

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 10, 2008**

REGULAR CONSENT EFFECTIVE DATE N/A

DATE: May 29, 2008

TO: Public Utility Commission

FROM: Paul Rossow

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL: Accept the Annual Budget of Expenditures for 2008.

STAFF RECOMMENDATION:

I recommend that Northwest Natural's (NW Natural or Company) 2008 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

On March 20, 2008, NW Natural filed its Budget of Expenditures Report for the year 2008 pursuant to ORS 757.105. Originally the filing contained officer's compensation amounts for 2007 and staff requested the Company include the amount budgeted for 2008. This report details budgeted expenditures for officers' compensation for 2008, bonus amounts earned in 2007 and paid in 2008, and membership dues, pensions and political activities for the upcoming year.

Officers' Compensation

Attachment 1 compares the 2008 officers' salaries and other compensation with the 2007 levels for NW Natural. Officers' salaries show an increase of 8.9 percent while pensions and other fringe benefits indicate a decrease of 27.4 percent. Overall compensation increases by 3.0 percent.

For comparable positions, salaries reveal an increase of 15.4 percent. Pensions and other fringe benefits decreased by 22.7 percent, resulting in an overall increase of 9.3 percent.

Attachment 2 shows salary for the years 2003 through 2008. For comparable positions, annual average salaries increased by an average of 17.8 percent per year over the six-year period.

Attachments 3.1 and 3.2 show officers' cash compensation, including bonuses, for 2003 through 2007. Bonuses are attributed to the year they are paid. For example, a bonus earned in 2006 is paid by the Company in 2007, and attributed (in Attachments 3.1 and 3.2) to the 2007 salary. Attachment 3.2 shows that for comparable positions, cash compensation for the period 2003 through 2007 increased 21.9 percent annually.

Attachment 4 shows officer's salary changes compared to Consumer Price Index (CPI) changes for the years 2003 and 2007. Since budgets present values at the beginning of the budget year, the 2007 budget increase, for example, is shown on this table as 2006. As of the end of the period, salaries for comparable positions are 99.1 percent higher than they would have been if CPI percentage increases had been granted during the period. When bonuses are included, comparable positions increase 100.1 percent more than the CPI average. 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 for utility industry, technical and professional organizations, as assigned to Oregon electric operations, are budgeted at \$760,000 for 2007 and 2008.

Pensions

Total pension charges in 2008 are budgeted at \$8,271,049, down from \$10,986,300 budgeted last year. This reverses a trend of increasing pension costs each year over the last few years.

Political Activities

The company did not report any contributions to non-utility political activities such as ballot measures and opinion research this year. Budgeted contributions to NW Natural's Political Action Committees are \$126,000, which is the same as last year.

PROPOSED COMMISSION MOTION:

NW Natural's 2008 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment of these expenses should be reserved for a ratemaking proceeding.

**NORTHWEST NATURAL GAS COMPANY
2007 AND 2008 BUDGETED OFFICERS COMPENSATION**

POSITION	NAME	SALARY			PENSIONS AND OTHER FRINGE BENEFITS			TOTAL COMPENSATION		
		2008 BUDGET	2007 BUDGET	% CHG	2008 BUDGET	2007 BUDGET	% CHG	2008 BUDGET	2007 BUDGET	% CHG
President & CEO	Dodson	550,000	515,000	6.8%	59,690	80,122	-25.5%	609,690	595,122	2.4%
Senior V.P. - Finance & CFO	Anderson	305,000	287,000	6.3%	40,672	53,089	-23.4%	345,672	340,089	1.6%
Executive V.P.	Kantor	325,000	184,000	76.6%	33,814	41,549	-18.6%	358,814	225,549	59.1%
V.P. - Human Resources	Doolittle	205,000	182,000	12.6%	31,288	40,901	-23.5%	236,288	222,901	6.0%
Treasurer & Controller	Feltz	180,000	170,000	5.9%	30,639	42,077	-27.2%	210,639	212,077	-0.7%
V.P. - General Counsel	Kirkpatrick	230,000	217,000	6.0%	24,280	38,486	-36.9%	254,280	255,486	-0.5%
Dir. of Pension Admin.	Rue	170,000	162,000	4.9%	23,246	35,438	-34.4%	193,246	197,438	-2.1%
V.P. - Bus. Dev. & Energy Supply	White	175,000	155,000	12.9%	26,352	31,718	-16.9%	201,352	186,718	7.8%
V.P. - Utility Service	Williams	175,000	135,000	29.6%	20,742	19,097	8.6%	195,742	154,097	27.0%
V.P. - Utility Operations	Yoshihara	175,000	150,000	16.7%	29,794	32,257	-7.6%	204,794	182,257	12.4%
Assistant Corporate Secretary	Luther	-	130,000	-100.0%	-	26,540	-100.0%	-	156,540	-100.0%
Total		\$2,490,000	\$2,287,000	8.9%	\$320,517	\$441,274	-27.4%	\$2,810,517	\$2,728,274	3.0%
Total Comparable Positions		\$2,490,000	\$2,157,000	15.4%	\$320,517	\$414,734	-22.7%	\$2,810,517	\$2,571,734	9.3%

NORTHWEST NATURAL GAS COMPANY
OFFICERS' BUDGETED SALARY HISTORY - 2003 THROUGH 2008

POSITION	NAME	2003	2004	PERCENT CHANGE	2005	PERCENT CHANGE	2006	PERCENT CHANGE	2007	PERCENT CHANGE	2008	PERCENT CHANGE	AVERAGE ANNUAL CHANGE 2003-2008
Chairman	Reiten*	80,000	0	-100.0%	0	N/A	0	N/A	0	N/A	0	N/A	N/A
President & CEO	Dodson	250,000	390,000	56.0%	502,645	28.9%	515,000	2.5%	515,000	0.0%	550,000	6.8%	17.1%
Senior V.P. - Finance & CFO	Anderson	0	0	N/A	280,000	N/A	287,000	10.4%	287,000	0.0%	305,000	6.3%	5.5%
Senior V.P. - Gen Counsel	Ugoretz	0	200,004	N/A	0	-100.0%	0	N/A	0	N/A	0	N/A	N/A
Executive V.P.	Kantor	142,000	157,500	10.9%	162,312	3.1%	184,000	13.4%	184,000	0.0%	325,000	76.6%	18.0%
Executive V.P. - Customer & Util. Oper.	McCoy***	233,000	238,833	2.5%	345,671	44.7%	268,000	-22.5%	182,000	-100.0%	0	N/A	3.6%
V.P. - Human Resources	Doolittle	152,000	156,167	2.7%	161,312	3.3%	182,000	12.8%	182,000	0.0%	205,000	12.6%	6.2%
Treasurer & Controller	Feltz	140,000	155,321	10.9%	152,410	-1.9%	170,000	11.5%	170,000	0.0%	180,000	5.9%	5.2%
V.P. - General Counsel	Kirkpatrick	0	0	N/A	0	N/A	217,000	N/A	217,000	0.0%	230,000	6.0%	3.0%
Dir. of Pension Admin.	Rue	142,000	148,167	2.9%	151,312	3.5%	162,000	7.1%	162,000	0.0%	170,000	4.9%	3.7%
V.P. - Bus. Dev. & Energy Supply	White	0	0	N/A	0	N/A	0	N/A	155,000	N/A	175,000	12.9%	N/A
V.P. - Utility Service	Williams	0	0	N/A	0	N/A	0	N/A	135,000	N/A	175,000	29.6%	N/A
V.P. - Utility Operations	Yoshihara	0	0	N/A	0	N/A	0	N/A	150,000	N/A	175,000	16.7%	N/A
Assistant Corporate Secretary	Luther	80,784	81,696	1.1%	99,093	21.3%	129,000	30.2%	130,000	0.8%	0	-100.0%	12.6%
	DeBolt	233,000	238,833	2.5%	0	-100.0%	0	N/A	0	N/A	0	N/A	-100.0%
TOTALS		1,452,784	1,764,521	21.5%	1,834,755	4.0%	2,114,000	15.2%	2,287,000	8.2%	2,490,000	8.9%	5.7%
Number of Officers		9	9		8		9		11		10		
TOTALS-Comparable Positions 03/04		979,000	1,564,517	59.8%									
TOTALS-Comparable Positions 04/05			1,325,684		1,574,755	18.8%							
TOTALS-Comparable Positions 05/06					1,834,755	3.4%	1,897,000						
TOTALS-Comparable Positions 06/07					1,846,000		1,847,000	0.1%					
TOTALS-Comparable Positions 07/08					2,157,000		2,490,000	15.4%					17.8%

NORTHWEST NATURAL GAS COMPANY
OFFICERS' CASH COMPENSATION HISTORY
2003 THROUGH 2007
TOTAL COMPANY AMOUNTS INCLUDE INCENTIVE (BONUS) PAYMENTS

POSITION	Name	2003			2004			2005		
		TOTAL	BUDGETED SALARY	BENEFITS BONUS & SAVINGS PLAN	TOTAL	% CHANGE	BUDGETED SALARY	BENEFITS BONUS & SAVINGS PLAN	TOTAL	% CHANGE
Chairman	Reiten*	\$333,625	0	0	-	-100.0%	0	0	-	N/A
President & CEO	Dodson	341,100	406,836	260,000	666,836	95.5%	502,645	300,000	802,645	20.4%
Senior V.P. - Finance & CFO	Anderson	309,347	249,839	26,000	275,839	-10.8%	260,000	126,000	386,000	39.9%
Senior V.P. - Gen Counsel	Ugoretz	0	207,204	66,000	273,204	N/A	0	0	-	N/A
Executive V.P.	Kantor	176,540	164,221	63,000	227,221	28.7%	162,312	74,000	236,312	4.0%
Executive V.P. - Customer & Util. Oper.	McCoy***	310,979	247,431	101,000	348,431	12.0%	345,671	120,000	465,671	33.6%
V.P. - Human Resources	Doolittle	189,234	162,919	55,000	217,919	15.2%	161,312	64,000	225,312	3.4%
Treasurer & Controller	Feltz	174,257	161,960	51,000	212,960	22.2%	152,410	58,000	210,410	-1.2%
V.P. - General Counsel	Kirkpatrick	-	0	0	-	N/A	-	41,000	41,000	N/A
Dir. of Pension Admin.	Rue	171,400	153,098	39,000	192,098	12.1%	158,388	48,000	206,388	7.4%
V.P. - Bus. Dev. & Energy Supply	White	-	0	0	-	N/A	0	0	-	N/A
V.P. - Utility Service	Williams	-	0	0	-	N/A	0	0	-	N/A
V.P. - Utility Operations	Yoshihara	-	0	0	-	N/A	0	0	-	N/A
Assistant Corporate Secretary	Luther	80,784	84,923	20,000	104,923	29.9%	99,093	0	99,093	-5.6%
Totals		2,087,266	1,838,431	681,000	2,519,431	20.7%	1,841,831	831,000	2,672,831	6.1%
Number of Officers		9			9					
TOTALS-Comparable Positions 03/04		1,753,641			2,246,227	28.1%				
TOTALS-Comparable Positions 04/05					2,246,227				2,631,831	17.2%
TOTALS-Comparable Positions 05/06									2,672,831	

NORTHWEST NATURAL GAS COMPANY
OFFICERS' CASH COMPENSATION HISTORY
2003 THROUGH 2007
TOTAL COMPANY AMOUNTS INCLUDE INCENTIVE (BONUS) PAYMENTS

POSITION	Name	2006			2007			AVERAGE ANNUAL GROWTH 2003 - 2007	
		BUDGETED SALARY	BENEFITS BONUS & SAVINGS PLAN	TOTAL	% CHANGE	BUDGETED SALARY	BENEFITS BONUS & SAVINGS PLAN		TOTAL
Chairman	Reiten*	0	0	-	N/A	0	0	-	N/A
President & CEO	Dodson	515,000	373,000	888,000	10.6%	515,000	384,000	899,000	1.2%
Senior V.P. - Finance & CFO	Anderson	287,000	164,000	451,000	16.8%	287,000	170,000	457,000	1.3%
Senior V.P. - Gen Counsel	Ugoretz	0	0	-	N/A	0	0	-	N/A
Executive V.P.	Kantor	184,000	92,000	276,000	16.8%	184,000	204,000	388,000	40.6%
Executive V.P. -Customer & Util. Oper.	McCoy***	268,000	151,000	419,000	-10.0%	0	0	-	N/A
V.P. - Human Resources	Doolittle	182,000	79,000	261,000	15.8%	182,000	86,000	268,000	2.7%
Treasurer & Controller	Feltz	170,000	73,000	243,000	15.5%	170,000	75,000	245,000	0.8%
V.P. - General Counsel	Kirkpatrick	217,000	92,000	309,000	653.7%	217,000	93,000	310,000	0.3%
Dir. of Pension Admin.	Rue	162,000	58,000	220,000	6.6%	162,000	60,000	222,000	0.9%
V.P. - Bus. Dev. & Energy Supply	White	0	55,000	55,000	N/A	155,000	61,000	216,000	292.7%
V.P. - Utility Service	Williams	0	32,000	32,000	N/A	135,000	60,000	195,000	509.4%
V.P. - Utility Operations	Yoshihara	0	54,000	54,000	N/A	150,000	60,000	210,000	288.9%
Assistant Corporate Secretary	Luther	129,000	0	129,000	30.2%	130,000	50,000	180,000	39.5%
Totals		2,114,000	1,223,000	3,337,000	24.8%	2,287,000	1,303,000	3,590,000	7.6%

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Number of Officers

TOTALS-Comparable Positions 03/04

TOTALS-Comparable Positions 04/05

TOTALS-Comparable Positions 05/06

TOTALS-Comparable Positions 06/07

3,196,000 **19.6%**

2,918,000 **23.0%**

21.9%

NORTHWEST NATURAL GAS COMPANY
 OFFICERS' SALARY CHANGES COMPARED WITH CPI CHANGES
 2003 THROUGH 2007

	PERCENT CHANGE FROM PRIOR YEAR		PERCENT CHANGE FROM PRIOR YEAR	
	AVERAGE OFFICER'S SALARY ¹	ANNUAL AVERAGE CPI ²	AVERAGE OFFICER'S CASH COMPENSATION ³	ANNUAL AVERAGE CPI
2003	59.8%	1.6%	28.1% ⁴	1.6%
2004	18.8%	2.3%	17.2%	2.3%
2005	3.4%	2.7%	19.6%	2.7%
2006	0.1%	3.4%	23.0%	3.4%
2007	15.4%	3.2%	N/A	N/A
Average	17.8%	2.6%	21.9%	2.5%
Index Value (January 1, 2003 = 100)	226.75	113.90	220.86	110.37
% Difference from CPI	99.1%		100.1%	

Notes:

- 1 - Officers' salary and cash compensation changes are for comparable positions. Changes have been shifted back one year from budget since budgets show amounts in effect as of the end of the prior year.
- 2 - CPI changes are from Bureau of Labor Statistics, Labor Market Information Home Page, U.S. City average, base period 1982-84, All Urban Consumers.
- 3 - 2008 bonus information for the year 2007 is not yet available. Therefore, for cash compensation comparison, average and index value are based on change from 2003 through 2007.
- 4 - The amount of increase reflected for 2003 does not appear in previous years' reports due to bonuses earned in 2003 and paid in 2004 that were not previously reported by the Company.