

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1186(2)

In the Matter of)	
)	ORDER
PORTLAND GENERAL ELECTRIC)	
)	
Application for Reauthorization of Independent)	
Spent Fuel Storage Installation (ISFSI) State)	
Tax Credit Deferral.)	

DISPOSITION: DEFERRED ACCOUNTING APPLICATION APPROVED

On December 18, 2006, Portland General Electric Company (PGE) filed a request for approval to defer Independent Spent Fuel Storage Installation (ISFSI) state tax credits, pursuant to OAR 860-027-0300(3), beginning December 31, 2006, for the tax year 2006. PGE seeks approval of this deferral pursuant to ORS 757.259(2)(e). 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 February 27, 2007, the Commission adopted Staff's Recommendations and approved PGE's current request for accounting purposes only.

ORDER

IT IS ORDERED that Portland General Electric Company's request to defer Independent Spent Fuel Storage Installation state tax credits, as described in Appendix A, is granted. This approval is for accounting purposes only.

Made, entered, and effective MAR 05 2007.



BY THE COMMISSION:

Becky L. Beier

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.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 27, 2007

REGULAR _____ CONSENT X EFFECTIVE DATE December 31, 2006

DATE: February 8, 2007

TO: Public Utility Commission

FROM: Carla Owings *CO*

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

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1186(2)) Application for Deferral of Independent Spent Fuel Storage Installation State Tax Credit Cost Reductions.

STAFF RECOMMENDATION:

Staff recommends Portland General Electric's request for deferral of Independent Spent Fuel Storage Installation (ISFSI) State Tax Credits beginning December 31, 2006, for the 2006 tax year, be approved for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

On December 18, 2006, Portland General Electric (PGE or the Company) filed a request for reauthorization to defer ISFSI tax credits pursuant to OAR 860-027-0300(3), beginning on December 31, 2006, for the 2006 tax year. The Commission issued Order Nos. 05-136 and 06-117, approving the same deferral for the 2004 and 2005 tax years, respectively.

The ISFSI is a dry cask storage system, which provides storage for the spent nuclear fuel assemblies and radioactive waste generated at the Trojan plant during the years in which it produced energy. PGE, PacifiCorp and the Eugene Water and Electric Board jointly own the Trojan plant.

On December 9, 2004, the Environmental Quality Commission granted PGE approval on the final certification of ISFSI expenditures, authorizing a total of \$21.1 million (50% of PGE's share of the certified costs). The State Tax Credits are authorized for use on a

PGE – UM 1186(2)
February 8, 2007
Page 2

straight-line basis over ten tax years, with a carry-forward provision that allows any particular tax year's provision to be postponed for up to three tax years.

For any tax year, the maximum Deferral Amount is \$2.25 million (\$21.1 million over 10 tax years, after federal tax effect and using a Net to Gross Factor of 1.65).

On April 3, 2006, PGE deconsolidated from Enron. At that time, Enron had not used \$15.1 million of Oregon state tax credits, including \$6.3 million of ISFSI tax credits. Enron was unable to use any of these credits on its consolidated tax filings due to its net operating loss position. However, should a future Oregon audit reveal a positive tax liability for Enron, they may still claim these credits, effectively voiding the use of the credits deferred in 2004 and 2005 by PGE. Because Enron has not claimed the use of any of these credits, PGE intends to use the Oregon tax credits in future tax periods as soon as the 2004 and 2005 Oregon Department of Revenue audits reveal that there is no further need to reserve the use of the credits in behalf of Enron.

For the 2006 tax period, PGE will essentially be filing two separate tax filings; the first will include the period of January 2006 through April 2, 2006, for which PGE will be reporting as a subsidiary to the Enron consolidated tax structure. The second tax filing will include the period from April 3, 2006 through December 31, 2006, and will represent PGE as the corporate parent consolidated with its affiliate operations.

Since PGE is filing two separate tax filings for the 2006 tax year, it will be claiming one year of tax credit for each of the tax periods that PGE will be a part of, pursuant to the policies issued by the Oregon Department of Revenue. In other words, since the ISFSI tax credits are predetermined at a maximum of \$2.25 million per tax "year" (as explained above) then, for each tax filing, PGE will claim an entire year of tax credit (or a maximum of \$2.25 million). Since the credits can be claimed over a period of 10 "tax" years, in 2006, PGE will be using two of those 10-"tax"-year-periods.

When PGE does use the tax credits, PGE does not need to defer (again) the amount it claims in its filing, as these amounts have already accrued to the deferral account on behalf of PGE's ratepayers. Staff agrees that this is appropriate since PGE has already deferred the benefit into a balancing account accruing interest at PGE's current cost of capital.

If PGE's tax expense is less than the ISFSI tax credit offset, the Company proposes to defer the maximum possible credit considering the potential for a carry-forward in a future tax year. PGE seeks to maximize the potential of the entire ISFSI Tax Credit considering its taxable income and its tax expense accruals.

PGE – UM 1186(2)
February 8, 2007
Page 3

The Company proposes to accrue interest at its current authorized cost of capital, which as of January 15, 2007, is 8.29%. Interest will accrue appropriate to the timing of actual cash benefits received by PGE. When payments to taxing entities are reduced by tax credits, then the Company will post the equivalent into the deferral account. PGE will request approval to extend this deferral on an annual basis.

Reason for Deferral

PGE seeks approval of this deferral pursuant to ORS 757.259(2)(e). This deferral will minimize the frequency of rate changes and match appropriately the costs borne and benefits received by ratepayers. PGE's customers have paid for the ISFSI project through their annual \$14.041 million contribution to the Trojan Nuclear Decommissioning Trust, and PGE has committed that customers should receive the benefits of these tax credits.

Absent the deferral mechanism, PGE would seek changes in its base rates to reflect ISFSI tax credits in order to pass the credits to its customers. The Company has agreed to waive any argument pursuant to ORS 757.259(5) requiring the Commission to consider an earnings test prior to approval of the amortization.

Proposed Accounting

PGE proposes to record the deferral as a regulatory liability in FERC Account 254 (Other Regulatory Liabilities) and debit FERC Account 403.7 (Regulatory Debits). Absent approval of this deferral, PGE's net income would increase as a result of lower state tax expense.

Estimate of Amount

PGE has provided workpapers to Staff with its application showing two tax period accruals representing approximately \$5 million pursuant to its claiming an entire year of credits for each tax "year" in 2006. The account balance as of December 31, 2006 is approximately \$10 million. Staff has reviewed the calculations for this estimated balance and recommends the Commission approve PGE's request to defer ISFSI tax credits for the 2006 tax year. No proposal for amortization of these tax credits has yet been raised by the Company.

PGE – UM 1186(2)
February 8, 2007
Page 4

PROPOSED COMMISSION MOTION:

Portland General Electric's request for deferral of Independent Spent Fuel Storage Installation (ISFSI) State Tax Credits beginning December 31, 2006, for the 2006 tax year, be approved for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

PGE – UM 1186(2) ISFSI Tax Credit Deferral