



**Portland General Electric Company**  
121 SW Salmon Street • Portland, Oregon 97204  
PortlandGeneral.com

January 8, 2009

**Via Messenger**

Oregon Public Utility Commission  
550 Capitol Street, N.E., Ste 218  
Salem OR 97301-2551

**Re: UE 178; Revised October 2008 Tax Report for Calendar Year 2007**

Attention Filing Center:

Pursuant to ORS 757, 268 and OAR 860-022-0041, enclosed for filing is Portland General Electric Company's (PGE) revised October 2008 Tax Report for Calendar Year 2007. Since the filing of the initial tax report on October 15, 2008, PGE has responded to data requests, conducted workshops, and participated in a series of settlement conferences with the parties in this docket. Staff filed its issues list in this docket December 19 and a settlement conference was held on January 8. As a result of this review process, PGE identified four errors that should be corrected so that the Commission can obtain an accurate determination of Taxes Paid and Taxes Collected in Rates for calendar year 2007.

Attachment 1 includes a CD with the electronic Revised Tax Report for Portland General Electric Company (PGE) for calendar year 2007. Attachment 2 provides related hard copy work papers. The electronic files and hard copy work papers are highly confidential information and are subject to Protective Order No. 06-033.

Two of the four errors that are corrected in the enclosed revised tax report for 2007 reflect direct implementation of changes proposed by Staff (the treatment of charitable contributions under the Stand-Alone method and research tax credits). The other two errors (interest expense on regulatory liabilities and equity AFUDC, described in more detail below) were discovered more recently and were described to Staff during our January 8 settlement conference. Since we only recently discovered these two errors, PGE would like to work with Staff to make any necessary modifications in the UE-178 schedule to permit Staff to review of the revised filing and to respond, if necessary, with testimony regarding PGE's proposed corrections.

A description of the errors related to interest expense on regulatory liabilities and equity on AFUDC is provided below, along with a table indicating the effect of making the correction to the tax report relative to PGE's original filing on October 15, 2008.

Interest Expense on Regulatory Liabilities:

Under the Stand-Alone method of determining Taxes Paid, PGE uses the "interest synchronization" adjustment consistent with its results of operations report for 2007. This adjustment replaces actual utility interest expense with a hypothetical interest expense determining from the product of reported average rate base and weighted long-term cost of debt, consistent with traditional rate making methodology. With this adjustment, the indicated level of Pre-Tax Book Income on work paper E-1 excludes interest expense on regulatory liabilities. However, PGE's Utility Deferred Schedule Ms on work paper E-1 also include Schedule Ms associated with interest expense on regulatory liabilities, which removes the expense from the derivation of the current tax liability on E-1 since the expense is not deductible for tax purposes until paid (i.e., refunded to customers). In isolation, each of these adjustments is appropriate. But, in combination they have the effect of removing the interest expense twice from the derivation of current taxes in work paper E-1 under the Stand-Alone method. To correct this error, PGE removes the Schedule Ms associated with interest expense on regulatory liabilities from the Utility Deferred Ms total indicated on work paper E-1. Hard copy work papers of Schedule Ms for interest expense on regulatory liabilities are provided as Attachment 2. Note that this correction applies only to the Stand-Alone method of determining Taxes Paid since only this method includes the interest synchronization adjustment described above.

Equity AFUDC:

Under the Stand-Alone method of determining Taxes Paid, Pre-Tax Book Income reported on work paper E-1 reflects the use of PGE's results of operations report, which excludes below the line items. Equity AFUDC represents accrued income on projects that are not yet in service. For reporting purposes, Equity AFUDC is recorded under Other Income and Deductions in PGE's financial statements (i.e., below the line) and is not reflected in PGE's results of operations report. As such, the book income associated with Equity AFUDC is not reflected in the starting point of the analysis. For tax purposes, equity AFUDC is not taxable income and PGE records a permanent schedule M to reflect this difference. The Utility Permanent Schedule Ms indicated on work paper E-1 include the Equity AFUDC related amount, which effectively removes the income from Pre-Tax Book Income on work paper E-1 to calculate Taxable Income for tax purposes. However, since the starting point of the analysis on E-1 does not reflect this income for book purposes, it is inappropriate to remove the income to derive Taxable Income for tax purposes. To correct this error, PGE removes Equity AFUDC amounts indicated in work paper F-5 from the total Utility Permanent Ms indicated on work paper E-1. Note that this correction applies only to the Stand-Alone method of determining Taxes Paid since only this method begins with Pre-Tax Book Income that excludes the Equity AFUDC book income.

In prior data responses, PGE also indicated a need to modify for the add-back of charitable contributions under the Stand-Alone method and the proper treatment of certain tax credits related to research activities (See PGE's responses to Staff Data Request Nos. 21 and 23).

The table below illustrates the approximate effects of each of the corrections identified.

Table 1 – Difference between Taxes Paid and Taxes Collected

Collection per October 15, 2008 Filing	\$14.6 million
Correct Interest Expense on Regulatory Liabilities	\$(2.3) million
Correct Equity AFUDC	\$ 4.9 million <sup>1</sup>
Correct Charitable Contributions	\$(0.7) million
Correct Research Tax Credits	<u>\$(0.02) million</u>
Net Revised Collection	\$16.5 million

We look forward to working with Staff and the other parties in this docket to revise the schedule, if necessary, to ensure that they have adequate time to review these changes and to submit responsive testimony, if any. If you have any questions regarding these corrections or other elements of PGE's tax report, please contact Jay Tinker at (503) 464-7002.

Sincerely,



Randall J. Dahlgren  
Director, Regulatory Policy & Affairs

Enclosure

cc: Carla Owings, OPUC Staff  
McDowell & Rackner, Portland Safe Room

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<sup>1</sup> The impact of this correction on the Stand-Alone method is approximately \$6.1 million. However, under the revised report the governing methodology for determining Taxes Paid changes, limiting the impact on PGE's net collection to \$4.9 million

**Attachment 1**

**Revised PGE Tax Report for 2007 on CD**

Highly Confidential and Subject to Protective Order No. 06-033

**Attachment 2**


**Schedule M work papers for Interest Expense on Regulatory  
Liabilities**

Highly Confidential and Subject to Protective Order No. 06-033

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day caused the foregoing **PORTLAND GENERAL ELECTRIC COMPANY'S UE 178, REVISED OCTOBER 2008 TAX REPORT FOR CALENDAR YEAR 2007** 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. UE 178.

Dated at Portland, Oregon, this 14th day of January 2009.

  
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Jay Tinker  
On behalf of Portland General Electric Company

**eDockets**

**Docket Summary**

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**Docket No:** UE 178

**Docket Name:** AUTOMATIC ADJUSTMENT CLAUSE FILING UNDER SB 408

[Print Summary](#)

**Subject Company:** PORTLAND GENERAL ELECTRIC

**See also:** 07-24

In the Matter of OREGON PUBLIC UTILITY STAFF Requesting the Commission direct PORTLAND GENERAL ELECTRIC C to file tariffs establishing automatic adjustment clauses under the terms of SB 408. (AR 499/UE 177/UE 178/UG 170/ -- Staff report...

**Filing Date:** 11/22/2005

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<u>ACTIONS</u>	<u>SERVICE LIST (Parties)</u>	<u>SCHEDULE</u>
<b>W=Waive Paper service</b>	<b>C=Confidential HC=Highly Confidential</b>	<b>Sort by Last Name    Sort by Company Name</b>
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