

OREGON

Public Utility Commission

Staff Review of Portland General Electric's Tax, Trading, and Other Issues



Public Meeting
March 2, 2006



Issues Raised by the City of Portland

1. Did PGE retain \$88 million of collections for income taxes included in customer rates from 1997-2005?
2. Did PGE improperly change its allocation of income for 2000 to boost amounts collected for local income taxes?
3. Does Commission have authority to require refunds after rates have been set?

Issues Raised by the City of Portland (continued)

4. **Did PGE fail to collect \$246 million Enron owed customers?**
5. **Did PGE's customers benefit from the sale of Coyote Springs 2 site to Enron?**
6. **Did PGE engage in improper trading during 2000-2001 Western energy crisis? Are PGE's rates inflated by PGE/Enron market manipulations?**

Income Taxes Collected versus Paid

- **Issue: Did PGE retain \$88 million of collections for income taxes included in customer rates from 1997-2005?**
- **Three adjustments to City's analysis**
 - ✓ Consistent recognition of deferred taxes
 - ✓ Collection versus payment timing differences (e.g., 1997)
 - ✓ Remove non-regulated tax liability

Income Taxes Collected versus Paid (continued)

- Revised results: PGE paid \$56 million more than collected in rates

Taxes Collected (Book Taxes)	Taxes Paid Directly or to Parent	Income Taxes PGE "Retained" ("Overpaid")	(Figures in millions)
\$683.4	\$595.0	\$ 88.4	City of Portland Analysis 12/6/05
			ADJUSTMENTS
(85.5)			Adjust Taxes Collected to include deferred taxes and ITC for all years
37.7	90.3		Reflect full year for 1997
	6.3		Remove PGE non-regulated tax liability
\$635.6	\$691.6	(\$ 56.0)	Revised Results

Multnomah County Business Income Tax

- **Issue: Did PGE improperly change its allocation of income for 2000 to boost amounts collected for local income taxes?**
- **How did PGE calculate the charge?**
 - First, determine tax liability
 - Stand-alone
 - Require allocation of income from wholesale sales
 - Then set charge to collect estimated liability and true up for past differences

Multnomah County Business Income Tax (continued)

- **Wholesale revenue allocation:**
 - For all years except 2000, assigned to location of counter party or delivery location (trading hub)
 - For 2000, bookouts assigned to Multnomah County
- **PGE emails simply describe process to balance taxes collected with tax liability**
- **Recommendation: Direct utilities to file their rates for local income taxes for Commission approval**

Commission Authority to Require Refunds

- **Issue: Does Commission have authority to require refunds after rates have been set?**
- **“Filed rate doctrine” prohibits retroactive rate adjustments**
- **No court has found PGE rates were illegal because of the way it handled taxes**
- **Senate Bill 408 requires taxes collected to reflect taxes paid**

PGE Claims Against Enron

PGE Distribution to Enron

- **Issue: Did PGE fail to collect \$246 million Enron owed customers?**
- **Three claims made up 95 percent of the total:**
 - \$80 million owed by Enron Power Marketing for power and transmission bought from PGE
 - \$86 million to cover potential third party claims against PGE for employee benefit plans
 - \$73 million for merger credit Enron promised to pay

PGE Claims Against Enron (continued)

- **Money related to claims belonged to investors, not customers**
- **Customers not harmed by the distributions PGE used to settle its claims against Enron**

PGE Sale of Coyote Springs 2 to Enron

- **Issue: Did PGE's customers benefit from the sale of Coyote Springs 2 site to Enron?**
- **Commission approved transaction in early 2000**
- **PGE did not need the site to build a plant for generating electricity**
- **Customers benefited from gain and cost savings**

PGE Trading Activities

- **Issue: Did PGE engage in improper trading during western electricity crisis of 2000-2001?**
 - OPUC investigation focused on Oregon's three IOUs and violations of Oregon statutes or Commission rules/orders
 - Staff participated in FERC investigation of PGE
 - Investigations found PGE involvement in Enron Death Star transactions was minimal
 - Staff concluded any impact on wholesale power prices was extremely small
 - Commission settlement for \$1.3 million, continue to hold customers harmless

Trading Activities during Western Energy Crisis (continued)

- **Issue: Are PGE's current rates inflated by high-cost power purchases made during the western electricity crisis of 2000-2001?**
 - Four contracts still in rates, but priced lower than current market prices
 - PGE's current high rates attributable to high natural gas prices
 - Difference between PGE and PacifiCorp rates explained by power costs and sources of power supply

Conclusions

Staff Recommendations:

1. Require electric and natural gas utilities to file for Commission approval of local income tax rates.
2. Not take any action on other issues raised by the City of Portland, at this time.