

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 22, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE N/A

DATE: July 28, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL: Accept the Annual Budget of Expenditures for 2006

STAFF RECOMMENDATION:

I recommend that Northwest Natural's (NW Natural or company) 2006 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

On March 7, 2006, NW Natural filed its Budget of Expenditures Report for the year 2006 pursuant to ORS 757.105. The report details budgeted expenditures for officers' compensation, membership dues, pensions and political activities for the upcoming year.

Officers' Compensation

Attached are three schedules summarizing budgeted officers' salaries and other compensation for NW Natural.

Schedule 1 compares the 2006 salaries and other compensation budget with the 2005 levels. Total officers' compensation is budgeted to increase by 14.8% for 2006 as the company increases the total number of officers from 8 to 9. Total salaries increase by 15.2% and total budgeted benefits increased by 12.5%. For comparable positions, however, salaries rise a more modest 3.4%, total compensation by 4.3%.

Schedule 2 provides a four-year history of officers' cash compensation that includes budgeted salary and savings plan compensation plus bonuses from 2002 through 2005.

Bonuses are shown for the year in which paid; for example, the bonus amounts shown for 2004 were based on performance in 2003 and paid in 2004. Total cash compensation for comparable, full-year positions increased by 31 % from 2004 to 2005 due to both higher salaries and higher performance bonuses paid in 2005.

Schedule 3 compares salary and cash compensation with changes in the Consumer Price Index (CPI) between the years 2000 and 2005. The table shifts data between years to reflect proper matching. Since budgets present values at the beginning of the budget year, the 2006 budget, for example, is shown on this table as 2005. As of the end of the period, salaries for comparable positions are 30.2% higher than they would have been if CPI percentage increases had been granted during the period. When bonuses are included, the difference from the CPI comparable percentages through 2004 is an increase of 74.3%. In a general rate case, Staff typically proposes to exclude all officers' bonuses and limit salary changes to a percentage increase measuring cost changes, such as the CPI.

Memberships and Dues

"Above-the-line" memberships and dues in utility industry, technical and professional organizations are budgeted at \$759,000 for 2006 compared to \$772,000 in the 2005 budget.

Pensions

Total pension charges in 2006 are budgeted at \$11,262,000 compared with \$8,722,000 for pension expenses in last year's budget. This is an increase of 29% from last year and is over 50% higher than the 2004 budget.

Political Activities

There is \$66,000 in the budget for non-corporate political activities including ballot measures and opinion research. In addition, \$126,000 has been budgeted for contributions to NW Natural's Political Action Committees. Specific contributions have not yet been identified, but this represents an increase of 12% over the previous year's budget.

PROPOSED COMMISSION MOTION:

NW Natural's 2006 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment of these expenses should be reserved for a ratemaking proceeding.