NORTHWEST NATURAL GAS CO
Form 10-Q
August 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition period from __________ to __________

Commission File No. 1-15973

NORTHWEST NATURAL GAS COMPANY

(Exact name of registrant as specified in its charter)

Oregon	**93-0256722**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

220 N.W. Second Avenue, Portland, Oregon 97209

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (503) 226-4211

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At July 31, 2008, 26,435,373 shares of the registrant s Common Stock (the only class of Common Stock) were outstanding.

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NORTHWEST NATURAL GAS COMPANY

For the Quarterly Period Ended June 30, 2008

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NORTHWEST NATURAL GAS COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Statements of Income

(Unaudited)

Thousands, except per share amounts	**Three Months Ended June 30, 2008**	**Three Months Ended June 30, 2007**	**Six Months Ended June 30, 2008**	**Six Months Ended June 30, 2007**
Operating revenues:				
Gross operating revenues	$ 191,254	$ 183,249	$ 578,948	$ 577,340
Less: Cost of sales	124,010	114,744	369,930	360,213
Revenue taxes	4,672	4,387	14,023	14,001
Net operating revenues	62,572	64,118	194,995	203,126
Operating expenses:				
Operations and maintenance	25,840	28,420	54,298	57,259
General taxes	6,722	5,351	14,856	13,168
Depreciation and amortization	17,957	16,972	35,662	33,757
Total operating expenses	50,519	50,743	104,816	104,184
Income from operations	12,053	13,375	90,179	98,942
Other income and expense - net	1,940	(481)	2,113	57
Interest charges - net of amounts capitalized	8,933	8,801	18,363	18,368
Income before income taxes	5,060	4,093	73,929	80,631
Income tax expense	1,763	1,476	27,464	29,939
Net income	$ 3,297	$ 2,617	$ 46,465	$ 50,692
Average common shares outstanding:				
Basic	26,421	26,999	26,415	27,114
Diluted	26,571	27,164	26,564	27,261
Earnings per share of common stock:				
Basic	$ 0.12	$ 0.10	$ 1.76	$ 1.87
Diluted	$ 0.12	$ 0.10	$ 1.75	$ 1.86

See Notes to Consolidated Financial Statements.

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NORTHWEST NATURAL GAS COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Balance Sheets

Thousands	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)	Dec. 31, 2007
Assets:			
Plant and property:			
Utility plant	$ 2,091,092	$ 2,002,460	$ 2,052,161
Less accumulated depreciation	637,680	595,195	615,533
Utility plant - net	1,453,412	1,407,265	1,436,628
Non-utility property	72,242	57,061	67,149
Less accumulated depreciation and amortization	8,537	7,392	7,904
Non-utility property - net	63,705	49,669	59,245
Total plant and property	1,517,117	1,456,934	1,495,873
Current assets:			
Cash and cash equivalents	5,242	4,899	6,107
Accounts receivable	43,718	45,656	69,442
Accrued unbilled revenue	19,685	18,434	78,004
Allowance for uncollectible accounts	(3,013)	(2,975)	(2,890)
Regulatory assets	5,748	22,438	17,598
Fair value of non-trading derivatives	54,867	4,538	2,903
Inventories:			
Gas	32,910	52,615	71,079
Materials and supplies	9,959	9,245	8,865
Prepayments and other current assets	11,516	10,186	25,569
Total current assets	180,632	165,036	276,677
Investments, deferred charges and other assets:			
Regulatory assets	173,321	186,578	175,938
Fair value of non-trading derivatives	9,218	1,388	324
Other investments	64,276	48,950	54,070
Other	11,417	9,015	11,179
Total investments, deferred charges and other assets	258,232	245,931	241,511
Total assets	$ 1,955,981	$ 1,867,901	$ 2,014,061

See Notes to Consolidated Financial Statements.

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NORTHWEST NATURAL GAS COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Balance Sheets

Thousands	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)	Dec. 31, 2007
Capitalization and liabilities:			
Capitalization:			
Common stock	$ 333,619	$ 350,360	$ 331,595
Earnings invested in the business	293,313	262,209	266,658
Accumulated other comprehensive income (loss)	(2,483)	(2,292)	(3,502)
Total common stock equity	624,449	610,277	594,751
Long-term debt	512,000	517,000	512,000
Total capitalization	1,136,449	1,127,277	1,106,751
Current liabilities:			
Notes payable	67,700	42,100	143,100
Long-term debt due within one year	5,000		5,000
Accounts payable	75,786	66,254	119,731
Taxes accrued	8,727	16,101	13,137
Interest accrued	2,837	2,820	2,827
Regulatory liabilities	84,370	42,473	61,326
Fair value of non-trading derivatives	2,792	18,115	14,829
Other current and accrued liabilities	32,251	25,858	29,794
Total current liabilities	279,463	213,721	389,744
Deferred credits and other liabilities:			
Deferred income taxes and investment tax credits	221,266	208,978	206,340
Regulatory liabilities	227,076	205,838	213,764
Pension and other postretirement benefit liabilities	43,513	55,533	41,619
Fair value of non-trading derivatives	2,732	6,585	3,758
Other	45,482	49,969	52,085
Total deferred credits and other liabilities	540,069	526,903	517,566
Commitments and contingencies (see Note 11)			
Total capitalization and liabilities	$ 1,955,981	$ 1,867,901	$ 2,014,061

See Notes to Consolidated Financial Statements.

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NORTHWEST NATURAL GAS COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Statements of Cash Flows

(Unaudited)

Thousands	Six Months Ended June 30, 2008	2007
Operating activities:		
Net income	$ 46,465	$ 50,692
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	35,662	33,757
Deferred income taxes and investment tax credits	14,028	(2,051)
Undistributed gains from equity investments	(346)	(198)
Deferred gas savings (costs) - net	(26,873)	20,461
Gain on sale of non-utility investments	(1,737)	
Non-cash expenses related to qualified defined benefit pension plans	1,530	2,108
Deferred environmental costs	(4,131)	(4,069)
Income from life insurance investments	(978)	(905)
Deferred regulatory costs and other	(6,466)	(1,832)
Changes in working capital:		
Accounts receivable and accrued unbilled revenue - net	84,224	105,548
Inventories of gas, materials and supplies	37,075	16,268
Prepayments and other current assets	7,083	8,855
Accounts payable	(45,684)	(47,636)
Accrued interest and taxes	(4,400)	(5,233)
Other current and accrued liabilities	2,634	4,528
Cash provided by operating activities	138,086	180,293
Investing activities:		
Investment in utility plant	(41,338)	(40,845)
Investment in non-utility property	(5,110)	(14,378)
Proceeds from sale of non-utility investments	6,845	
Proceeds from life insurance	208	56
Contributions to non-utility equity investments	(3,000)	
Other	(4,286)	2,658
Cash used in investing activities	(46,681)	(52,509)
Financing activities:		
Common stock issued, net of expenses	2,589	1,389
Common stock repurchased		(23,631)
Long-term debt retired		(29,500)
Change in short-term debt	(75,400)	(58,000)
Cash dividend payments on common stock	(19,808)	(19,257)
Other	349	347
Cash used in financing activities	(92,270)	(128,652)
Decrease in cash and cash equivalents	(865)	(868)

Cash and cash equivalents - beginning of period	6,107	5,767
Cash and cash equivalents - end of period	$ 5,242	$ 4,899
Supplemental disclosure of cash flow information:		
Interest paid	$ 18,424	$ 18,652
Income taxes paid	$ 14,800	$ 33,000

See Notes to Consolidated Financial Statements.

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NORTHWEST NATURAL GAS COMPANY

PART I. FINANCIAL INFORMATION

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Financial Statements and New Accounting Standards

The consolidated financial statements include the accounts of Northwest Natural Gas Company (NW Natural), which primarily consist of our regulated gas distribution business, our regulated gas storage business including a wholly-owned subsidiary Gill Ranch Storage, LLC (Gill Ranch), and other businesses including a wholly-owned subsidiary NNG Financial Corporation (Financial Corporation) and a 50 percent joint venture investment in a proposed natural gas transmission pipeline (Palomar) with TransCanada Gas Transmission Northwest (GTN).

The information presented in the interim consolidated financial statements is unaudited, but includes all material adjustments, including normal recurring accruals, that management considers necessary for a fair statement of the results for each period reported. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2007 Annual Report on Form 10-K (2007 Form 10-K). A significant part of our business is of a seasonal nature; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year.

Investments in corporate joint ventures and partnerships in which our ownership interest is 50 percent or less and over which we do not exercise control are accounted for by the equity method or the cost method.

Certain prior year balances on our consolidated balance sheets have been reclassified to conform with the current presentation. These reclassifications had no impact on our prior year s consolidated results of operations, and no material impact on financial condition or cash flows.

New Accounting Standards

Adopted Standards

Fair Value Measurements. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement indicates, among other things, that a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS No. 157 defines fair value based upon an exit price model.

Relative to SFAS No. 157, the FASB issued FASB Staff Positions (FSP) 157-1 and 157-2. FSP 157-1 amends SFAS No. 157 to exclude SFAS No. 13, Accounting for Leases, and its related interpretive accounting pronouncements that address leasing transactions. FSP SFAS No. 157-2 delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and liabilities except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

We adopted SFAS No. 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and liabilities. Nonfinancial assets and liabilities for which we have not yet applied the provisions of SFAS No. 157 include asset retirement obligations initially measured at fair value. The adoption of SFAS No. 157, FSP SFAS No. 157-1 and FSP SFAS No. 157-2 did not have, and is not expected to have, a material effect on our financial condition, results of operations or cash flow.

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Fair Value Option for Financial Assets and Liabilities. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have elected not to implement the fair value option for financial assets and liabilities as the majority of our assets and liabilities are regulated by the Oregon Public Utility Commission (OPUC) and the Washington Utilities and Transportation Commission (WUTC), both of which generally allow that we earn a reasonable return on invested capital based on original cost rather than current market value.

Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. On January 1, 2008, we adopted Emerging Issues Task Force (EITF) 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards, which provides the accounting requirements for recognizing income tax benefits received on dividends paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units or equity-classified outstanding share options, and how these benefits are charged to retained earnings under SFAS No. 123R, Share Based Payment. The adoption of EITF 06-11 did not have, and is not expected to have, a material effect on our financial condition, results of operations or cash flow.

Offsetting Amounts Related to Certain Contracts. On January 1, 2008, we adopted FSP FASB Interpretation No. 39-1 (FSP FIN 39-1), Offsetting of Amounts Related to Certain Contracts. FSP FIN 39-1 requires disclosure when a reporting entity offsets fair value amounts from derivative instruments executed with the same counterparty under master netting arrangements. Our disclosures on FSP FIN 39-1 are included in Note 10. The adoption and implementation of FSP FIN 39-1 did not have, and is not expected to have, a material effect on our financial condition, results of operations or cash flow.

Recent Accounting Pronouncements

Business Combinations. In December 2007, the FASB issued SFAS No. 141R, Business Combinations. This statement amends the principles and requirements for how an acquiror accounts for and discloses its business combinations as described under SFAS No. 141. SFAS No. 141R is effective for fiscal years and interim periods beginning after December 15, 2008. Based on our preliminary assessment, this statement is not expected to have a material effect on our financial condition, results of operations or cash flow.

Noncontrolling Interests in Consolidated Financial Statements. In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This statement amends the reporting requirements of Accounting Research Bulletin No. 51 for noncontrolling interests in subsidiaries to improve the relevance, comparability and transparency of the financial information disclosed. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Based on the nature of this new statement and our current organizational structure, we currently have no additional required disclosures. The adoption of this statement it is not expected to have a material effect on our financial condition, results of operations or cash flow.

Derivative Instruments and Hedging Activities. In March 2008, the FASB issued SFAS No. 161, Accounting for Derivative Instruments and Hedging Activities, which requires enhanced disclosures of derivative instruments and hedging activities. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008.

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SFAS No. 161 will expand current disclosures by adding qualitative disclosures about our hedging objectives and strategies, fair value gains and losses, and our credit-risk-related contingent features in derivative agreements. The disclosures are intended to provide an enhanced understanding of:

- How and why we use derivative instruments;

- How derivative instruments and related hedge items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations; and

- How derivative instruments and related hedged items affect our financial condition, results of operations and cash flow.

As SFAS No. 161 relates only to disclosures, there will be no effect on our financial condition, results of operations or cash flow.

Share-Based Payment Transactions are Participating Securities. In June 2008, the FASB issued final FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This statement requires nonforfeitable rights to dividends or dividend equivalents on unvested share-based payment to be included in the computation of earnings per share under the two-class method. This statement will be effective for fiscal years beginning after December 15, 2008. Based on our preliminary assessment, the adoption of FSP No. EITF 03-6-1 is not expected to have a material effect on our financial condition, results of operations or cash flow.

2. Segment Information

Our core business segment is the local regulated gas distribution business, also referred to as the utility, which involves the distribution and sale of natural gas. Another business segment, gas storage, represents natural gas storage services provided to intrastate and interstate customers and asset optimization services under a contract with an independent energy marketing company. Gas storage also includes Gill Ranch, our wholly-owned subsidiary, which was formed in 2007 to develop and operate an underground gas storage facility near Fresno, California. Gill Ranch is in the planning and permitting phase of development. The remaining business segment, Other, primarily consists of our wholly-owned subsidiary, Financial Corporation, as well as various other non-utility investments, including our equity investment in Palomar.

On April 23, 2008, NW Natural sold its investment in a Boeing 737-300 aircraft for approximately $6.2 million cash, plus accrued rents. We purchased the airplane in 1987 and leased it to Continental Airlines. As a result of the sale, we recognized an after-tax gain of $1.1 million in the second quarter of 2008.

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The following table presents information about the reportable segments. Inter-segment transactions are insignificant.

Thousands	Utility	Gas Storage	Other	Total
	Three Months Ended June 30,			
2008				
Net operating revenues	$ 57,183	$ 5,339	$ 50	$ 62,572
Depreciation and amortization	17,633	324		17,957
Income (loss) from operations	7,451	4,907	(305)	12,053
Net income (loss)	(743)	2,488	1,552	3,297
2007				
Net operating revenues	$ 59,125	$ 4,948	$ 45	$ 64,118
Depreciation and amortization	16,749	223		16,972
Income from operations	8,865	4,499	11	13,375
Net income (loss)	(79)	2,663	33	2,617

Thousands	Utility	Gas Storage	Other	Total
	Six Months Ended June 30,			
2008				
Net operating revenues	$ 184,562	$ 10,336	$ 97	$ 194,995
Depreciation and amortization	35,012	650		35,662
Income from operations	81,328	8,750	101	90,179
Net income	39,799	4,841	1,825	46,465
Total assets at June 30, 2008	$ 1,877,199	$ 67,198	$ 11,584	$ 1,955,981
2007				
Net operating revenues	$ 194,674	$ 8,358	$ 94	$ 203,126
Depreciation and amortization	33,312	445		33,757
Income from operations	91,460	7,440	42	98,942
Net income	46,029	4,458	205	50,692
Total assets at June 30, 2007	$ 1,808,089	$ 52,092	$ 7,720	$ 1,867,901

3. Capital Stock

At the annual meeting of shareholders, held on May 22, 2008, our shareholders approved an amendment to our Restated Articles of Incorporation increasing the total number of authorized shares of common stock from 60 million to 100 million. As of June 30, 2008, there were 26,435,373 shares outstanding.

We have a Board approved share repurchase program for our common stock under which we purchase shares on the open market or through privately negotiated transactions. On April 24, 2008, the Board extended the program through May 31, 2009 and confirmed its authorization to repurchase up to an aggregate of 2.8 million shares or up to an aggregate of $100 million. During the six months ended June 30, 2008, no shares of common stock were repurchased pursuant to this program. As of June 30, 2008, common stock repurchases under this program, since inception in 2000, totaled 2.1 million shares or $83.3 million.

4. Stock-Based Compensation

Our stock-based compensation plans consist of the Long-Term Incentive Plan (LTIP), the Restated Stock Option Plan (Restated SOP), the Employee Stock Purchase Plan (ESPP) and the Non-Employee Directors Stock Compensation Plan (NEDSCP). These plans are designed to promote stock ownership by employees and officers and, in the case of the NEDSCP, non-employee directors. For additional information on our stock-based compensation plans, see Part II, Item 8., Note 4, in the 2007 Form 10-K.

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Long-Term Incentive Plan. A total of 500,000 shares of NW Natural s common stock has been authorized for awards under the terms of the LTIP as stock bonus, restricted stock or performance-based stock awards. During the six months ended June 30, 2008, 48,500 performance-based shares were granted under the LTIP, based on target-level awards, with a weighted-average grant date fair value of $10.89 per share. No LTIP stock awards were granted after the first quarter of 2008. In February 2008, the Board of Directors amended and restated our Deferred Compensation Plan for Directors and Executives to eliminate the ability to defer any LTIP stock award payouts into cash accounts. Stock-based compensation related to the outstanding LTIP share awards was re-valued as of the amendment date, and the accounting for these awards was changed from the liability method to the equity method in accordance with SFAS No. 123R, Share Based Payment. The fair value was estimated as of the date of grant using a Monte-Carlo option pricing model based on the following weighted-average assumptions:

Stock price on valuation date	$ 43.29
Performance term (in years)	3.0
Quarterly dividends paid per share	$ 0.375
Expected dividend yield	3.4%
Dividend discount factor	0.9026

Restated Stock Option Plan. In February 2008, 114,050 stock options were granted under the Restated SOP, with an exercise price equal to the closing market price of our common stock on the date of grant, vesting over the four-year period following date of grant and a term of 10 years and 7 days. The fair value was estimated as of the date of grant using the Black-Scholes option pricing model based on the following weighted-average assumptions:

Risk-free interest rate	2.8%
Expected life (in years)	4.7
Expected market price volatility factor	18.4%
Expected dividend yield	3.5%
Forfeiture rate	3.8%

As of June 30, 2008, there was $0.8 million of unrecognized compensation cost related to the unvested portion of outstanding stock option awards expected to be recognized over a period extending through 2011.

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5. Long-Term Debt

At June 30, 2008 and 2007 and December 31, 2007, we had outstanding long-term debt as follows:

Thousands	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)	Dec. 31, 2007
Medium-Term Notes			
First Mortgage Bonds:			
6.50 % Series B due 2008	$ 5,000	$ 5,000	$ 5,000
4.11 % Series B due 2010	10,000	10,000	10,000
7.45 % Series B due 2010	25,000	25,000	25,000
6.665% Series B due 2011	10,000	10,000	10,000
7.13 % Series B due 2012	40,000	40,000	40,000
8.26 % Series B due 2014	10,000	10,000	10,000
4.70 % Series B due 2015	40,000	40,000	40,000
5.15 % Series B due 2016	25,000	25,000	25,000
7.00 % Series B due 2017	40,000	40,000	40,000
6.60 % Series B due 2018	22,000	22,000	22,000
8.31 % Series B due 2019	10,000	10,000	10,000
7.63 % Series B due 2019	20,000	20,000	20,000
9.05 % Series A due 2021	10,000	10,000	10,000
5.62 % Series B due 2023	40,000	40,000	40,000
7.72 % Series B due 2025	20,000	20,000	20,000
6.52 % Series B due 2025	10,000	10,000	10,000
7.05 % Series B due 2026	20,000	20,000	20,000
7.00 % Series B due 2027	20,000	20,000	20,000
6.65 % Series B due 2027	20,000	20,000	20,000
6.65 % Series B due 2028	10,000	10,000	10,000
7.74 % Series B due 2030	20,000	20,000	20,000
7.85 % Series B due 2030	10,000	10,000	10,000
5.82 % Series B due 2032	30,000	30,000	30,000
5.66 % Series B due 2033	40,000	40,000	40,000
5.25 % Series B due 2035	10,000	10,000	10,000
	517,000	517,000	517,000
Less long-term debt due within one year	5,000		5,000
Total long-term debt	$ 512,000	$ 517,000	$ 512,000

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6. Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each period presented. Diluted earnings per share reflect the potential effects of the exercise of stock options. Diluted earnings per share are calculated as follows:

Thousands, except per share amounts	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net income	$ 3,297	$ 2,617	$ 46,465	$ 50,692
Average common shares outstanding - basic	26,421	26,999	26,415	27,114
Additional shares for stock-based compensation plans	150	165	149	147
Average common shares outstanding - diluted	26,571	27,164	26,564	27,261
Earnings per share of common stock - basic	$ 0.12	$ 0.10	$ 1.76	$ 1.87
Earnings per share of common stock - diluted	$ 0.12	$ 0.10	$ 1.75	$ 1.86

For the three and six months ended June 30, 2008 and 2007, no common share equivalents were excluded from the calculation of diluted earnings per share because all common share equivalents were dilutive.

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7. Pension and Other Postretirement Benefits

The following tables provide the components of net periodic benefit cost for our qualified and non-qualified defined benefit pension plans and other postretirement benefit plans for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
Thousands	**2008**	**2007**	**2008**	**2007**
Service cost	$ 1,653			