

**SENATE REVENUE COMMITTEE  
FEBRUARY 9, 2005 8:30 AM STATE CAPITOL BUILDING**

Members Present: Senator Ryan Deckert, Chair  
Senator Rick Metsger  
Senator Floyd Prozanski

Members Excused: Senator Charles Starr, Vice Chair  
Senator Gary George

Witnesses Present: Lee Beyer, Public Utility Commission  
Ed Bush, PUC  
Judy Johnson, PUC  
Paul Graham, Office of Attorney General  
Debra Buchanan, Oregon Department of Revenue

Staff Present: Paul Warner, Legislative Revenue Officer  
Barbara Guardino, Committee Assistant

**TAPE 30, SIDE A**

004 Chair Deckert Calls meeting to order at 8:34 a.m.

**INFORMATIONAL MEETING**

038 Lee Beyer Gives overview of PUC White Paper titled Treatment of Income Taxes in Utility Ratemaking (**EXHIBIT 1**). With sale of PGE, there is a lot of public interest in the issue of taxation. If legislature chooses to change policy, it will be for several companies, not just PGE. Suggests committee talk with legislative counsel about uniformity clause and whether to treat all utilities the same. PUC will deliver a background piece which traces the history of legal issues across the country.

083 Beyer Reviews 2003 session when issue first came up. Beyer suggested legislature change the way the state treats corporate taxes. Urged deconsolidation of tax structures. Now, contends this may not be a good idea.

107 Beyer Oregon has taken a "traditional approach" to this tax issue. In terms of choices, there are three ways to deal with taxes and rate setting.  
1) adjust them as all states do  
2) annual true up  
3) tax deconsolidation

130 Chair Deckert Requests presenters tell committee which issues are statutory decisions and which are role making authority.

135 Ed Bush Begins PowerPoint slide presentation: Treatment of Income Taxes in Utility Ratemaking (**EXHIBIT 2**). Presentation describes:  
1) Current method PUC uses to determine amount of income taxes to be included in customer rates

- 2) Three reasons why amounts collected are different from amounts of taxes paid
- 3) Options for how PUC can determine taxes

168	Bush	White paper discusses five options. First four are ratemaking; fifth is tax filing option.
181	Bush	Tax Example (Option 1 – Current Practice) page 1, slide 2. <ul style="list-style-type: none"> <li>• Income taxes calculated on Utility stand-alone basis</li> <li>• Based on estimated revenues and costs in rate case.</li> </ul> Key point: Calculation is based on cost of regulated service.
247	Bush	Answers questions.
277	Bush	Continues slide show, Option 1 (continued) page 2, slide 1. <ul style="list-style-type: none"> <li>• Payment to Taxing Authorities will be different than taxes collected in rates</li> </ul>
322	Beyer	Gives example in regard to differences in taxes collected.
356	Bush	Concurs with Beyer's example.
407	Bush	Full True Up (Option 2) page 2, slide 2. <ul style="list-style-type: none"> <li>• Customers get back what wasn't paid to Taxing Authorities</li> <li>• How much was deemed paid?</li> </ul>
458	Chair Deckert	Does PUC have access to filings made with Dept. of Revenue?
460	Beyer	Responds, PUC has no access other than information from regulated utilities. PUC could enter into a confidentiality agreement with DOR to get that information, although DOR doesn't have that information either. Only way to get this information is to change state law. Pennsylvania has voluntary compliance.

**TAPE 31, SIDE A**

043	Sen. Metsger	Clarifies, lawmakers would have to change state law in order to share information. Follow-up questions.
057	Beyer	That probably wouldn't work. Should give the hammer to the PUC to force utilities to provide information.
070	Paul Warner	Dept. of Revenue has strict disclosure laws and some agreements with Internal Revenue Service.
085	Beyer	PUC doesn't have the expertise to answer these information gathering questions. Suggests members direct questions to DOR.
095	Bush	Full True Up (option 2) (continued) page 3, slide 1. <ul style="list-style-type: none"> <li>• Assume deemed taxes paid = 40</li> <li>• Effects</li> </ul>
118	Chair Deckert, Sen. Metsger	Ask questions concerning accelerated tax deductions.

129	Bush	Responds to questions.
150	Beyer	Issue is the effect of the regulated utility, where filing as stand-alone or consolidated, they will still pay federal taxes. Also, recommends members talk to DOR whether corporations can switch back and forth.
175	Paul Graham	There are some rate effects involved with accelerated appreciation. Mr. Bush will cover those.
182	Bush	Resumes discussion on Full True Up option 2.
198	Bush	Full True Up (Option 2) (continued) page 3, slide 2. Assume deemed taxes paid = 125
238	Bush	Partial True Up (option 3) page 4, slide 1. <ul style="list-style-type: none"> <li>• Same as Full True Up, except preserve benefits of Accelerated Tax Deductions</li> <li>• Losing these benefits would mean</li> <li>• Options for meeting federal tax code requirements</li> </ul>
289	Chair Deckert	Asks questions concerning accelerated tax deductions.
292	Bush	Responds.
323	Beyer	From a customer's perspective what is the benefit of accelerating depreciation? It allows a lower interest loan for operations over a period of time. Makes it less costly for a utility to operate and results in lower rates. Answers follow-up questions.
366	Bush	Continues discussion on Partial True Up option 3.
394	Bush	Consolidated Tax Savings (Option 4) page 4, slide 2. <ul style="list-style-type: none"> <li>• Allocate a share of consolidated tax savings</li> <li>• Prospective, not annual true up</li> </ul> Discusses "Pennsylvania approach".
420	Chair Deckert	Asks, why buy a utility in Pennsylvania or locate a parent company there?
440	Beyer	Bottom line is, companies must be kept healthy so they can continue to provide reliable power. Currently some Oregonians feel gouged at the end of the month by their electric bills. What Pennsylvania is doing probably doesn't meet federal guidelines but it hasn't been challenged in federal court.

**TAPE 30, SIDE B**

044	Bush	Emphasizes, this would not be an annual true up, it would be a prospective approach.
058	Bush	Consolidated Tax Savings (Option 4) (continued) page 5, slide 1. <ul style="list-style-type: none"> <li>• Example assumes</li> <li>• In this example, 50% of 75 loss is allocated to utility for ratemaking</li> </ul>

087	Bush	Summary of Pros and Cons, page 5, slide 2. <ul style="list-style-type: none"> <li>• Utility Stand-Alone</li> </ul>
127	Bush	<ul style="list-style-type: none"> <li>• Annual Full True Up</li> <li>• Annual Partial True Up</li> <li>• Consolidated Tax Savings.</li> </ul>
160	Debra Buchanan	When a corporation files an Oregon return it attaches federal return. There are two sets of disclosure laws. Can't change the federal law, so perhaps information should be provided to the regulatory commission by the taxpayer so disclosure would be made to PUC.
180	Chair Deckert	Assumes this would have to be done statutorily.
195	Sen. Prozanski	Comments on second set of options.
226	Beyer	Discusses complaint about PGE and Enron. PGE has included a substantial amount of taxes within its rates. PGE sends it to its parent utility. Parent utility files consolidated return and regulated utility has no idea what parent paid in taxes. PUC doesn't know either.
280	Beyer	Asks legislature for direction about what it would like from PUC.
283	Sen. Prozanski	Would like more open disclosure as to what's being paid.
303	Beyer	Fields follow-up questions.
347	Sen. Metsger	Asks if Beyer is aware of any electric utilities that paid more taxes than they collected in the last 10 years.
357	Bush	PUC doesn't have that information as a rule.
380	Sen. Metsger	Comments and questions pertaining to how much PGE paid in taxes.
407	Beyer	Responds to Metsger's questions.

**TAPE 31, SIDE B**

016	Sen. Prozanski	Continues questioning of panel on issue of ratepayer transparency and disclosure.
034	Beyer	Focusing on ratepayers paying more taxes than they should. Consider a hypothetical utility, if it were totally deconsolidated, would ratepayers be paying the right amount of taxes? Ratepayer rates would not change. The real question is, are citizens receiving the appropriate amount of taxes?
060	Chair Deckert	Asks committee for other questions or discussion. Will revisit this issue in March.
165	Beyer	Committee will receive a legal opinion later today. PUC will return later this session with a recommendation.
078	Chair Deckert	Would be interested to examine how various states have handled this issue.

098 Chair Deckert

Will schedule more public comment on this issue. Adjourns meeting at 10:05 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. White Paper, Treatment of Income Taxes in Utility Ratemaking, Beyer, 17 pp.
2. Slide presentation, Treatment of Income Taxes in Utility Ratemaking, Bush, 5 pp.