



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

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OCT 14 2005

October 14, 2005

*Via Hand Delivery*

Oregon Public Utility Commission  
Attention: Filing Center  
PO Box 2148  
Salem OR 97308-2148

Re: Senate Bill 408; OAR 860-022-0039  
October 2005 Tax Report

Attention Filing Center:

Enclosed is the October 2005 Tax Report for Portland General Electric Company (“PGE”), filed pursuant to temporary rule OAR 860-022-0039 for the calendar years 2002, 2003, and 2004. This tax report represents PGE’s best effort to comply with both the temporary rule and what we believe to be the intent of SB 408.

SB 408 requires the Commission to determine the difference between an assumed amount of income taxes a utility collected and an adjusted amount of income taxes the utility or its consolidated tax group actually paid in a given year. As we have noted previously in other matters, it is not possible to precisely determine the amount of taxes a utility collected in rates during a given year. Rates are based on projected costs, including taxes, which will be different than those actually experienced in any given year. Nevertheless, this report attempts to comply with the statutory methodology established in SB 408 for doing so.

We note that this tax report will not be the basis for any adjustment to customer rates. Under the terms of SB 408, the tax report can only be a trigger for the Commission to consider imposition of an automatic adjustment clause—the report itself is not the basis of any such adjustment. Additionally, the statute specifically provides that an adjustment to rates can only be made on the basis of taxes paid on or after January 1, 2006.

It is important to emphasize that the information presented in the tax report represents a history of PGE that is unique and unlikely to be repeated. PGE’s situation during 2002-2004, with a bankrupt parent corporation that had very large losses, is unprecedented in Oregon and is certain to change. It is also important to note that the difference between the amount of taxes assumed to have been collected and taxes paid in the years 2002-2004 varies each year depending on a number of factors, including the impact of deferred taxes, the amount of tax credits available to the utility, and the effect of filing taxes as part of a consolidated tax return.



For these and other reasons, the results in 2003 and 2004 are considerably different than the results in 2002.

The difference between the adjusted amount of taxes paid and the assumed amount of taxes collected for each of the years 2002, 2003 and 2004, calculated pursuant to SB 408 and temporary OAR 860-022-0039, is as follows:

2002: 4,369,764  
2003: 59,979,805  
2004: 65,402,565

This tax report does not represent PGE's future, particularly as plans continue to return PGE to a publicly-traded, Oregon-based utility. PGE is looking forward to the future when PGE becomes an independent company again, paying taxes on a stand-alone basis. If PGE had been a stand-alone taxpayer during 2002-2004 there would be only small differences between the amount of taxes assumed to have been collected and adjusted taxes paid, as PGE believes those are to be determined.

PGE notes that the temporary rule is ambiguous in key areas concerning the proper methodology for computing this information. In addition, PGE continues to disagree with the manner in which the temporary rule interprets and applies key statutory language found in SB 408. PGE hopes and expects that the Commission will adopt a permanent rule that will modify the temporary rule to better comply with the purpose and meaning of SB 408.

SB 408 requires that the information filed in this tax report, with the exception of this cover letter and the information disclosed in this letter, be treated on a confidential basis. SB 408 sec. 3(11). This information may not be used for any purpose other than those described in subsections (1) through (10) of section 3 of SB 408. We note, however, that PGE's tax report workpapers contain copies of relevant FERC Form 1 reports, which are public information.

Sincerely,



Randall J. Dahlgren  
Director, Regulatory Policy and Affairs

Enclosure