

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 178(4)

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
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

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

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

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

10 A. Yes. I have appeared before this Commission in general rate proceedings,
11 as well as proceedings related to the implementation of Senate Bill 408.

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

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

18 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

19 A. I am appearing on behalf of the Industrial Customers of Northwest Utilities
20 (“ICNU”).

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

22 A. The purpose of my testimony is to address the stipulation (“Stipulation”)
23 filed in Re Portland Gen. Elec. Co., Docket No. UE 178(4) by PGE, Staff
24 and the Citizens’ Utility Board (“CUB”). Under the Stipulation, the total
25 federal income taxes collected from customers for 2009 will be

1 approximately [Highly Confidential] [REDACTED], [Highly
2 Confidential] based on the consolidated calculation method shown on
3 lines 19-27 of the highly confidential exhibit Joint Testimony in Support
4 of Stipulation (“Joint Testimony”)/104, Bird-Feighner-Tinker/6. The
5 Stipulation proposes a refund to customers of \$7.9 million for income
6 taxes, or about \$9 million with interest.

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

8 A. No, not specifically. State and local taxes total approximately [Highly
9 Confidential] [REDACTED] [Highly Confidential] in the 2009 Tax Report.

10 The state taxes paid to units of government for 2009 was [Highly
11 Confidential] [REDACTED] [Highly Confidential]. Approximately [Highly
12 Confidential] [REDACTED] [Highly Confidential] represents the
13 “current tax benefit of tax depreciation on public utility property.” I
14 discuss the normalization requirements of the Internal Revenue Code
15 (“IRC”) below and why the [Highly Confidential] [REDACTED] [Highly
16 Confidential] amount is unnecessary to achieve compliance with those
17 requirements.

18 **Q. YOU HAVE ATTACHED FIVE EXHIBITS TO YOUR TESTIMONY.
19 WHAT ARE THESE EXHIBITS?**

20 A. ICNU/101 is a copy of my résumé. ICNU/102 shows how the
21 normalization of depreciation can be either explicitly or implicitly
22 calculated in the regulatory income tax expense calculation. ICNU/103
23 shows that the requirements of OAR 860-022-0041(4)(d) overstate the
24 normalization “floor” in a stand-alone calculation. ICNU/104 is a

1 simplified calculation of the federal and state taxes paid shown in the
2 Stipulation Tax Report at page 1, line 1. ICNU/105 is my recommended
3 calculation of PGE's normalized tax expense, which, in my opinion, is the
4 amount that should be included on page 1, line 1 of the Stipulation Tax
5 Report.

6 **Q. ARE THERE ANY KEY FACTS THAT THE COMMISSION SHOULD**
7 **FOCUS ON IN THIS PROCEEDING?**

8 A. Yes. As noted in the Joint Testimony, PGE had a net operating loss in
9 2009, which resulted in a \$61 million tax refund. Joint Testimony/100,
10 Bird-Feighner-Tinker at 2. While the Stipulation results in the collection
11 of [Highly Confidential] [REDACTED] [Highly Confidential] in federal
12 income taxes from customers, PGE actually paid no federal income tax.
13 While a portion of this discrepancy is caused by the application of Internal
14 Revenue Service ("IRS") normalization rules, the adjustment for deferred
15 taxes exceeds what is required to comply with the normalization rules.

16 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.**

17 A. ICNU objects to the Stipulation. I recommend that the Commission reject
18 the Stipulation, because it requires ratepayers to reimburse the Company
19 more than the amount of taxes PGE actually paid, even on a normalized
20 basis. I propose an alternate approach that calculates taxes paid using
21 PGE's filed tax return and straight line depreciation. The Stipulation also
22 fails to provide customers with the full value of the tax refunds received
23 by PGE.

1 I. INTERNAL REVENUE CODE 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 straight-line depreciation for the depreciation
9 deduction (book basis and book useful life), not the accelerated tax
10 depreciation deduction 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 depreciated)
19 differences. Basis differences are the result of differences between the
20 definition of "cost" for tax and for regulatory purposes. When the
21 original cost of the asset for tax and for regulatory purposes differs, the
22 amount of depreciation expense over the life of the asset will not be the
23 same for tax purposes, as for regulatory purposes. The normalization
24 rules do not apply 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, 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 while tax depreciation is greater than book
16 depreciation and then decreases when book depreciation is greater than
17 tax depreciation. It also shows that the 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, signifying an account
23 payable, during the period that accelerated tax depreciation is greater than

1 book depreciation. This credit balance recognizes two things. It
2 recognizes that at some point in the future, the accelerated tax
3 depreciation will be less than the straight-line book depreciation and that
4 the utility will owe more tax to the federal government because its tax
5 depreciation deduction will be less. It also recognizes that ratepayers
6 have provided the utility with these tax dollars that will be due sometime
7 in the future. Accumulated deferred income taxes are deducted from rate
8 base because these are dollars provided by ratepayers that represent cost-
9 free capital to the utility until such time as the tax becomes due and
10 payable to the federal government.

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

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

23 Note that book depreciation on line 5 is the same in both
24 calculations. The calculation in Column (B) does not include the

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

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

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

13 A. The [Highly Confidential] [REDACTED] [Highly Confidential] taxes
14 paid amount reflected in PGE’s 2009 Tax Report includes [Highly
15 Confidential] [REDACTED] [Highly Confidential] of deferred taxes on
16 public utility property. It is not necessary to include deferred taxes
17 explicitly in order to normalize the difference between book and tax
18 depreciation.

19 **Q. THE COMMISSION’S RULES CREATE A FLOOR FOR TAXES PAID,**
20 **WHICH IS EQUAL TO THE DEFERRED TAXES ON PUBLIC UTILITY**
21 **PROPERTY. IS THIS FLOOR NECESSARY TO SATISFY IRS**
22 **NORMALIZATION REQUIREMENTS?**

23 A. No. The example in ICNU/103 demonstrates that all that is required to
24 comply with normalization is that the tax expense paid by ratepayers not
25 include the benefits of accelerated tax depreciation. Lines 1 through 5 of

1 ICNU/103 represent the actual tax return filed by ABC Public Utility
2 Company (“ABC”). ABC reported negative taxable income. In this
3 example, straight-line depreciation for the same period is \$75,000. The
4 calculation of the “normalized” taxes paid to units of government of
5 \$8,750 is shown on lines 6 through 11. The floor required by OAR 860-
6 022-0041(4)(d) of \$61,250 is calculated on lines 12 through 17. This
7 example demonstrates that the floor created by OAR 860-022-0041(4)(d)
8 unnecessarily charges ratepayers more than the normalized taxes paid to
9 units of government.

10 **Q. IS THE COMMISSION STAFF PROPOSING A REVISION TO OAR 860-**
11 **022-0041(4)(D)?**

12 A. It is my understanding that the Commission Staff has drafted a revision to
13 this rule as part of the Stipulation in Re PacifiCorp, Docket No. UE
14 177(4), (Jan. 14, 2011) (“UE 177(4) Stipulation”), which recognizes that
15 the floor established in the current rule is not consistent with the IRC
16 normalization rules. According to the UE 177(4) Stipulation, the
17 proposed rule change would make the deferred tax floor inapplicable to
18 taxes paid under the stand alone method. UE 177(4) Stipulation at 4.
19 While the proposed rule change does not directly impact the taxes paid
20 calculation in the Stipulation in this case, it is an important change in the
21 understanding of the IRC normalization requirements. ICNU believes that
22 it is important to amend the rule so that the adjustments to taxes paid for
23 deferred taxes does not exceed the amount necessary to meet
24 normalization requirements.

1 **Q. DOES THE [HIGHLY CONFIDENTIAL] [REDACTED] [HIGHLY**
2 **CONFIDENTIAL] OF TAXES PAID IN THE STIPULATION TAX**
3 **REPORT INCLUDE OTHER DEFERRED TAXES?**

4 A. Yes. The [Highly Confidential] [REDACTED] [Highly Confidential]
5 taxes paid amount also includes non-depreciation related deferred taxes.
6 They are shown on line 5 of ICNU/104. These deferred taxes are not
7 required by the normalization provisions of the IRC.

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

10 A. Yes. Investment tax credits represent a dollar for dollar reduction to a
11 corporation's federal tax liability. The IRC requires that investment tax
12 credits be flowed through to ratepayers ratably over the useful life of the
13 assets to which they relate. Therefore, for ratemaking purposes,
14 investment tax credits related to an asset with a useful book life of 20
15 years would be flowed through to ratepayers over 20 years.

16 **Q. IS AMORTIZATION OF FEDERAL INVESTMENT TAX CREDITS**
17 **INCLUDED IN PGE'S [HIGHLY CONFIDENTIAL] [REDACTED]**
18 **[HIGHLY CONFIDENTIAL] OF TAXES PAID?**

19 A. Yes. See line 8 of ICNU/104.

20 **II. STIPULATION**

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

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

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

6 The calculation of the taxes collected from utility customers is
7 straight-forward, but even this calculation continues to be refined with
8 each SB 408 reconciliation. One of the changes to PGE's 2009 Tax
9 Report required by the Stipulation is an increase in the taxes collected
10 from ratepayers of \$13.4 million to reflect the supplemental tariffs for
11 AMI and Biglow Canyon 1. ICNU agrees with this point in the
12 Stipulation.

13 **Q. HAVE YOU REVIEWED THE JOINT TESTIMONY IN SUPPORT OF**
14 **THE STIPULATION?**

15 A. Yes.

16 **Q. HOW IS THE TAX PAID OF [HIGHLY CONFIDENTIAL] [REDACTED]**
17 **[REDACTED] [HIGHLY CONFIDENTIAL] CALCULATED IN THE**
18 **STIPULATION TAX REPORT?**

19 A. The [Highly Confidential] [REDACTED] [Highly Confidential] is
20 calculated using the consolidated method. PGE, the utility, was included
21 in the consolidated tax return of Portland General Electric Corporation
22 ("PGE Corp") in 2009. There are four corporations included in the
23 consolidated tax return including PGE. Two corporations report [Highly
24 Confidential] [REDACTED] [Highly Confidential] taxable income. Another
25 corporation reported approximately [Highly Confidential] [REDACTED]

1 **[Highly Confidential]** in taxable income. PGE's income and expenses
2 are clearly the bulk of the consolidated return.

3 The consolidated calculation upon which the Stipulation relies is
4 reproduced in a simplified form on ICNU/104. The calculation begins
5 with the tax refunds which PGE has either received or filed for with the
6 Internal Revenue Service.

7 **Q. HOW IS THIS CALCULATION DIFFERENT FROM A STAND-ALONE**
8 **CALCULATION?**

9 A. It is very similar to a stand-alone calculation for PGE. The tax refund is
10 based on the PGE Corp tax loss rather than PGE's tax loss. The Oregon
11 and Montana minimum taxes are the total taxes paid by the consolidated
12 group.

13 **Q. SHOULD THIS CALCULATION BEGIN WITH THE TAX REFUND**
14 **CLAIMED BY PGE?**

15 A. No. The refund is for taxes paid by ratepayers in previous years, all of
16 which have been reconciled pursuant to SB 408. However, when PGE's
17 reported tax loss is normalized, it is no longer a loss. The 2009 taxes paid
18 to units of government adjusted to comply with the depreciation and
19 investment tax credit normalization requirements of the IRC is not
20 negative. Therefore, it is inappropriate to start with the tax refund.

21 **Q. WHAT IS PGE'S TAXABLE INCOME ONCE ITS REPORTED TAX**
22 **LOSS IS "NORMALIZED"?**

23 A. PGE's normalized taxable income, consolidated or stand-alone, is zero.
24 The calculation is shown on ICNU/105. In my opinion, this is the
25 appropriate calculation to determine the taxes paid by PGE to units of

1 government for 2009. The federal tax paid is zero. The state income
2 taxes paid total [Highly Confidential] [REDACTED] [Highly Confidential].
3 This is the sum of the Montana and local taxes on ICNU/104, plus the
4 [Highly Confidential] [REDACTED] [Highly Confidential] Oregon
5 state income tax. These amounts are all in compliance with the
6 normalization requirements of the IRC. Since PGE paid no federal
7 income taxes on a normalized basis, the \$60.5 million of taxes collected
8 from ratepayers should be refunded.

9 **Q. DOES THE CALCULATION ON ICNU/105 INCLUDE OTHER**
10 **DEFERRED TAXES BESIDES THOSE RELATED TO DEPRECIATION**
11 **ON PUBLIC UTILITY PROPERTY?**

12 A. No. Deferred taxes, both the current provision and accumulated deferred
13 taxes, are not reviewed and analyzed in general rate cases in Oregon.
14 Utilities defer taxes on differences between the amount recognized for
15 “book” purposes and those recognized for tax purposes. The definition of
16 “book” is important. “Book” can mean financial reporting books or
17 regulatory books. The general rule is that deferred taxes are included in
18 the ratemaking process for only those items that are included in utility
19 rates and reflect the difference between regulatory books and tax.

20 The detail of deferred taxes included in PGE’s 2009 tax report
21 workpapers is very general. Only the deferred tax amount is provided.
22 The book and tax amounts are not shown. Only a brief description is
23 provided for each line item. No explanation for the deferral is provided,

1 and there is no way to know what amount is included in PGE's present
2 rates.

3 Each deferral should be reviewed to determine the book amount
4 and its provenance. The utility should show the regulatory treatment of
5 each item for which deferred taxes are included. Until these deferred
6 taxes are thoroughly examined, the most logical assumption is that these
7 deferred taxes recognize the difference between the tax return amounts
8 and the Company's financial reporting books. In other words, these
9 amounts likely include items that should not be included for ratemaking
10 and/or need to be recalculated for inclusion in the determination of rates.

11 **Q. WHAT WOULD BE THE RESULT IF THE COMMISSION ADOPTED**
12 **THE CALCULATION ON ICNU/105 BUT INCLUDED THE NON-**
13 **DEPRECIATION DEFERRED TAXES?**

14 A. The refund would be approximately [**Highly Confidential**] [REDACTED]
15 [**Highly Confidential**] rather than \$60.5 million.

16 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE**
17 **PROPOSED SETTLEMENT.**

18 A. The Stipulation refund of \$7.9 million is understated. ICNU/105
19 calculates PGE's normalized income tax expense for Oregon regulated
20 operations. This calculation begins with the tax loss reported by PGE to
21 the IRS and replaces the tax deduction taken for depreciation on public
22 utility property with the book depreciation on public utility property. The
23 result is "normalized" federal taxable income of [**Highly Confidential**]
24 [REDACTED] [**Highly Confidential**]. PGE had sufficient tax credits to
25 offset the entire tax due on this level of taxable income. Therefore, since

1 PGE paid no taxes on a normalized basis, all of the taxes collected from
2 customers for 2009 should be refunded.

3 **Q. HOW DO YOU RECOMMEND THE REFUND OF TAXES PAID IN**
4 **PRIOR YEARS BE TREATED?**

5 A. I recommend that the treatment of the refunds be discussed further among
6 the parties. The refunds are for taxes paid by ratepayers in previous years
7 and thus, belong to them, not the utility under SB 408.

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

9 A. Yes, it does

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

UE 178(4)

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
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.

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Ellen Blumenthal
Principal

GDS Associates, Inc.
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BEFORE THE OREGON PUBLIC UTILITY COMMISSION

UE 178(4)

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
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 Depreciation (book)	63,502,991	63,502,991
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 NOT included in cost of service		
10 Interest on debt	30,359,237	30,359,237
11 Additional tax depreciation on PUP	3,629,599	
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 Deferred incomes taxes on PUP property	1,270,360 ^(a)	-
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 178(4)

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
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)	<u>250,000</u>
5 Taxable income (line 30, Form 1120)	<u><u>\$ (150,000)</u></u>
6 Reported taxable income (loss)	\$ (150,000)
7 Add back tax depreciation expense	250,000
8 Less book depreciation	<u>(75,000)</u>
9 Normalized taxable income	\$ 25,000
10 Tax rate	35%
11 Normalized tax paid to units of government	<u><u>\$ 8,750</u></u>
12 OAR 860-022-0041(4)(d) floor	
13 Tax depreciation	\$ 250,000
14 Less Book depreciation	<u>(75,000)</u>
15 Difference	\$ 175,000
16 Tax rate	35%
17 Deferred tax amount (floor)	<u><u>\$ 61,250</u></u>

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

UE 178(4)

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Filing of tariffs establishing automatic)
adjustment clause under the terms of)
SB 408.

HIGHLY CONFIDENTIAL EXHIBIT ICNU/104

PORTLAND GENERAL ELECTRIC COMPANY

CALCULATION OF CONSOLIDATED TAX LIABILITY PER STIPULATION TAX

REPORT

February 7, 2011

REDACTED VERSION

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

UE 178(4)

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Filing of tariffs establishing automatic)
adjustment clause under the terms of)
SB 408.

HIGHLY CONFIDENTIAL EXHIBIT ICNU/105
PORTLAND GENERAL ELECTRIC COMPANY
CALCULATION OF 2009 FEDERAL TAX EXPENSE
APPORTIONMENT & STAND-ALONE

February 7, 2011

REDACTED VERSION