbf
Enclosures
cc: Service List-UM 1252

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **DIRECT TESTIMONY OF PORTLAND GENERAL ELECTRIC COMPANY (PGE/100-102/HAGER-TINKER/UM 1252 2005 CORPORATE TAX KICKER)** 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 1252.

Dated at Portland, Oregon, this 29th day of January 2010.



DOUGLAS C. TINGEY

SERVICE LIST

OPUC DOCKET # UM 1252

| | |
|--|---|
| <p>Citizen's Utility Board of Oregon Robert Jenks 610 Southwest Broadway Portland, OR 97205-3404 bob@oregoncub.org</p> | <p>ICNU Michael Early 333 SW Taylor Street, Suite 400 Portland, Oregon 97204 mearly@icnu.org</p> |
| <p>Public Utility Commission of Oregon Carla Ownings 550 Capitol Street NE Suite 215 Salem, OR 97301-2551 carla.ownings@state.or.us</p> | |

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

**UM 1252
2005 Oregon Corporate Tax Kicker**

PORTLAND GENERAL ELECTRIC COMPANY

Direct Testimony

January 29, 2010

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I. Introduction

1 **Q. Please state your names and positions with PGE.**

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

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

5 Our qualifications appear at the end of this testimony.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of our testimony is twofold:

- 8 • Summarize the Commission's Order No. 06-183 relating to the deferral of savings
9 associated with the 2005 Oregon Corporate Tax Kicker.
- 10 • Present an earnings test that shows that PGE's earnings during the relevant period
11 were insufficient to warrant amortization of the deferral.

12 **Q. How is your testimony organized?**

13 A. After this introduction, Section II summarizes the Commission's Order No. 06-183 from
14 UM 1252. Section III provides PGE's earnings test for the deferral period, and finally,
15 Section IV provides our qualifications.

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

17 A. We conclude that an earnings test of the relevant period is required by ORS 757.259 and that
18 PGE's earnings were deficient during the period. Therefore, no amortization (refund) of the
19 deferred amount should occur.

II. Review of Order No. 06-183

1 **Q. Please summarize PGE’s deferral request and the Commission’s resulting Order in**
2 **UM 1252 (Order No. 06-183).**

3 A. On March 6, 2006, PGE filed an application to defer savings associated with the 2005
4 Oregon Corporate Tax Kicker. This application was docketed as UM 1252. Staff
5 recommended that (1) the Commission approve PGE’s request for deferred accounting of
6 savings associated with the 2005 Oregon Corporate Tax Kicker for accounting purposes
7 only and (2) that ratemaking treatment should be reserved for a ratemaking proceeding. The
8 Commission, in Order No. 06-183, adopted Staff’s recommendations and approved PGE’s
9 request for authorization to defer any savings associated with the 2005 Oregon Tax Kicker.
10 Staff also proposed that the earnings test associated with the deferral, and amortization of
11 the deferral, be considered later. PGE Exhibit 101 is a copy of Order No. 06-183.

III. Earnings Test

1 **Q. What is the purpose of the earnings test?**

2 A. The purpose of the earnings test is to determine whether the utility's earnings during the
3 relevant period warrant amortization of any deferred amounts.

4 **Q. Is an earnings test required for this deferral?**

5 A. Yes. It is required under ORS 757.259.

6 **Q. Please describe how you performed the earnings test for the Tax Kicker deferral?**

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

12 **Q. What were PGE's earnings if the Tax Kicker is refunded to customers?**

13 A. With the refund, PGE's regulated adjusted ROE for the 12-month period that includes the
14 Corporate Tax Kicker deferral period is only 5.12%, far below its authorized 10.5% ROE for
15 the period as shown in PGE Exhibit 102.

16 **Q. In docket UE 196, PGE is seeking \$26.4 million in Commission approved deferred
17 power costs associated with a Boardman outage over the period November 18, 2005,
18 through February 6, 2006. Does the 5.12% ROE include PGE recovery of these costs?**

19 A. Yes. The 5.12% ROE includes recovery of these costs.

20 **Q. If the Tax Kicker is not refunded to customers, what is PGE's ROE for this period?**

21 A. If PGE were not required to refund \$3.66 million in this docket, PGE's ROE would increase
22 to 5.33%, still well below its authorized 10.5% ROE for this period.

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

2 A. The period is July 1, 2005 through June 30, 2006.

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

4 A. The earnings period must encompass the entire deferral period. The deferral was initially
5 booked in Q3 and Q4 of 2005, with a true-up in Q4 of 2006. No contiguous twelve-month
6 period includes all three events. We chose this period because it covered the deferral period
7 and provides a review of the most recent level of earnings possible. For the purposes of the
8 earnings test, we include the effect of the Q4 2006 true up in the earnings period financial
9 results. We believe that this modified period is reasonable for the earnings review.

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

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

- 12 • Commission decisions from UE 82 (Order No. 93-257), UE 115 (Order No.
13 01-777), and UM 1234 (Order No. 07-049).
- 14 • Staff letter on Results of Operations Reports dated March 25, 1992.

15 **Q. Are any recent Commission decisions relevant to this filing?**

16 A. Yes. In the Commission's recent decision in UM 1224, the Commission concluded that a
17 similar earnings test period demonstrated that there should be no refund of that tax deferral.

18 **Q. Is PGE filing a tariff with this testimony?**

19 A. No. Consistent with the procedure used and the Commission Order in UM 1224, PGE is not
20 filing a tariff because PGE does not advocate changed rates.

IV. Qualifications

1 **Q. Mr. Hager, please describe your qualifications.**

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

10 **Q. Mr. Tinker, please describe your qualifications.**

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

15 **Q. Does this conclude your testimony?**

16 A. Yes.

List of Exhibits

| <u>PGE Exhibit</u> | <u>Description</u> |
|---------------------------|---------------------------|
| 101 | Copy of Order No. 06-183 |
| 102 | Earnings Test Results |

ORDER NO. 06-183

ENTERED 04/13/06

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1252

| | | |
|---|---|-------|
| In the Matter of |) | |
| |) | |
| PORTLAND GENERAL ELECTRIC |) | ORDER |
| |) | |
| Application for Deferred Accounting of |) | |
| Savings associated with the 2005 Oregon |) | |
| Corporate Tax Kicker. |) | |

**DISPOSITION: DEFERRED ACCOUNTING APPLICATION
APPROVED**

On March 6, 2006, Portland General Electric (PGE) filed a request for authorization to defer any savings associated with the 2005 Oregon Corporate Tax Kicker. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on April 11, 2006, the Commission adopted Staff's Recommendation and approved PGE's current request.

ORDER NO. 06-183

ORDER

IT IS ORDERED that Portland General Electric Company's request to defer accounting of savings associated with the 2005 Oregon Corporate Tax Kicker, as described in Appendix A, is granted.

Made, entered, and effective APR 13 2006



BY THE COMMISSION:

A handwritten signature in black ink, appearing to read "Becky L. Beier", is written over a horizontal line.

Becky L. Beier
Commission Secretary

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.

ORDER NO. 06-183

ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 11, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE April 12, 2006

DATE: March 14, 2006

TO: Public Utility Commission

FROM: Carla Owings *CO*

THROUGH: *li* Lee Sparling, *EB* Ed Busch and *JJ* Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1252) Application for Deferred Accounting of Savings associated with the 2005 Oregon Corporate Tax Kicker.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric's request for deferred accounting of savings associated with the 2005 Oregon Corporate Tax Kicker pursuant to ORS 757.259 for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

On March 6, 2006, Portland General Electric (PGE) filed a request for authorization to defer any savings associated with the 2005 Oregon Corporate Tax Kicker (Tax Kicker).

Staff recommends that the Commission address the amortization phase for this deferral in a separate docket, however, in any circumstance, Staff recommends that the impact of the rulemaking in AR 499 (Senate Bill 408, Utility Taxes) be reviewed prior to any decision to amortize the potential savings created by the Tax Kicker. This review should avoid any possibility of double-counting.

Additionally, PGE proposes an earnings test be considered prior to the amortization of this deferral. Staff proposes this issue be reserved for discussion at the time of amortization.

ORDER NO. 06-183

PGE – UM 1252 – Defer Tax Kicker
March 14, 2006
Page 2

Description:

ORS 291.349 establishes procedures under which Oregon taxpayers can receive refunds or credits when tax receipts exceed by more than two percent, estimated receipts for any biennium.

Proposed Accounting:

PGE proposes to record the deferred amount in FERC Account 449.1 (Provision for Rate Refunds) crediting FERC Account 229 (Accumulated Provision for Rate Refund). In absence of an accounting order to defer, PGE would record costs associated with the tax kicker to FERC Account 236 (Taxes Accrued) and FERC Account 409.1 (Income Taxes-Utility Operating Income).

Estimate of Amount:

It is unclear at this time how this amount will be treated in relation to the current AR 499 rulemaking procedure which deals with the enactment of Senate Bill 408, Utility Taxes. However, PGE estimates the Tax Kicker savings to be approximately \$4.0 million. The Company proposes to apply interest at its current cost of capital or 9.083%.

PROPOSED COMMISSION MOTION:

The Commission approve Portland General Electric's request for deferred accounting of savings associated with the 2005 Oregon Corporate Tax Kicker pursuant to ORS 757.259 for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

PGE UM 1252 – Defer Tax Kicker

PORTLAND GENERAL ELECTRIC
OPUC REGULATORY REPORTING
RESULTS OF OPERATIONS

Earnings Test Assuming Boardman Deferral Recovery

July 1, 2005 - June 30, 2006

(Thousands of Dollars)

| Regulatory adjustments based on Docket UE-115, Order 01-777. | Actual | Type I | Regulated | | Earnings | | Regulated |
|--|------------------|------------------|------------------|-----------------|------------------|--------------|------------------|
| | Financial | Accounting | Utility | Type I | Test | Deferral | Adjusted |
| | Statements | Adjustments | Actuals | Adjustments | Adj. Results | Adjustments | Results with |
| | (1) | (2) | (3) | (4) | (5) | (6) | Deferrals |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Operating Revenues | | | | | | | |
| Sales to Consumers | 1,334,285 | (17,917) | 1,316,368 | 0 | 1,316,368 | 0 | 1,316,368 |
| Sales for Resale | 117,957 | (117,957) | 0 | 0 | 0 | 0 | 0 |
| Other Operating Revenues | 21,806 | 20,834 | 42,640 | (2,354) | 40,286 | 3,659 | 43,945 |
| Total Operating Revenues | 1,474,048 | (115,040) | 1,359,008 | (2,354) | 1,356,654 | 3,659 | 1,360,313 |
| Operation & Maintenance | | | | | | | |
| Net Variable Power Cost | 773,065 | (157,074) | 615,990 | (1,305) | 614,685 | 0 | 614,685 |
| Total Fixed O&M | 135,876 | 0 | 135,876 | 0 | 135,876 | 0 | 135,876 |
| Other O&M | 161,842 | 3,462 | 165,305 | (10,076) | 155,229 | 0 | 155,229 |
| Total Operation & Maintenance | 1,070,783 | (153,612) | 917,171 | (11,381) | 905,790 | 0 | 905,790 |
| Depreciation & Amortization | 225,306 | 0 | 225,306 | 0 | 225,306 | 0 | 225,306 |
| Other Taxes / Franchise Fee | 73,933 | 0 | 73,933 | (172) | 73,761 | 0 | 73,761 |
| Current Book Income Taxes Net of ITC | 69,688 | 21,520 | 91,208 | 3,595 | 94,803 | 1,438 | 96,241 |
| Current Book Deferred Taxes | (52,362) | 0 | (52,362) | 440 | (51,922) | 0 | (51,922) |
| Reverse Current Book Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SB408 Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Oper. Expenses & Taxes | 1,387,348 | (132,092) | 1,255,256 | (7,518) | 1,247,738 | 1,438 | 1,249,176 |
| Utility Operating Income | 86,701 | 17,051 | 103,752 | 5,164 | 108,916 | 2,221 | 111,137 |
| Rate of Return | 4.80% | | 5.75% | | 6.04% | | 6.16% |
| Return on Equity | 2.97% | | 4.62% | | 5.12% | | 5.33% |
| ROE based on actual capital structure. | | | | | | | |
| Average Rate Base | | | | | | | |
| Utility Plant in Service | 4,039,469 | 0 | 4,039,469 | (320) | 4,039,149 | 0 | 4,039,149 |
| Accumulated Depreciation | 2,179,115 | 0 | 2,179,115 | 0 | 2,179,115 | 0 | 2,179,115 |
| Accumulated Def. Income Taxes | 141,405 | 0 | 141,405 | 278 | 141,683 | 0 | 141,683 |
| Accumulated Def. Inv. Tax Credit | 9,909 | 0 | 9,909 | 0 | 9,909 | 0 | 9,909 |
| Net Utility Plant | 1,709,040 | 0 | 1,709,040 | (598) | 1,708,442 | 0 | 1,708,442 |
| Net Trojan Investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weatherization Investment | 11 | 0 | 11 | 0 | 11 | 0 | 11 |
| Deferred Programs & Investments | 2,816 | 0 | 2,816 | 180 | 2,997 | 0 | 2,997 |
| Operating Materials & Fuel | 52,635 | 0 | 52,635 | 0 | 52,635 | 0 | 52,635 |
| Misc. Deferred Credits | (13,618) | 0 | (13,618) | 0 | (13,618) | 0 | (13,618) |
| Unamortized Ratepayer Gains | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Working Cash | 54,090 | (828) | 53,262 | (335) | 52,927 | 463 | 53,391 |
| Total Average Rate Base | 1,804,973 | (828) | 1,804,145 | (753) | 1,803,392 | 463 | 1,803,856 |

REVENUE SENSITIVE COSTS USED IN RESULTS OF OPERATIONS MODEL

| Revenue Sensitive Costs | UE-115 | Other Factors | |
|---|---------|--|--------|
| Revenues | 1.00000 | Working Cash | 4.46% |
| Customer Accts/Other O&M: Uncollectibles | 0.00500 | Revenue Sensitive Costs are applied only to Sales-to-Consumers, they are not to be applied to Total Operating Revenue. | |
| Other Taxes: Franchise Fees | 0.00000 | | |
| Short-term Interest | 0.00000 | | |
| A&G: OPUC Gross Rev. Fee (Now based on kwh) | 0.00000 | | |
| | 0.99500 | | |
| State Income Tax @ 6.6547% | 0.06621 | Inflation/Escalation per WEFA for Dec 2006 (1/2 year): | 1.60% |
| Federal Taxable Income | 0.92879 | | |
| Federal Income Tax @ 35.00% | 0.32508 | | |
| ITC | 0.00000 | | |
| Current FIT | 0.32508 | | |
| Environmental Tax @ 0.00% | 0.00000 | | |
| Total Income Taxes | 0.39129 | Composite Tax Rate | 39.33% |
| Total Revenue Sensitive Costs | 0.39629 | | |
| Utility Operating Income | 0.60371 | | |
| Net-to-Gross Factor | 1.65642 | | |

Note, in the UE-82 proceeding Staff recorded the Gross Revenue Fee in Other Taxes. PGE records it in Admin. & General Expense.