

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UE 177 (4)**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408. )

**TESTIMONY OF  
ELLEN BLUMENTHAL  
ON BEHALF OF  
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**REDACTED VERSION**

**February 7, 2011**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Ellen Blumenthal. My business address is 13517 Queen  
3 Johanna Court, Corpus Christi, Texas 78418.

4 **Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.**

5 A. I received the degree of Bachelor of Arts in Journalism from the  
6 University of Texas at Austin in 1974, but remained at the University to  
7 do additional course work in accounting and business. I became a  
8 Certified Public Accountant in Texas in 1977.

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 A. I am a Principal with GDS Associates, Inc. (“GDS”).

11 **Q. PLEASE OUTLINE YOUR PROFESSIONAL EXPERIENCE.**

12 A. From 1975 to 1977, I worked in public accounting. My public accounting  
13 experience included the preparation of financial statements, tax work, and  
14 auditing. In May 1977, I became a regulatory accountant with the Public  
15 Utility Commission of Texas. I left the Public Utility Commission of  
16 Texas in November 1980 to open an office in Austin for C.H. Guernsey &  
17 Company, Consulting Architects and Engineers. I became an independent  
18 consultant in 1982 and joined GDS in 2002. A copy of my résumé is  
19 included as Exhibit ICNU/101.

20 **Q. WOULD YOU PLEASE DESCRIBE GDS?**

21 A. GDS is an engineering and consulting firm with offices in Marietta,  
22 Georgia; Austin, Texas; Manchester, New Hampshire; Madison,  
23 Wisconsin; and Auburn, Alabama. GDS has more than one hundred fifty  
24 employees with backgrounds in engineering, accounting, management,

1 economics, finance, and statistics. The firm provides rate and regulatory  
2 consulting services in the electric, natural gas, water, and telephone utility  
3 industries. GDS also provides a variety of other services in the electric  
4 utility industry including power supply planning, generation support  
5 services, financial analysis, load forecasting, statistical services, and  
6 NERC compliance. Our clients are primarily publicly-owned utilities,  
7 customers of privately owned utilities, and government agencies.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

9 A. Yes.

10 **Q. YOUR TESTIMONY IN THIS PROCEEDING IS ABOUT UTILITY**  
11 **INCOME TAXES. HAVE YOU PREVIOUSLY TESTIFIED BEFORE**  
12 **REGULATORY COMMISSIONS REGARDING SUCH MATTERS?**

13 A. Yes. I have testified about income tax issues before the Texas Public  
14 Utility Commission, the Kansas Corporation Commission, the Federal  
15 Energy Regulatory Commission, and the Texas Railroad Commission.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The Industrial Customers of Northwest Utilities (“ICNU”) objects to the  
18 stipulation in this case, which allows PacifiCorp to recover an additional  
19 \$13.5 million from its customers for income taxes. The total income taxes  
20 collected from customers for 2009 will be approximately \$77.4 million  
21 plus interest. PacifiCorp’s taxable income that was included in Berkshire  
22 Hathaway’s 2009 consolidated income tax return was a [**Highly**  
23 **Confidential**] [REDACTED] [**Highly Confidential**] of which a  
24 [**Highly Confidential**] [REDACTED] [**Highly Confidential**]  
25 relates to Oregon regulated operations. The Oregon regulated operations

1 “normalized” federal taxable income is approximately [**Highly**  
2 **Confidential**] [REDACTED] [**Highly Confidential**] resulting in a federal  
3 tax liability of approximately [**Highly Confidential**] [REDACTED] [**Highly**  
4 **Confidential**]. PacifiCorp should refund [**Highly Confidential**] [REDACTED]  
5 [REDACTED] [**Highly Confidential**] to its customers. ICNU/104.

6 **Q. HAVE YOU REVIEWED THE STIPULATION IN THIS CASE?**

7 A. I have reviewed the Stipulation, but I have not reviewed the Stipulation  
8 Tax Report.

9 **Q. DO YOU DISCUSS STATE AND LOCAL TAXES IN THIS TESTIMONY?**

10 A. No, not specifically. The state and local taxes are de minimus in this case.  
11 Therefore, I have focused on the much more significant federal income tax  
12 issues.

13 **Q. YOU HAVE ATTACHED FOUR EXHIBITS TO YOUR TESTIMONY.**  
14 **WHAT ARE THESE EXHIBITS?**

15 A. ICNU/101 is a copy of my résumé. ICNU/102 shows how the  
16 normalization of depreciation can be either explicitly or implicitly in the  
17 calculation of income tax expense for inclusion in rates. ICNU/103 shows  
18 that the requirements of OAR 860-022-0041(4)(d) overstate the  
19 normalization “floor” in a stand-alone calculation. ICNU/104 is my  
20 recommended calculation of PacifiCorp’s normalized tax expense, which,  
21 in my opinion, is the amount that should be included on page 1, line 1 of  
22 the Stipulation Tax Report.

1           **I. INTERNAL REVENUE CODE TAX NORMALIZATION**

2   **Q. PLEASE EXPLAIN THE NORMALIZATION REQUIREMENTS**  
3   **CONTAINED IN THE INTERNAL REVENUE CODE.**

4   A. A regulated utility that uses accelerated tax depreciation is required to  
5   normalize method and life differences. Former IRC §167(l) and §46(f). In  
6   essence, ratepayers cannot be given the benefit of rapid tax depreciation.  
7   When utility rates are set, the federal income tax expense included in rates  
8   must be calculated using the straight-line depreciation deduction (book  
9   basis and book useful life), not the accelerated tax depreciation deduction  
10   actually taken on the utility's federal tax return.

11   **Q. PLEASE EXPLAIN METHOD, LIFE AND BASIS DIFFERENCES.**

12   A. Method differences result from using accelerated depreciation for tax  
13   reporting and straight-line for book/ratemaking purposes. Life differences  
14   result from using a shorter life for tax purposes than is used for book  
15   purposes. No matter what depreciation method is used and no matter what  
16   useful life is used, total depreciation expense will be the same over the  
17   useful life of the asset.

18           This is not the case with basis (investment being  
19   depreciated) differences. Basis differences are the result of differences  
20   between how cost is defined for tax and for regulatory purposes. When  
21   the original cost of the asset for tax and for regulatory purposes differs,  
22   the amount of depreciation expense over the life of the asset will not be  
23   the same for tax and for regulatory. The normalization rules do not apply  
24   to this difference.

1 **Q. HOW ARE THE DIFFERENCES BETWEEN TAX AND REGULATORY**  
2 **DEPRECIATION REFLECTED ON A UTILITY'S REGULATORY**  
3 **BOOKS?**

4 A. Utilities defer the tax difference between regulatory book and tax  
5 depreciation. The current provision is accounted for in an income  
6 statement account. The other side of the entry is included in a balance  
7 sheet account of accumulated deferred income taxes.

8 **Q. WOULD YOU ILLUSTRATE HOW THE CURRENT PROVISION FOR**  
9 **DEFERRED TAXES AND ACCUMULATED DEFERRED TAXES**  
10 **CHANGE OVER THE USEFUL LIFE OF AN ASSET?**

11 A. Yes. In the example below, the original cost of the asset is \$60,000. The  
12 asset has a book life of 6 years and a tax life of 3 years.

	<u>YR 1</u>	<u>YR 2</u>	<u>YR 3</u>	<u>YR 4</u>	<u>YR 5</u>	<u>YR 6</u>	<u>Total</u>
Straight line depreciation (6 yr life)	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 60,000
Accelerated tax depreciation (3 Yr life)	(20,000)	(20,000)	(20,000)				(60,000)
Difference	\$ (10,000)	\$ (10,000)	\$ (10,000)	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Federal tax rate	0.35	0.35	0.35	0.35	0.35	0.35	
Current provision for deferred taxes	\$ (3,500)	\$ (3,500)	\$ (3,500)	\$ 3,500	\$ 3,500	\$ 3,500	\$ -
Accumulated deferred taxes	\$ (3,500)	\$ (7,000)	\$ (10,500)	\$ (7,000)	\$ (3,500)	\$ -	

13  
14 This example illustrates that the credit balance for accumulated deferred  
15 federal income taxes increases when tax depreciation is greater than book  
16 depreciation and then decreases when book depreciation is greater than  
17 tax depreciation. It also shows that total book depreciation and tax  
18 depreciation are the same because the original cost of the asset is the  
19 same.

20 **Q. WHAT DO THE DEFERRED TAXES RELATED TO THE DIFFERENCE**  
21 **BETWEEN BOOK AND TAX DEPRECIATION REPRESENT?**

22 A. The deferred taxes will have a credit balance during the period that  
23 accelerated tax depreciation is greater than book depreciation. This credit

1 balance recognizes two things. It recognizes that at some point in the  
2 future, the accelerated tax depreciation will be less than the straight-line  
3 book depreciation and that the utility will owe more tax to the federal  
4 government. It also recognizes that ratepayers have provided the utility  
5 with these tax dollars that will be due sometime in the future.

6 Accumulated deferred income taxes are deducted from rate base because  
7 these are dollars provided by ratepayers that represent cost-free capital to  
8 the utility until such time as the tax becomes due and payable to the  
9 federal government.

10 **Q. ARE THERE VARIOUS METHODS USED IN RATE CASES TO**  
11 **CALCULATE THE FEDERAL INCOME TAX EXPENSE THAT IS**  
12 **INCLUDED IN RATES?**

13 A. Yes. In some jurisdictions, a gross-up is used. In other jurisdictions,  
14 more detailed calculations are done so that each component of the income  
15 tax calculation, the current provision for deferred taxes, and accumulated  
16 deferred taxes can be examined. ICNU/102 shows two approaches to the  
17 calculation of “normalized” federal income tax expense. The only  
18 difference between these two calculations is that the method in Column  
19 (A) explicitly shows the normalization of the difference between book and  
20 tax depreciation while the calculation method in Column (B) implicitly  
21 normalizes the difference.

22 Note that book depreciation on line 5 is the same in both  
23 calculations. The calculation in Column (B) does not include the  
24 “Additional tax depreciation on PUP” (line 11) that is included in Column

1 (A). Consequently, there is no need to provide deferred taxes in that  
2 calculation because the federal income tax expense is calculated using  
3 only book depreciation. The calculation in Column (A) deducts the  
4 accelerated tax depreciation (line 5 plus line 11). The current provision  
5 for deferred taxes on line 23 removes the benefit of the additional tax  
6 depreciation.

7 As I stated earlier, the normalization rules in the IRC require  
8 that ratepayers not be given the benefit of accelerated tax depreciation in  
9 the rates they pay. Both of the income tax calculations on ICNU/102  
10 comply with the normalization rules.

11 **Q. HOW ARE THE CALCULATIONS SHOWN ON ICNU/102 RELEVANT**  
12 **TO THE CALCULATION OF TAXES PAID BY PACIFICORP FOR 2009?**

13 A. The \$98.4 million taxes paid amount reflected in PacifiCorp's original  
14 2009 Tax Report is the deferred taxes on public utility property.  
15 ICNU/102 demonstrates that it is not necessary to include deferred taxes  
16 explicitly in order to normalize the difference between book and tax  
17 depreciation.

18 **Q. THE COMMISSION'S RULES HAVE ESTABLISHED A FLOOR FOR**  
19 **TAXES PAID WHICH IS EQUAL TO THE DEFERRED TAXES ON**  
20 **PUBLIC UTILITY PROPERTY. DO YOU AGREE WITH THIS FLOOR?**

21 A. No. The example in ICNU/103 demonstrates that all that is required to  
22 comply with normalization is that the tax expense paid by ratepayers not  
23 include the benefits of accelerated tax depreciation. Lines 1 through 5  
24 represent the actual tax return filed by ABC Public Utility Company  
25 ("ABC"). ABC reported negative taxable income. In this example,



1 straight-line depreciation for the same period is \$75,000. The calculation  
2 of the “normalized” taxes paid to units of government of \$8,750 is shown  
3 on lines 6 through 11. The floor required by OAR 860-022-0041(4)(d) of  
4 \$61,250 is calculated on lines 12 through 17. OAR 860-022-0041(4)(d)  
5 unnecessarily charges ratepayers more than the normalized taxes paid to  
6 units of government.

7 I do not agree with the statement in the Joint Testimony in  
8 Support of the Stipulation that “[t]he IRC requires the inclusion of  
9 deferred income taxes associated with accelerated tax depreciation on  
10 public utility property in rates in order for public utility property to be  
11 eligible for accelerated depreciation for income tax purposes.” Joint  
12 Testimony/100, Bird-Fuller-Feighner/3.

13 **Q. IS THE COMMISSION STAFF PROPOSING A REVISION TO OAR 860-**  
14 **022-0041(4)(D)?**

15 A. It is my understanding that the Commission Staff has drafted a revision to  
16 this rule which recognizes that the floor established by the current rule is  
17 not consistent with the IRC normalization rules.

18 **Q. DOES THE INTERNAL REVENUE CODE ALSO REQUIRE THAT**  
19 **INVESTMENT TAX CREDITS BE NORMALIZED?**

20 A. Yes. Investment tax credits represent a dollar for dollar reduction to a  
21 corporation’s federal tax liability. The IRC requires that investment tax  
22 credits be flowed through to ratepayers over the useful life of the assets to  
23 which they relate. Therefore, for ratemaking purposes, investment tax  
24 credits related to an asset with a useful book life of 20 years would be  
25 flowed through to ratepayers over 20 years. I ignore investment tax

1 credits in this testimony because they were removed from the tax law  
2 quite a few years ago and few utilities are impacted by them today.

3 **II. STIPULATION**

4 **Q. WHAT CALCULATIONS ARE REQUIRED BY SB 408 TO DETERMINE**  
5 **WHETHER THE TAXES COLLECTED THROUGH RATES REFLECT**  
6 **THE TAXES THAT ARE PAID TO UNITS OF GOVERNMENT?**

7 A. There are two broad components to the equation: (1) the taxes paid to  
8 units of government for the regulated utility operations of the utility; and  
9 (2) the taxes collected from utility customers.

10 The Tax Report sets out three methods for computing the  
11 first component, the income taxes paid and attributable to the utility's  
12 regulated operations: apportionment, consolidated, and stand-alone. The  
13 lowest of these three calculations is presumed to represent the taxes paid  
14 to units of government related to the regulated operations of the utility.

15 The calculation of the taxes collected from utility customers  
16 is straight-forward, but even that calculation continues to be refined with  
17 each SB 408 reconciliation. One of the changes to PacifiCorp's 2009 Tax  
18 Report required by the Stipulation is a decrease in the taxes collected from  
19 ratepayers of \$5.06 million. ICNU agrees with this point in the  
20 Stipulation.

21 **Q. HAVE YOU REVIEWED THE JOINT TESTIMONY IN SUPPORT OF**  
22 **THE STIPULATION?**

23 A. Yes.

1 **Q. DO YOU AGREE WITH STAFF'S POSITION THAT THE DEFERRED**  
2 **TAX FLOOR DOES NOT APPLY TO THE STAND-ALONE METHOD IN**  
3 **THE TAX REPORT?**

4 A. Yes, I do. As ICNU/102 and ICNU/103 demonstrate, the deferred tax  
5 floor is unnecessary in the stand-alone calculation.

6 **Q. SHOULD PACIFICORP SEEK A PRIVATE LETTER RULING FROM**  
7 **THE INTERNAL REVENUE SERVICE ("IRS") TO AFFIRM THAT THE**  
8 **STAND-ALONE METHOD REFLECTED IN THE TAX REPORT**  
9 **REFLECTS "NORMALIZED" TAXES PAID?**

10 A. No. It is unnecessary to go to the time and cost of obtaining a private  
11 letter ruling. The normalization provisions of the Code are clear and  
12 straightforward: the taxes paid by utility customers must be calculated  
13 using straight-line depreciation. Income tax expense is calculated in  
14 general rate cases all over the country using straight-line depreciation  
15 rather than tax depreciation. The IRS has not cited any of these utilities  
16 for a normalization violation.

17 **Q. WHAT WOULD HAPPEN IF PACIFICORP WERE CITED FOR A**  
18 **NORMALIZATION VIOLATION?**

19 A. To my knowledge, the IRS has cited only one utility for a normalization  
20 violation. This occurred shortly after the normalization provisions were  
21 added to the IRC. It is my understanding that the regulator computed the  
22 income tax expense for inclusion in the utility's rate using tax  
23 depreciation. The Service allowed the regulator to correct the problem by  
24 issuing a new order and the utility was able to continue using accelerated  
25 tax depreciation for tax purposes.

1 **Q. EARLIER IN THIS TESTIMONY, YOU STATED THAT PACIFICORP’S**  
2 **OREGON STAND-ALONE “NORMALIZED” TAXABLE INCOME IS**  
3 **[HIGHLY CONFIDENTIAL] [REDACTED] [HIGHLY CONFIDENTIAL]**  
4 **MILLION. PLEASE EXPLAIN HOW YOU CALCULATED THIS**  
5 **AMOUNT.**

6 A. The calculation is shown on ICNU/104. The calculation begins with the  
7 allocation of PacifiCorp’s 2009 taxable loss to Oregon regulated  
8 operations. The tax depreciation included in this taxable loss is added  
9 back and the straight-line depreciation is deducted. The resulting taxable  
10 income of **[Highly Confidential] [REDACTED] [Highly Confidential]**  
11 *does not provide utility customers with any benefits of tax depreciation.*  
12 Therefore, it is the “normalized” taxable income required by SB 408. The  
13 federal tax on this taxable income is **[Highly Confidential] [REDACTED]**  
14 **[Highly Confidential]** which is **[Highly Confidential] [REDACTED]**  
15 **[REDACTED] [Highly Confidential]** than the \$63.7 million taxes collected.  
16 PacifiCorp’s Oregon ratepayers should receive a refund of **[Highly**  
17 **Confidential] [REDACTED] [Highly Confidential]**.

18 **Q. DOES THE CALCULATION ON ICNU/104 INCLUDE OTHER**  
19 **DEFERRED TAXES BESIDES THOSE RELATED TO DEPRECIATION**  
20 **ON PUBLIC UTILITY PROPERTY?**

21 A. No. Deferred taxes, both the current provision and accumulated deferred  
22 taxes, are not reviewed and analyzed in general rate cases in Oregon.  
23 Utilities defer taxes on the differences between the amount recognized for  
24 “book” purposes and those recognized for tax purposes. The definition of  
25 “book” is important. “Book” can mean financial reporting books or  
26 regulatory books. The general rule is that deferred taxes are included in

1 the ratemaking process for only those items that are included in utility  
2 rates and reflect the difference between regulatory books and tax.

3 The detail of deferred taxes included in PacifiCorp's 2009  
4 Tax Report workpapers is copious. There is no explanation provided with  
5 these workpapers. Because PacifiCorp has labeled this information  
6 "highly sensitive confidential," I am not provided with a copy of this  
7 information, so my review is limited. Until these deferred taxes are  
8 thoroughly examined, the most logical assumption is that these deferred  
9 taxes recognize the difference between the tax return amounts and the  
10 Company's financial reporting books. In other words, these amounts  
11 likely include items that should not be included for ratemaking and/or  
12 need to be recalculated for inclusion in rates.

13 **Q. HOW WOULD INCLUSION OF THESE "OTHER" DEFERRED TAXES**  
14 **IN THE CALCULATION ON ICNU/104 IMPACT THE INDICATED**  
15 **REFUND?**

16 A. The calculation of this impact is shown on lines 9 and 10 of ICNU/104.  
17 The indicated refund would be [Highly Confidential] [REDACTED]  
18 [Highly Confidential].

19 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE**  
20 **PROPOSED SETTLEMENT.**

21 A. The Stipulation surcharge of \$13.5 million is based on the stand-alone  
22 calculation set out in the Commission's tax report template. ICNU/104  
23 calculates PacifiCorp's normalized stand-alone federal income tax  
24 expense for Oregon regulated operations. Line 8 indicates that PacifiCorp  
25 should refund approximately [Highly Confidential] [REDACTED] [Highly

1           **Confidential]** to its Oregon ratepayers. Even when all deferred taxes are  
2 included in the calculation, a refund of approximately [**Highly**  
3 **Confidential]** [REDACTED] [**Highly Confidential]** is due to Oregon  
4 ratepayers.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does.

**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
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Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408.

**EXHIBIT ICNU/101**

**QUALIFICATIONS OF ELLEN BLUMENTHAL**

**February 7, 2011**

**Ellen Blumenthal**  
Principal**GDS Associates, Inc.**

Page 1 of 6

EDUCATION: University of Texas at Austin  
Bachelor of Arts in Journalism, 1975  
Certified Public Accountant in Texas, February 1977

PROFESSIONAL MEMBERSHIPS:  
American Institute of Certified Public Accountants  
Texas Society of Certified Public Accountants

## EXPERIENCE:

GDS Associates, Inc., March 2002 to present

Principal of GDS Associates, Inc., Engineers and Consultants, Corpus Christi, Texas. Financial analysis for natural gas and electric markets; assist consumers in acquiring power needs in the competitive markets; provide analysis in gas, electric, telephone and water utility rate increase filings and presents expert testimony in regulatory proceedings on behalf of interveners. Issues addressed in testimony include all aspects of revenue requirement determination including affiliate transactions, income taxes, and depreciation.

Independent Consultant, June 1982 to February 2002

Financial analysis for natural gas and electric markets; Provided analysis and expert witness revenue requirements testimony in gas, electric, telephone and water utility rate increase applications on behalf of intervenors.

C. H. Guernsey & Co., Consulting Engineers & Architects, November 1980 - June 1982

Title: Regulatory Accountant and Financial Analyst

Duties included preparation of financial and accounting aspects of rate filings for electric cooperatives for presentation before the Public Utility Commission of Texas. Testified as an expert witness on accounting matters before the Public Utility Commission of Texas. Advised electric cooperatives on accounting and regulatory matters. Participated in review of rate increase applications of investor-owned utilities and prepared and presented expert witness testimony based on such review.

Public Utility Commission of Texas, May 1977 - November 1980

Title: Chief Accountant III

Duties included providing expert witness testimony in investor-owned and cooperative telephone, electric and water utility rate cases filed with the Commission in the following areas: Fuel and purchased power, Operation and maintenance expenses, Federal income taxes, Taxes other than federal income taxes, Affiliate transactions, Oil and gas exploration and development. Reviewed the books and business records of public utilities to determine the reasonableness of rate requests. Reviewed public utilities' implementation of fuel adjustment clause and other rate schedules to determine compliance with tariffs approved by Commission.

Sample List of Testimony Filed and Other Utility Projects:

CenterPoint Energy Houston Application for Rate Change, Texas Public Utility Commission Docket 38339 on behalf of the City of Houston and Coalition of Cities.

Avista Corporation Application for Rate Change, Washington Corporation Commission Dockets UE100467 & UG 100468 on behalf of the Industrial Customers of Northwest Utilities (case settled, no testimony filed)

Portland General Electric Application for Deferred Accounting, Oregon Public Utility Commission Docket UM 1462 on behalf of the Industrial Customers of Northwest Utilities



Pacific Power & Light SB 408 Annual Income Tax Reconciliation, Oregon Public Utility Commission Docket UE 177 on behalf of the Industrial Customers of Northwest Utilities.

Portland General Electric SB 408 Annual Income Tax Reconciliation, Oregon Public Utility Commission Docket UE 178 on behalf of the Industrial Customers of Northwest Utilities.

Pacific Power & Light Request for a General Rate Revision, Oregon Public Utility Commission Docket No. UE 210 on behalf of the Industrial Customers of Northwest Utilities and the Citizens Utility Board of Oregon.

Avista Natural Gas Application for a General Rate Revision, Oregon Public Utility Commission Docket No. UG-183 on behalf of the Northwest Industrial Gas Users & the Citizens Utility Board of Oregon.

Application of Oncor Electric Delivery Company LLC for Authority to Change Rates, Texas Public Utility Commission Docket No. 35717, November 2008.

Advise Nebraska Public Service Commission on gas utility regulatory matters, 2003 to 2010.

Petition of PNM Resources, Inc. and Cap Rock Energy Corporation Regarding Merger and Acquisition of Stock, Texas Public Utility Commission Docket No. 35640, June 2008.

Application of Entergy Gulf States for Authority to Change Rates, Texas Public Utility Commission Docket No. 34800, April 2008.

Pacific Power & Light (dba PacifiCorp) to File Tariffs Establishing Automatic Adjustment Clause under the Terms of SB 408 on behalf of the Industrial Customers of Northwest Utilities, Public Utility Commission of Oregon Docket No. UE 177, January 22, 2008.

Petition by New Mexico Utilities, Inc. for Authority to Amend Its Wastewater Rates, New Mexico Public Regulation Commission Case No. 07-00435-UT, November 2007.

United Water Connecticut, Inc. Application to Change Rates, Prepare rate filing and testimony. Connecticut Department of Public Utilities Docket No. 07-05-44, June 2007.

Application of AEP Texas Central Company for Authority to Change Rates, Texas Public Utility Commission Docket No. 33309, March 2007.

Application of AEP Texas North Company for Authority to Change Rates, Texas Public Utility Commission Docket No. 33310, March 2007.

Staff's Petition for a Reallocation of Stranded Costs Pursuant to PURA Sec. 139.253(f), Texas PUC Docket No. 32795, August 2006.

Application of Bryan Texas Utilities for Interim Update of Wholesale Transmission Rates Pursuant to Substantive Rule 25.192(g)(1), Texas Public Utility Commission Docket No. 30925, March 2005; Docket No. 32958, June 2006.

Application of AEP Texas Central Company for a Financing Order, Texas Public Utility Commission Docket No. 32475, April 2006.

Application of Texas-New Mexico Power Company to Establish a Competition Transition Charge Pursuant to P.U.C. SUBST. R. 25.263(n), Texas Public Utility Commission Docket No. 31994, March 2006.

Application of the Electric Reliability Council of Texas for Approval of the ERCOT System Administration Fee, Texas Public Utility Commission Docket No. 31824, January 2006.

Application of Entergy Gulf States, Inc. for Recovery of Transition to Competition Costs, Texas Public Utility Commission Docket No. 31544, January 2006.

Application of Sharyland Utilities, L.P. for Interim Update of Wholesale Transmission Rates Pursuant to Substantive Rule 25.192(g)(1), Texas Public Utility Commission Docket No. 31826, October 2005.

Two management audits of the Sempra Energy utilities' compliance with federal and state affiliate rules. October 2005

Petition to Inquire into the Reasonableness of the Rates and Services of Cap Rock Energy Corporation, Texas Public Utility Commission Docket No. 28813 on behalf of Pioneer Energy, August 2004.

Application of CenterPoint Energy Houston Electric, LLC, Texas Genco, LP, and Reliant Energy Retail Services, LLC to Determine Stranded Costs and Other Balances, Texas PUC Docket No. 29526, on behalf of the City of Houston and the Coalition of Cities, June 2004.

Application of AEP Texas Central Company for Authority to Change Rates, Texas PUC Docket No. 28840, on behalf of the Coalition of Commercial Ratepayers, February 2004.

Application of the Electric Reliability Council of Texas to Change the ERCOT System Administrative Fee, Texas PUC Docket No. 28832, on behalf of the Office of Public Utility Counsel, January 2004.

TXU Gas Company Statement of Intent to Change Rates in the Company's Statewide Gas Utility System, Texas Railroad Commission Docket No. 9400, on behalf of Allied Coalition of Cities, December 2003.

Application of Southwestern Electric Power Company for Authority to Reconcile Fuel Costs, Texas PUC Docket No. 28045, on behalf of the Cities Served, November 2003.

Kansas Gas Service, a Division of Oneok, Inc. Application to Change Natural Gas Rates, Kansas Corporation Commission Docket 03-KGSG-602-RTS, on behalf of Unified School District No. 259, July 2003

Application of AEP Texas Central Company for Authority to Reconcile Fuel Costs, Texas PUC Docket No. 27035 on behalf of Affected Cities, April 2003.

Application of West Texas Utilities Company for Authority to Reconcile Fuel Costs, Texas PUC Docket No. 26000 on behalf of the Office of Public Utility Counsel, October 2002.

TXU Gas Distribution Application to Change Distribution Rates in its South Region on behalf of affected Texas municipalities, Fall 2002.

Application of Ernest G. Johnson, Director of the Public Utility Division, Oklahoma Corporation Commission to Review the Rates, Charges, Services and Service Terms of Oklahoma Gas & Electric Company and all Affiliated Companies and any Affiliate or Non-Affiliate Transaction Relevant to Such Inquiry, Oklahoma Corporation Commission Cause No. PUD 200100455 on behalf of the Oklahoma Attorney General, June 2002.

Petition of the Electric Reliability Council of Texas for Approval of the ERCOT Administrative Fee, Texas PUC Docket No. 23320 on behalf of Austin Energy, May 2002.

Texas-New Mexico Power Company Application for Approval of Unbundled Cost of Service Rates, Texas PUC Docket No. 22349 on behalf of the Office of Public Utility Counsel, January 2001.

TXU Lone Star Pipeline Application to Change the City Gate Rate, Texas Railroad Commission Docket No. 8976 on behalf of the Aligned Cities, January 2000.

Reliant Energy HL&P Application for Approval of Unbundled Cost of Service Rates, Texas PUC Docket No. 22355 on behalf of the City of Houston and the Coalition of Cities, December 2000.

TXU Electric Company Application for Approval of Unbundled Cost of Service Rates, Texas PUC Docket No. 22350 on behalf of the Office of Public Utility Counsel, October 2000.

Santa Fe Pipeline Partnership, L.P., FERC Docket No. OR92-8-000, *et al* on behalf of Refinery Holding Company, L.P., January 1996.

Peoples Natural Gas Company, Rate Area Three on behalf of the Nebraska Municipalities Served, December 1995.

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***Ellen Blumenthal***  
**Principal**

**GDS Associates, Inc.**  
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**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408.

**EXHIBIT ICNU/102**

**XYZ PUBLIC UTILITY COMPANY CALCULATION OF INCOME TAX EXPENSE**

**FOR INCLUSION IN RATES EXAMPLE**

**February 7, 2011**

XYZ Public Utility Company  
Calculation of Income Tax Expense for Inclusion in Rates  
Example

	Explicit Normalization <u>(A)</u>	Implicit Normalization <u>(B)</u>
1 Total revenue requirement	\$ 359,229,879	\$ 359,229,879
2 Less cost of service items		
3 Fuel expense	10,750,583	10,750,583
4 Other O&M expense	142,820,597	142,820,597
5 <b>Depreciation (book)</b>	<b>63,502,991</b>	<b>63,502,991</b>
6 Other taxes	27,680,396	27,680,396
7 Interest on customer deposits	163,018	163,018
8 Gain on sale of utility plant	(1,251,664)	(1,251,664)
9 Less deductions <b>NOT</b> included in cost of service		
10 Interest on debt	30,359,237	30,359,237
11 <b>Additional tax depreciation on PUP</b>	<b>3,629,599</b>	
12 Pension expense	5,674,293	5,674,293
13 Other	(5,406,996)	(5,406,996)
14 Taxable income	<u>\$ 81,307,825</u>	<u>\$ 84,937,424</u>
15 Tax rate	35%	35%
16 Federal income tax before credits & adjustments	<u>\$ 28,457,739</u>	<u>\$ 29,728,098</u>
17 Less:		
18 Amortization of ITC	204,916	204,916
19 R&E credits	35,832	35,832
20 Job creation act	208,425	208,425
21 Current federal income taxes	<u>\$ 28,008,566</u>	<u>\$ 29,278,925</u>
22		
23 <b>Deferred incomes taxes on PUP property</b>	<b>1,270,360</b> <sup>(a)</sup>	-
24 Other deferred taxes	15,777	15,777
25 Total federal income taxes	<u><u>\$ 29,294,702</u></u>	<u><u>\$ 29,294,702</u></u>
(a) Additional tax depreciation	\$ 3,629,599	
Federal tax rate	35%	
Deferred taxes on PUP property	<u><u>\$ 1,270,360</u></u>	

**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408.

**EXHIBIT ICNU/103**

**ABC PUBLIC UTILITY COMPANY CALCULATION OF INCOME TAX EXPENSE**

**FOR INCLUSION IN RATES EXAMPLE**

**February 7, 2011**



ABC Public Utility Company  
Calculation of Income Tax Expense for Inclusion in Rates  
Example

	Reported on Form 1120
1 Revenue	\$ 300,000
2 Deductions:	
3     Expenses except for depreciation	200,000
4     Depreciation expense (tax)	250,000
5 Taxable income (line 30, Form 1120)	<u>\$ (150,000)</u>
6 Reported taxable income (loss)	\$ (150,000)
7 Add back tax depreciation expense	250,000
8 Less book depreciation	(75,000)
9 Normalized taxable income	<u>\$ 25,000</u>
10 Tax rate	35%
11 Normalized tax paid to units of government	<u>\$ 8,750</u>
12 OAR 860-022-0041(4)(d) floor	
13 Tax depreciation	\$ 250,000
14 Less Book depreciation	(75,000)
15 Difference	<u>\$ 175,000</u>
16 Tax rate	35%
17 Deferred tax amount (floor)	<u>\$ 61,250</u>

**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408.

**HIGHLY CONFIDENTIAL EXHIBIT ICNU/104**

**PACIFICORP 2009 INCOME TAX RECONCILIATION**

**TAXES COLLECTED AND PAID TO UNITS OF GOVERNMENT**

**February 7, 2011**

**REDACTED VERSION**

**(ENTIRE EXHIBIT IS REDACTED)**