



Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204

October 16, 2006

Via Messenger

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

Re: UE 178; October 2006 Tax Report

Attention Filing Center:

Enclosed you will find the October 2006 Tax Report for Portland General Electric Company (PGE), to be filed in docket UE 178 pursuant to Senate Bill 408 (SB 408) (codified at ORS 757.267, 757.268 and OAR 860-022-0041). This Tax Report covers the calendar years 2003, 2004, and 2005, and represents PGE's best attempt to comply with the rules set forth by the Commission in AR 499.

It is important to consider that the information presented in this Tax Report represents past history of PGE that is unique and unlikely to be repeated. PGE's situation during 2003-2005, with a bankrupt parent corporation, is unprecedented in Oregon, and is no longer characteristic of the utility, which is now independent and publicly-traded. This tax report is in no way a prediction of PGE's future.

We also note that OAR 860-022-0041(2)(q) requires us to use old rate case data to calculate the amount of "taxes authorized to be collected in rates." The use of old rate case data rather than actual financial results, which we do not believe is required by ORS 757.268, leads to misleading and unintended outcomes. These unintended consequences will force the utility to surcharge customers in years in which it earns more than was allowed in its last rate case, and refund money to customers in years in which the utility is already under-earning. We do not believe the Legislature intended this effect when it passed SB 408. This problem affects all utilities, including stand alone utilities like PGE, and is unrelated to the problem of a consolidated parent corporation not paying taxes due to offsetting losses at other companies in the consolidated group.

We have calculated the difference between the amount of "taxes paid that are properly attributed to the regulated operations of the utility," and the amount of "taxes authorized to be collected in rates" for each of the years 2002, 2003 and 2004, pursuant to SB 408 and OAR 860-022-0041. To illustrate how the bill would affect PGE as an independent stand-alone company in the future, we also calculated the "consolidated taxpayer" effect. PGE is extremely concerned that if the

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unintended consequences of AR 499 continue, they will negatively impact the company's ability to finance necessary investments in the utility's infrastructure, including new renewable resource developments.

	Difference between "taxes paid" and rate case estimates of "taxes authorized to be collected"	Consolidated Taxpayer Effect	Stand-Alone Utility Effect
2003	85,565,312	61,561,275	24,004,037
2004	82,810,621	67,175,628	15,634,993
2005	112,650,562	87,645,554	25,005,008

Please note that with this Tax Report PGE elects, as required under OAR 860-022-0041(3)(c)(C) to calculate its state income tax on a state-by-state basis, as described at OAR 860-022-0041(3)(c)(C)(ii).

The Oregon Legislative Assembly and the Commission have recognized that information contained in the tax report represents commercially sensitive information, the disclosure of which could cause harm to the business producing that information. *See* UE 178, Order No. 06-033 at 2-3 (2006); ORS 757.267(1)(g) (2006). We understand that the protective order issued in Order No. 06-033 will govern the disclosure of confidential tax information and other commercially sensitive financial information included in this Tax Report. We have treated our tax report as "highly confidential information" and have marked it accordingly.

Please contact me at 503-464-7021 or email randy.dahlgren@pgn.com if you have any questions about the enclosed.

Sincerely,



Randall J. Dahlgren
Director, Regulatory Policy & Affairs

Enclosure