SENATE FINANCE COMMITTEE'S TAX REFORM WORKING GROUPS

COMMENTS OF PORTLAND GENERAL ELECTRIC COMPANY ON TAX REFORM ISSUES

April 15, 2015

Portland General Electric Company (PGE) is a fully integrated electric utility that serves almost half of all Oregon homes and businesses – more than 842,000 residential, commercial and industrial customers in the Portland metro region and the northern Willamette Valley. Today, PGE has more than 2,870 megawatts of generating capacity from hydroelectric, natural gas, wind, solar and coal-fired electric generating facilities in Oregon and Montana.

We are writing to recommend tax incentives that will enable utilities to transition their electric generation facilities to lower carbon resources while keeping electricity rates affordable. As Oregon's largest electric utility, and one that is committed to a clean energy future, we appreciate the opportunity to provide input on this important issue.

The price of electricity is a fundamental driver of the economy. Affordable rates help businesses stay in the U.S. and grow, and they provide families with more disposable income to spend in the rest of the economy. A variety of federal and state policies, including EPA's Clean Power Plan and state Renewable Portfolio Standards (RPS), are requiring utilities to decrease the carbon content of their generating resources. Federal tax policy can play an important role in helping to mitigate the cost impacts on customers of transitioning to a lower-carbon generating fleet.

Federal tax incentives for renewable energy, particularly the production tax credit (PTC), have provided tremendous value for PGE's customers. The Oregon RPS requires PGE to serve 15 percent of our retail load with qualified renewable power by 2015, 20 percent by 2020, and 25 percent by 2025. The federal PTC has allowed us to keep prices affordable for our customers as we have increased the use of renewable power to meet state RPS requirements.

As the working group considers whether and how to provide tax incentives for a lower-carbon future, we have three suggestions for how such tax incentives should be designed:

1. **Lowering the corporate tax rate is a positive step, but does not fully offset the loss of the PTC.** PGE supports congressional efforts to lower the overall corporate tax rate. However, reducing the marginal rate to the 28 or 25 percent tax range that has been discussed to date would not fully offset the elimination of the PTC, and would result in rate increases for our customers. PGE has estimated that the corporate rate would need to be closer to 18 percent to avoid rate increases. A lower corporate tax rate will still need to be paired with tax incentives for clean electricity generation, in recognition of the massive capital investments that utilities will need to make in the coming years to transition their generating fleets to lower carbon resources.

2. **Tax incentives should be technology neutral.** PGE would urge that the tax credit for clean generation provide longer term, technology-neutral incentives for clean electricity generation, a concept that has been championed by Ranking Member Wyden. Such a credit should be designed to provide stability and predictability for project developers; enable utilities to choose whether to utilize the investment tax credit or the production tax credit; and would align tax policy with the nation's transition to a lower carbon electricity generation fleet.

   PGE supports the change to a production or investment tax credit that is technology-neutral, as well as the ability to choose which type of credit to receive. Such a level playing field would encourage utilities to construct the cleanest energy facilities available that are cost-effective. It also would allow new technologies to enter the market without having to seek specific inclusion in the tax code.

3. **Coal plants converted to operate on carbon neutral resources should receive favorable tax treatment.** PGE owns and operates Oregon's lone coal-fired power plant, and, in an innovative plan with local, state, and federal stakeholders, agreed to stop burning coal at the plant by the end of 2020. We are currently engaged in a groundbreaking research effort to evaluate the potential of operating the plant on biomass. If we can demonstrate the technical and economic viability of operating a coal plant – without major modification – on biomass, we might demonstrate an avenue for reducing the GHG-intensity of the power system without significantly impacting the rural communities throughout the country that depend on coal plants for employment and tax payments. Given the many potential benefits of biomass as a generating resource, both newly constructed and converted facilities that generate "biopower" should qualify for tax incentives.

Finally, we share our industry's interest in maintaining the deductibility of interest expense. As you consider comprehensive tax reform, it is essential to recognize that **the current federal income tax deduction for interest expense is critically important for capital-intensive companies like utilities.** Any material change in how interest costs are deducted would negatively impact all shareholder-owned electric utilities and their customers. Furthermore, tax normalization is essential to stabilizing utility rates. **Tax normalization should be retained in any fundamental overhaul of the tax code.** PGE also supports **maintaining low rates on dividends that are at parity with the tax rates on capital gains**.

Thank you, again, for providing an opportunity to comment on this important issue. PGE looks forward to working with the members of the Senate Finance Committee and their staff to align tax policy with our transition to a lower carbon generation fleet.