Richelle T. Luther
Assistant Secretary
Tel: 503.220.2410
Fax: 503.220.2584
Toll Free: 1.800.422.4012
e-mail: r3l@nwnatural.com

May 7, 2007

Public Utility Commission of Oregon
P. O. Box 2148
Salem, OR 97308-2148

Re: Docket UF: ____________: Application of Northwest Natural Gas Company for an Order Authorizing a Revolving Line of Credit with a Syndication of Banks and the Issuance of up to $400,000,000 of Notes in connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program

Ladies and Gentlemen:

Submitted herewith for filing is the above-referenced application, including a draft order. If you have any questions regarding this matter or require any additional information, please contact me at (503) 220-2410 or Stephen Feltz at (503) 220-2345.

Sincerely,

/s/ Richelle Luther

Richelle T. Luther

Enclosure

cc w/encl: Stephen P. Feltz
Margaret D. Kirkpatrick
C. J. Rue

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

In the Matter of the Application of NORTHWEST NATURAL GAS COMPANY for an Order Authorizing a Revolving Line of Credit with a Syndication of Banks and the Issuance of up to $400,000,000 of Notes in Connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program	)))))))))	A P P L I C A T I O N Docket No. UF ___________

Northwest Natural Gas Company ("NW Natural" or "the Company") hereby applies to the Public Utility Commission of Oregon ("OPUC" or "the Commission"), pursuant to ORS 757.410 and 757.415 and OAR 860-027-0030, for an order authorizing NW Natural's proposed revolving line of credit with a syndication of banks, including the issuance of up to $400,000,000 of notes, with an initial facility commitment in the amount $250,000,000, such notes to have an initial term of five years (the "Notes") with the option to extend the maturities for additional one-year periods and for authority to execute other ancillary documents issued in connection therewith, all of which back up the Company's commercial paper program (the "Facility").

I. <u>Application for Authorization</u>

The following information is furnished in support of the Application for an order authorizing the Facility, following the format of OAR 860-027-0030.

(1)(a) <u>Name and Address</u>. The exact name of the Applicant and the address of its principal business office are as follows:

Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

(1)(b) State of Incorporation and States Authorized to Transact Utility Business. The Company is a corporation duly organized and validly existing under the laws of the State of Oregon. The Company was incorporated Jan. 10, 1910 and its duration is perpetual. It has duly qualified and is authorized to transact its business in the State of Washington and is in good standing as a foreign corporation under the laws of that State.

(1)(c) Person Authorized to Receive Notices. The name and address of the person authorized, on behalf of the Company, to receive notices and communications in respect to this Application is:

C.J. Rue, Secretary
Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

The Company respectfully requests that the Commission also send copies of all such notices and communications to:

Margaret D. Kirkpatrick
Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

(1)(d) Principal Officers. The names, titles and addresses of the principal officers of the Company are:

Name	Title	Address
Mark S. Dodson	Chief Executive Officer	220 NW Second Avenue Portland, Oregon 97209
Gregg S. Kantor	President and Chief Operating Officer	" " "
David H. Anderson	Senior Vice President and Chief Financial Officer	" " "
Margaret D. Kirkpatrick	Vice President and General Counsel	" " "
Lea Anne Doolittle	Vice President	" " "
David R. Williams	Vice President	" " "
J. Keith White	Vice President	" " "
Grant M. Yoshihara	Vice President	" " "
Stephen P. Feltz	Treasurer and Controller	" " "
C.J. Rue	Secretary and Assistant Treasurer	" " "

(1)(e) <u>General Character of the Business</u>. The Company is engaged principally in the business of distributing and selling natural gas to residential, commercial, institutional and industrial customers in various cities and unincorporated areas in 15 counties in the State of Oregon and three counties in the State of Washington. A map of the Company's service territory is attached as Exhibit AA.

(1)(f) <u>Capital Stock</u>. As of December 31, 2006, the date of the balance sheet submitted herewith, the authorized and outstanding capital stock of the Company was as follows:

Preferred Capital Stock: authorized, 3,500,000 shares, without par value; none issued and outstanding. The amount of Preferred Stock authorized in the Company's most recent Oregon Jurisdictional Rate Case is provided in Exhibit CC.

The Preferred Stock is entitled in preference to the Common Stock to cumulative dividends at the applicable rate for each series, which shall be set by the Board of Directors, from time to time, in accordance with the Company's Restated Articles of Incorporation. The Preferred Stock is entitled in preference to the Common Stock, upon voluntary liquidation, to such amounts per share that are determined by the Board of Directors, from time to time, in accordance with the Company's Restated Articles of Incorporation.

None of the Preferred Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

Common Capital Stock: authorized, 60,000,000 shares; issued and outstanding, 27,283,741 shares; reserved for future issue to employees under the Company's Employee Stock Purchase Plan, 244,406 shares; reserved for future issuance

to common shareholders under the Company's Dividend Reinvestment and Direct Stock Purchase Plan, 753,934 shares; reserved to accommodate the Restated Stock Option Plan, 1,469,000 shares; and reserved for future grants under the Long-Term Incentive Plan, 375,060. The amount of Common Stock authorized and included in the Company's most recent Oregon Jurisdictional Rate Case is provided in Exhibit CC.

The Common Stock is entitled to dividends when and as declared by the Board of Directors subject to the preferences of the Preferred Stock outlined above, and subject to the restrictions, if any, of the Company's Mortgage.

Generally, only the Common Stock has voting rights, subject to the special voting rights of the Preferred Stock, if any. Holders of Common Stock are entitled to cumulative voting for the election of directors.

None of the Common Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

(1)(g) Long-Term Debt. As of December 31, 2006, the date of the balance sheet submitted herewith (see Exhibit E), the classes and series of long-term debt or notes of the Company were as listed in the following table (the principal amount includes sinking fund requirements (of which there are none), and maturities due within one year, shown as current liabilities on the balance sheet):

Authorized First Mortgage Bonds (including Secured Medium-Term Notes), secured by a first mortgage lien on substantially all of the utility property now owned, or hereafter acquired by the Company, were outstanding in the amounts shown below, the interest rate and maturity being shown in the title of each series:

Thousands	Dec. 31, 2006
Medium-Term Notes	
First Mortgage Bonds:	
6.31% Series B due 2007	20,000
6.80% Series B due 2007	9,500
6.50% Series B due 2008	5,000
4.11% Series B due 2010	10,000
7.45% Series B due 2010	25,000
6.665% Series B due 2011	10,000
7.13% Series B due 2012	40,000
8.26% Series B due 2014	10,000
4.70% Series B due 2015	40,000
5.15% Series B due 2016	25,000
7.00% Series B due 2017	40,000
6.60% Series B due 2018	22,000
8.31% Series B due 2019	10,000
7.63% Series B due 2019	20,000
9.05% Series A due 2021	10,000
5.62% Series B due 2023	40,000
7.72% Series B due 2025	20,000
6.52% Series B due 2025	10,000
7.05% Series B due 2026	20,000
7.00% Series B due 2027	20,000
6.65% Series B due 2027	20,000
6.65% Series B due 2028	10,000
7.74% Series B due 2030	20,000
7.85% Series B due 2030	10,000
5.82% Series B due 2032	30,000
5.66% Series B due 2033	40,000
5.25% Series B due 2035	10,000
	546,500
Less long-term debt due within one year	29,500
Total long-term debt	$ 517,000

The amount of long-term debt authorized in the Company's most recent Oregon Jurisdictional Rate Case is provided in Exhibit CC. None of the long-term debt securities described above is held in treasury, or held as reacquired securities, and none is held by affiliated interests.

(1)(h) Description of the Securities.

The securities covered by this Application are as follows:

Facility Notes. The Facility provides for the issuance of an unsecured note with an initial term of five years (which maturity may be extended for additional one-year periods) with a syndication of banks, in an initial aggregate amount of $250,000,000 ("Original Note"), which aggregate amount may be increased from time to time up to an additional aggregate amount of $150,000,000 ("Accordion Note"). The Original Note will be issued as of closing on or about May 17, 2007. The Notes are not convertible and have no voting privileges.

Letters of Credit. The Facility will permit the issuance of letters of credit in an aggregate amount up to $250,000,000 (or up to $400,000,000 upon increase of the aggregate commitment under the Facility) for the account of the Company. Any drawing on a letter of credit will be deemed an advance under the Facility and will bear interest at the rate applicable to ABR Loans (as defined below).

Swing Line. Swing line loans are available under the Facility on a same day basis to the Company in an aggregate amount not exceeding $25,000,000 and in minimum amounts of $1,000,000. The Company must repay each swing line loan in full upon demand of the lender.

Interest and Maturity. The interest rates that would be applicable to any Notes or other loans under the Facility are defined by formula in the Credit Agreement (described below). Any Notes or other amounts outstanding under the Facility will mature no later than five years

from the date of issuance of the Original Note, subject to exercise of one-year extension periods.

(1)(i) <u>Description of the Proposed Transaction</u>. NW Natural's primary source of short-term funds is commercial paper notes payable. NW Natural issues commercial paper under Sales Agreements with Wells Fargo Bank and Bank of America.

The Company proposes to enter into a credit agreement (the "Credit Agreement"), substantially upon the terms described in the attached draft Term Sheet, with JPMorgan Chase Bank, N.A. as administrative agent and Bank of America, N.A. as syndication agent, providing for a committed revolving line of credit to be used as a back-up facility for the Company's commercial paper borrowings. The aggregate amount of the proposed Facility is $250,000,000, with an accordion feature authorizing increases in the line of credit up to an additional $150,000,000. Under the terms of the Credit Agreement, NW Natural will pay upfront fees, administrative agent fees and annual commitment fees but is not required to maintain compensating bank balances. The interest rates on borrowings under the lines of credit, if any, are based on the Company's credit ratings and on current market rates.

The Credit Agreement will require that credit ratings be maintained in effect at all times and that notice be given of any change in NW Natural's senior unsecured debt ratings. A change in NW Natural's credit rating will not be an event of default, nor will the maintenance of a specific minimum level of credit rating be a condition to drawing upon the lines of credit. However, interest rates on any loans outstanding under the lines of credit are tied to credit ratings, which would increase or decrease the cost of borrowing under the lines of credit, if any, when ratings are changed.

The Credit Agreement will not include a "material adverse change" (MAC) clause that would entitle the bank to terminate the lending commitment and accelerate the maturity of

any borrowings outstanding if there were a material adverse change in the Company's operations or financial condition. Instead, the Credit Agreement will require that the Company maintain an indebtedness to total capitalization ratio, as defined in the Credit Agreement, of 70 percent or less. Failure to comply with this covenant would entitle the banks to terminate their lending commitments and to accelerate the maturity of all amounts outstanding. The Company was in compliance at December 31, 2006 with a similar covenant in its current credit facility.

The maturity dates for any individual borrowings under the Facility would be on or about May 17, 2012, subject to additional one-year extensions. However, the Company may prepay any Adjusted Base Rate (ABR) Loan (to be defined in the Credit Agreement), in a minimum amount of $10,000,000, without premium payment or penalty. The Company may prepay a Eurodollar Loan (to be defined in the Credit Agreement), but the Company will have to pay breakage and other fees.

The interest rates that would be applicable to any loans under the Facility are defined in the draft Term Sheet. The selections or definitions of interest rates are specified as a spread over benchmark interest rates in effect from time to time, such as the prime rate, the Federal Funds Effective Rate or the Adjusted London Interbank Overnight Rate (LIBOR). The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies, as follows:

Debt Rating[1]	Facility Fee	Applicable Margin for LIBOR Loans / LC Fee Rate	All-in Drawn (including Facility and Utilization Fees)
≥ AA- / Aa3	3.0 bps	12.0 bps	20.0 bps
A+ / A1	4.0 bps	13.5 bps	22.5 bps
A / A2	5.0 bps	15.0 bps	25.0 bps
A- / A3	6.0 bps	19.0 bps	30.0 bps
BBB+ / Baa1	7.0 bps	23.0 bps	35.0 bps
BBB / Baa2	9.0 bps	31.0 bps	45.0 bps
≤ BBB- / Baa3	10.0 bps	40.0 bps	55.0 bps

(1) The Facility Fee and Applicable Margin for LIBOR Loans shall be the applicable rate per annum set forth in the table below opposite the Borrower's credit rating from Standard & Poor's ("S&P") or Moody's Investors Service Inc. ("Moody's"), changing when any applicable credit rating changes. In the case of a split rating, the higher rating will apply, unless, if ratings are available from S&P, Moody's and Fitch, Inc., doing business as Fitch Ratings, the rating given by two of them are equal, in which case such rating shall apply.

The table below summarizes the Company's current debt credit ratings from S&P and Moody's.

	S&P	Moody's
Commercial paper (short-term debt)	A-1+	P-1
Senior secured (long-term debt)	AA-	A2
Senior unsecured (long-term debt)	A+	A3
Ratings outlook	Stable	Stable

Under the terms of the proposed Credit Agreement, the Company has selected an ABR rate and a Eurodollar rate (both as defined in the draft Term Sheet) as required interest rate options. The banks must offer ABR and Eurodollar Loans if the Company decides to draw down on the credit line. Full terms of the line of credit will be set forth in the form of Credit Agreement, the form of the Note and the Schedule of fees, a summary of the terms of which is attached to this filing.

The estimated fees and expenses in connection with the five-year Facility are as follows:

	Estimated
Commitment fees	$ 625,000
Agent fee	75,000
Upfront fees	55,000
Arrangement fee	100,000
Out-of-pocket legal and administrative costs to agent	50,000
Printing and Engraving Expenses	None
Counsel Fees	5,000
Miscellaneous Expenses (e.g. freight, postage, travel)	2,000
Total fees and expenses	$ 912,000

Fees for NW Natural's Facility total $912,000, including $125,000 per year in commitment fees (paid quarterly), an annual agent fee of $15,000, $55,000 in upfront fees (paid at the outset of the initial five-year period). In addition, an arrangement fee of $100,000 will be paid for the syndication arrangements. The Company will also pay out-of-pocket legal and other costs to the administrative agent, which are estimated to total $50,000, and $7,000 in other legal and miscellaneous expenses. The average annual cost of the credit line is 7 basis points (0.07 percent), or $182,400, which is 1 basis point or 10 percent lower than the average cost of the Company's existing five-year bilateral credit facilities, reflecting favorable current market pricing due to strong credit markets and lender demand for solid investment grade borrowers. The Company believes these fees are competitive for credit lines of this size and for a company with NW Natural's credit profile (see attached table from JP Morgan for a list of recent transactions in the utility sector). In addition to the lower average cost and extended terms, the proposed new syndicated facility is considered a stronger liquidity facility than our existing bilateral facilities in accordance with Moody's internal risk analysis.

The Company has not drawn down on its commercial paper back-up credit facility in recent years, and there were no outstanding balances of borrowings under the current NW Natural lines of credit as of December 31, 2006.

(A) **Proposed Method of Selling/Issuing Securities.** Consistent with past practice, the Company solicited competitive proposals for the Facility from each of the five banks in its current credit facility. The Company asked each bank to submit bids for the commitment fees, upfront fees and other pricing terms that would apply to the Facility. Based on these bids, the Company selected two banks to act as co-lead arrangers and negotiated the terms and conditions so as to maximize the flexibility with respect to borrowing conditions while minimizing to the extent practicable the total amount of the fees.

(B) **Pro Rata or Preemptive Rights.** The Notes are not issued *pro rata* to existing holders of any other securities of the Company, and are not subject to any preemptive right or in connection with any liquidation or reorganization.

(C) **Rationale for Issuance of Securities in Manner Proposed.** The Company's management and Board of Directors have concluded that it is prudent to protect and strengthen the Company's cash liquidity position by arranging for a new, syndicated credit facility from banks. It is crucial that NW Natural have a committed source of short-term liquidity in case it is unable to issue commercial paper notes from time to time. Additionally, even in the event the Company can utilize its commercial paper program, the Facility provides reasonable assurance to creditors and others that the Company would have access to cash and working capital should it be unable to sell its commercial paper in the future. Dislocations in the financial markets have demonstrated that the time to ensure adequate credit is when the market is stable or a company's financial condition is strong, not when either is facing

a crisis. Securing a back-up line of credit is generally a requirement for a commercial paper rating.

(D) **Competitive Bidding.** No exemption from the competitive bidding requirements of any federal or other state regulatory body has been requested.

(1)(j) Fees for Services. Other than the upfront fees, administrative agent fees and commitment fees payable to the banks (described in Section 1(i) above), no person or persons (other than attorneys, accountants and similar technical services) were entitled to receive a fee for services in connection with the negotiation or consummation of the Facility. The Company believes these fees are competitive for credit lines of this size and for a company with NW Natural's credit profile (see Exhibit BB for JP Morgan table of recent transactions in the utility sector).

(1)(k) Price and Proceeds. Borrowings under the Facility, if drawn, would be at the interest rates specified in the Term Sheet. The only additional cost would be the upfront fees and commitment fees payable to the bank and described in Section 1(j). No underwriting commissions are payable to the banks. The Notes are not issued directly for property.

(1)(l) Purposes for the Securities. The purpose of the Facility is to provide a committed source of short-term liquidity in case NW Natural is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the Notes are proposed to be used, if and as required, are to arrange for the construction, completion, extension, or improvement of the Company's facilities; the potential repayment of maturing long-term obligations; the reimbursement of the treasury for expenditures against which long-term securities have not yet been issued; the discharging of current obligations; the issuance of letters of credit; and to provide working capital for the improvement or maintenance of utility service.

(m) Other Regulatory Requirements. A statement will be filed prior to the closing for this Facility with the Washington Utilities and Transportation Commission establishing compliance with RCW 80.08.040. No Registration Statement is required to be filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933.

(1)(n) Summary and Approval Standards. Based on the facts and for the reasons stated herein, the Facility as described in this Application is for a lawful object within the corporate purposes of the Company; is compatible with the public interest; is necessary and appropriate for and consistent with the proper performance by the Company of service as a public utility; will not impair its ability to perform such service; and is reasonably appropriate for such purposes. This Application is not filed under ORS 757.495.

(1)(o) and (1)(p) Other Requirements. The requirements of Rule 860-27-0030(1)(o) and (1)(p) are not applicable.

REQUIRED EXHIBITS

Filed with this Application and Petition, as part hereof, are the following Exhibits:

Exhibit A	A copy of the Company's Restated Articles of Incorporation, as amended.
Exhibit B	A copy of the Company's Bylaws, as amended.
Exhibit C	A certified copy of the resolutions adopted by the Board of Directors on April 26, 2007, relating to the Company's back-up line of credit. Shareholder approval is not required.
Exhibit D	A copy of the draft Term Sheet for the Facility. The Company will forward under separate cover the final Credit Agreement for the Facility, along with forms of the documents ancillary thereto.
Exhibit E	Balance Sheet of the Company at Dec. 31, 2006, and financial notes thereto. The amounts of committed credit represented by the Notes are not recorded as obligations on the Balance Sheet except to the extent that loans may be outstanding from time to time under the Facility.
Exhibit F	A list of all known contingent liabilities, other than minor items such as damages, claims and similar items involving relatively small amounts.
Exhibit G	Comparative Income Statement for the 12 months ended Dec. 31, 2006. (See Exhibit E for financial notes). The credit amounts in the Facility do not have an effect on the Income Statements except to the extent that the Company records interest expense on loans that may be outstanding from time to time under the Facility.
Exhibit H	Consolidated Statement of Shareholders' Equity as of Dec. 31, 2006 showing an analysis of surplus for that period. (See Exhibit E for Financial Notes).
Exhibits J & K	See Exhibit D for a copy of the draft Term Sheet for the Facility. Copies of the final Credit Agreement for the Facility, along with documents ancillary thereto, will be sent under separate cover.
Exhibit AA	Map of the Company's service territories.
Exhibit BB	JPMorgan table of recent transactions in the utility sector.
Exhibit CC	Authorized capitalization structure from most recent Oregon rate case.

WHEREFORE, the Applicant respectfully requests that the Public Utility Commission of Oregon enter an appropriate Order granting the within Application.

Dated at Portland, Oregon this 3rd day of May, 2007.

NORTHWEST NATURAL GAS COMPANY

By /s/ Stephen P. Feltz
Stephen P. Feltz
Treasurer & Controller

STATE OF OREGON)
) ss
County of Multnomah)

Stephen P. Feltz, being first duly sworn, deposes and says that he is Treasurer & Controller of Northwest Natural Gas Company, the Applicant in the foregoing Application, that he has read said Application, including exhibits thereto, knows the content thereof, and that the same are true to the best of his knowledge and belief.

/s/ Stephen P. Feltz
Stephen P. Feltz

Subscribed and sworn to before me this 3rd day of May 2007.

/s/ Pamela L. Villaloboz
Notary Public for Oregon
My commission expires: 12-23-2010

EXHIBIT A

A copy of the Company's Restated Articles of Incorporation, as amended.

EXHIBIT A

RESTATED ARTICLES OF INCORPORATION

of

NORTHWEST NATURAL GAS COMPANY

as Filed and Amended May 31, 2006

RESTATED ARTICLES OF INCORPORATION

OF

NORTHWEST NATURAL GAS COMPANY

(These Restated Articles of Incorporation of Northwest Natural Gas Company supersede its theretofore existing Restated Articles of Incorporation and all amendments thereto.)

ARTICLE I

The name of this corporation is NORTHWEST NATURAL GAS COMPANY, and its duration shall be perpetual.

ARTICLE II

The purposes of the corporation are to engage in any lawful activity for which corporations may be organized under the Oregon Business Corporation Act.

ARTICLE III

A. The aggregate number of shares of capital stock which the corporation shall have authority to issue is 63,500,000 shares, divided into 3,500,000 shares of Preferred Stock, issuable in series as hereinafter provided, and 60,000,000 shares of Common Stock.

B. A statement of the preferences, limitations and relative rights of each class of capital stock of the corporation, namely, the Preferred Stock and the Common Stock, of the variations in the relative rights and preferences as between series of the Preferred Stock, insofar as the same are fixed by these Restated Articles of Incorporation, and of the authority vested in the board of directors of the corporation to establish series of Preferred Stock and to fix and determine the variations in the relative rights and preferences as between series insofar as the same are not fixed by these Restated Articles of Incorporation, is as follows:

Preferred Stock

1. The shares of the Preferred Stock may be divided into and issued in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series of the Preferred Stock and all other classes of capital stock of the corporation. To the extent that these Restated Articles of Incorporation shall not have established series of the Preferred Stock and fixed and determined the variations in the relative rights and preferences as between series, the board of directors shall have authority, and is hereby expressly vested with authority, to divide the Preferred Stock into series and, within the limitations set forth in these Restated Articles of Incorporation and such limitations as may be provided by law, to fix and determine the relative rights and preferences of any series of the Preferred Stock so established. Such action by the board of directors shall be expressed in a resolution or resolutions adopted by it prior to the issuance of shares of each series, which resolution or resolutions shall also set forth the distinguishing designation of the particular series of the Preferred Stock established thereby. Without limiting the generality of the foregoing, authority is hereby expressly vested in the board of directors so to fix and determine with respect to any series of the Preferred Stock:

   (a) The rate of dividend and the relative preference of each series in the payment of dividends;

   (b) The price at which and the terms and conditions on which shares may be redeemed;

   (c) The amount payable upon shares in the event of voluntary and involuntary liquidation and the relative preference of each series on liquidation;

   (d) Sinking fund provisions, if any, for the redemption or purchase of shares;

   (e) The terms and conditions, if any, on which shares may be converted if the shares of any series are issued with the privilege of conversion; and

(f) Any other relative right or preference as permitted by law.

All shares of the Preferred Stock of the same series shall be identical except that shares of the same series issued at different times may vary as to the dates from which dividends thereon shall be cumulative; and all shares of the Preferred Stock, irrespective of series, shall constitute one and the same class of stock and shall be identical except as to the designation thereof, the date or dates from which dividends on shares thereof shall be cumulative, and the relative rights and preferences set forth above in clauses (a) through (f) of this subdivision, as to which there may be variations between different series. Except as otherwise may be provided by law or by the resolutions establishing any series of Preferred Stock in accordance with the foregoing provisions of this subdivision, whenever the written consent, affirmative vote, or other action on the part of the holders of the Preferred Stock may be required for any purpose, such consent, vote or other action shall be taken by the holders of the Preferred Stock as a single class irrespective of series and not by different series.

2. The holders of shares of the Preferred Stock of each series shall be entitled to receive dividends, when and as declared by the board of directors, out of any funds legally available for the payment of dividends, at the annual rate fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1., and no more, payable quarterly on the 15th day of February, May, August and November in each year or on such other date or dates as the board of directors shall determine in the resolutions establishing such series. Such dividends shall be cumulative in the case of shares of each series either from the date of issuance of shares of such series or from the first day of the current dividend period within which shares of such series shall be issued, as the board of directors shall determine, so that if dividends on all outstanding shares of each particular series of the Preferred Stock, at the annual dividend rates fixed and determined either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1., shall not have been paid or declared and set apart for payment for all past dividend periods and for the then current dividend periods, the deficiency shall be fully paid or dividends equal thereto declared and set apart for payment at said rates before any dividends on the Common Stock shall be paid or declared and set apart for payment. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments which may be in arrears.

3. In the event of any dissolution, liquidation or winding up of the corporation, before any distribution or payment shall be made to the holders of the Common Stock, the holders of the Preferred Stock of each series then outstanding shall be entitled to be paid out of the net assets of the corporation available for distribution to its shareholders the respective amounts per share fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1., and no more. If upon dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation available for distribution to its shareholders shall be insufficient to pay the holders of all outstanding shares of Preferred Stock of all series the full amounts to which they shall be respectively entitled as aforesaid, the net assets of the corporation so available for distribution shall be distributed to the holders of Preferred Stock in accordance with the relative preferences of each series of Preferred Stock established either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1. For the purposes of this subdivision, any dissolution, liquidation or winding up which may arise out of or result from the condemnation or purchase of all or a major portion of the properties of the corporation by (i) the United States Government or any authority, agency or instrumentality thereof (ii) a State of the United States or any political subdivision, authority, agency or instrumentality thereof, or (iii) a district, cooperative or other association or entity not organized for profit, shall be deemed to be an involuntary dissolution, liquidation or winding up; and a consolidation, merger or amalgamation of the corporation with or into any other corporation or corporations shall not be deemed to be a dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary.

4. The holders of shares of the Preferred Stock shall have no right to vote in the election of directors or for any other purpose, except as may be otherwise provided by law or by resolutions establishing any series of Preferred Stock in accordance with subdivision III. B. 1. Holders of Preferred Stock shall be entitled to notice of each meeting of shareholders at which they shall have any right to vote, but shall not be entitled to notice of any other meeting of shareholders.

Common Stock

5. Subject to the limitations set forth in subdivisions III. B. 2. (and subject to the rights of any class of stock hereafter authorized), dividends may be paid upon the Common Stock when and as declared by the board of directors of the corporation out of any funds legally available for the payment of dividends.

6. Subject to the limitations set forth in subdivisions III. B. 3. (and subject to the rights of any other class of stock hereafter authorized), upon any dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation shall be distributed ratably to the holders of the Common Stock.

7. Except as may be otherwise provided by law or by the resolutions establishing any series of Preferred Stock in accordance with subdivision III. B. 1., the holders of the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In the election of directors of the corporation, every holder of record of any share or shares of the Common Stock of the corporation shall have the right to cast as many votes for one candidate as shall equal the number of such shares multiplied by the number of directors to be elected, or to distribute such number of votes among any two or more candidates for such election.

8. Upon the issuance for money or other consideration of any shares of capital stock of the corporation, or of any security convertible into capital stock of the corporation, no holder of shares of the capital stock, irrespective of the class or kind thereof, shall have any preemptive or other right to subscribe for, purchase or receive any proportionate or other amount of such shares of capital stock, or such security convertible into capital stock, proposed to be issued; and the board of directors may cause the corporation to dispose of all or any of such shares of capital stock, or of any such security convertible into capital stock, as and when said board may determine, free of any such right, either by offering the same to the corporation's then shareholders or by otherwise selling or disposing of such shares of other securities, as the board of directors may deem advisable.

ARTICLE IV

A. The business and affairs of the corporation shall be managed by a board of directors. Except as provided in subdivision B. below, the number of members of the board, their classifications and terms of office, and the manner of their election and removal shall be as follows:

   1. The number of directors shall be that number, not less than nine or more than thirteen, determined from time to time by resolution adopted by affirmative vote of a majority of the entire board of directors. The directors shall be divided into three classes, designated Class I, Class II, and Class III. Each class shall consist, as nearly as possible, of one-third of the total number of directors. At the 1984 annual meeting of shareholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year term, and Class III directors for a three-year term. At each succeeding annual meeting of shareholders, successors to directors whose terms expire at that annual meeting shall be of the same class as the directors they succeed, and shall be elected for three-year terms. If the number of directors should be changed by resolution of the board of directors, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director.

   2. A director shall hold office until the annual meeting for the year in which his or her term shall expire and until his or her successor shall have been elected and qualified, subject, however, to prior death, resignation, retirement or removal from office. Any newly created directorship resulting from an increase in the number of directors and any other vacancy on the board of directors, however caused, may be filled by the affirmative vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

   3. One or more of the directors may be removed with or without cause by the affirmative vote of the holders of not less than two-thirds of the shares entitled to vote thereon at a meeting of the shareholders called

expressly for that purpose; provided, however, that for as long as the corporation shall have cumulative voting, if fewer than all the directors should be candidates for removal, no one of them shall be removed if the votes cast against his or her removal would be sufficient to elect him or her if then cumulatively voted at an election of the class of directors of which he or she shall be a part.

4. No person, except those persons nominated by the board, shall be eligible for election as a director at any annual or special meeting of shareholders unless a written request that his or her name be placed in nomination shall be received from a shareholder of record entitled to vote at such election by the secretary of the corporation not later than the latter of (a) the thirtieth day prior to the date fixed for the meeting, or (b) the tenth day after the mailing of notice of that meeting, together with the written consent of the nominee to serve as a director.

B. Notwithstanding the provisions of subdivision A. above, whenever the holders of any one or more classes of the capital stock of the corporation shall have the right, voting separately as a class or classes, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of these Restated Articles of Incorporation applicable thereto. Directors so elected shall not be divided into classes unless expressly provided by such provisions, and during their prescribed terms of office, the board of directors shall consist of such directors in addition to the directors determined as provided in subdivision A. above.

C. This Article IV may not be repealed or amended in any respect unless such action shall be approved by the affirmative vote of the holders of not less than two-thirds of the shares entitled to vote at an election of directors determined as provided in subdivision A. above, at a meeting of the shareholders called expressly for that purpose.

ARTICLE V

A. For purposes of this Article V:

1. The term "Affiliate", as used to indicate a relationship with a specified "Persons" (as hereinafter defined), shall mean a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

2. The term "Associate", as used to indicate a relationship with a specified Person, shall mean (a) any Person (other than the corporation) of which such specified Person is a director, officer, partner, trustee, guardian, fiduciary or official or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities or any beneficial interest, (b) any Person who is a director, officer, partner, trustee, guardian, fiduciary or official or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities or any beneficial interest of or in such specified Person (other than the corporation), and (c) any relative or spouse of such specified Person, or any relative of such spouse who has the same home as such specified Person.

3. The term "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on April 9, 1984; provided, however, that, notwithstanding the provisions of such Rule, a Person shall be deemed to be the Beneficial Owner of any share of the capital stock of the corporation that such Person shall have the right to acquire at any time pursuant to any agreement, contract, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise, and any such share of capital stock shall be deemed to be outstanding for purposes of subdivision V.A.9.

4. The term "Business Transaction" shall include, without limitation, (a) any merger, consolidation or plan of exchange of the corporation, or any Person controlled by or under common control with the corporation, with or into any "Related Person" (as hereinafter defined), (b) any merger, consolidation or plan of exchange of a Related Person with or into the corporation or any Person controlled by or under common control with the corporation, (c) any sale, lease, exchange, transfer or other disposition (in one transaction or a series of transactions) including without limitation a mortgage or any other security device, of all or

any "Substantial Part" (as hereinafter defined) of the property and assets of the corporation, or any Person controlled by or under common control with the corporation, to or with a Related Person, (d) any purchase, lease, exchange, transfer or other acquisition (in one transaction or a series of transactions), including without limitation a mortgage or any other security device, of all or any Substantial Part of the property and assets of a Related Person, by or with the corporation or any Person controlled by or under common control with the corporation, (e) any recapitalization of the corporation that would have the effect of increasing the voting power of a Related Person, (f) the issuance, sale, exchange or other disposition of any securities of the corporation, or of any Person controlled by or under common control with the corporation, by the corporation or by any Person controlled by or under common control with the corporation, (g) any liquidation, spinoff, splitoff, splitup or dissolution of the corporation, and (h) any agreement, contract or other arrangement providing for any of the transactions described in this subdivision.

5. The term "Continuing Director" shall mean a director who was a director of the corporation on April 9, 1984 and a director who shall become a director subsequent thereto whose election, or whose nomination for election by the shareholders, shall have been approved by a vote of a majority of the then Continuing Directors.

6. The term "Highest Purchase Price" shall mean, with respect to the shares of any class or series of the capital stock of the corporation, the highest amount of consideration paid by a Related Person for a share of the same class and series at any time regardless of whether the share was acquired before or after such Related Person became a Related Person; provided, however, that the Highest Purchase Price shall be appropriately adjusted to reflect the occurrence of any reclassification, recapitalization, stock split, reverse stock split or other readjustment in the number of outstanding shares of that class or series, or the declaration of a stock dividend thereon. The Highest Purchase Price shall include any brokerage commissions, transfer taxes and soliciting dealers' fees paid by such Related Person with respect to any shares of the capital stock acquired by such Related Person.

7. The term "Other Consideration" shall include, without limitation, capital stock to be retained by the shareholders of the corporation in a Business Transaction in which the corporation shall be the survivor.

8. The term "Person" shall mean any natural person, corporation, partnership, trust, firm, association, government, governmental. agency or any other entity whether acting in an individual, fiduciary or other capacity.

9. The term "Related Person" shall mean (a) any Person which, together with its Affiliates and Associates, shall be the Beneficial Owner in the aggregate of 10 percent or more of the capital stock of the corporation, and (b) any Affiliate or Associate (other than the corporation or a wholly owned subsidiary of the corporation) of any such Person. Two or more Persons acting in concert for the purpose of acquiring, holding or disposing of the capital stock of the corporation shall be deemed to be a "Related Person". A Related Person shall be deemed to have acquired a share of capital stock at the time when such Related Person became the Beneficial Owner thereof. With respect to the shares of the capital stock of the corporation owned by any Related Person, if the price paid for such shares cannot be determined by a majority of the Continuing Directors, the price so paid shall be deemed to be the market price of the shares in question at the time when such Related Person became the Beneficial Owner thereof.

10. The term "Substantial Part" shall mean 10% or more of the fair market value of the total assets of a Person, as reflected on the most recent balance sheet of such Person available to the Continuing Directors on the date of mailing of the notice of the meeting of shareholders called for the purpose of voting with respect to a Business Transaction involving the assets constituting any such Substantial Part.

B. The corporation shall not enter into any Business Transaction with a Related Person or in which a Related Person shall have an interest (except proportionately as a shareholder of the corporation) without first obtaining both (1) the affirmative vote of the holders of not less than two-thirds of the outstanding shares of the capital stock of the corporation not held by such Related Person, and (2) the determination of a majority of the Continuing Directors that the cash or fair market value of the property, securities or Other Consideration to be received per share by the holders, other than such Related Person, of the shares of each class or series of the

capital stock of the corporation in such Business Transaction shall not be less than the Highest Purchase Price paid by such Related Person in acquiring any of its holdings of shares of the same class or series, unless the Continuing Directors by a majority vote shall either (a) have expressly approved the acquisition of the shares of the capital stock of the corporation that caused such Related Person to become a Related Person, or (b) have expressly approved such Business Transaction.

C. For the purposes of this Article V, a majority of the Continuing Directors shall have the power to make a good faith determination, on the basis of information known to them, of: (1) the number of shares of capital stock of the corporation of which any Person shall be the Beneficial Owner, (2) whether a Person is an Affiliate or Associate of another Person, (3) whether a Person has an agreement, contract, arrangement or understanding with another Person as to the matters referred to in subdivision V.A.3. or clause (h) of subdivision V.A.4., (4) the Highest Purchase Price paid by a Related Person for shares of any class or series of the capital stock, (5) whether the assets subject to any Business Transaction constitute a Substantial Part, (6) whether any Business Transaction is one in which a Related Person has an interest (except proportionately as a shareholder of the corporation), and (7) such other matters with respect to which a determination may be required under this Article V.

D. In determining whether to give their approval as provided in subdivision V.B., the Continuing Directors shall give due consideration to all relevant factors involved, including, without limitation, (1) the value of the corporation in a freely negotiated transaction and its future value as an independent entity, (2) the recognition of gain or loss to the corporation for tax purposes or the postponement of such recognition in a tax-free transaction, (3) the anticipated developments of the business of the corporation not yet reflected in the price of its shares, and (4) the impact on employees, customers, suppliers and the public generally within the geographical area it serves.

E. This Article V may not be repealed or amended in any respect unless such action shall be approved by the affirmative vote of the holders of not less than two-thirds of the capital stock of the corporation not held by a Related Person at a meeting of the shareholders called expressly for that purpose.

ARTICLE VI

No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for conduct as a director; provided that this Article VI shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination of liability is permitted shall affect the liability of a director for any act or omission which occurs prior to the effective date of such amendment.

ARTICLE VII

The corporation shall indemnify to the fullest extent then permitted by law any person who is made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (including an action, suit or proceeding by or in the right of the corporation) by reason of the fact that the person is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against all judgments, amounts paid in settlement, fines and such expenses (including attorneys' fees), actually and reasonably incurred in connection therewith. This Article shall not be deemed exclusive of any other provisions for indemnification of directors and officers that may be included in any statute, bylaw, agreement, vote of shareholders or directors or otherwise, both as to action in any official capacity and as to action in another capacity while holding an office.

As amended May 31, 2006.

Exhibit B

A copy of the Company's Bylaws, as amended.

BYLAWS

of

NORTHWEST

NATURAL

GAS

COMPANY

As Adopted by the Board of Directors

July 17, 1975

As Amended through July 22, 2004

CONTENTS

ARTICLE I.

OFFICES: Page
Section 1. Office 1
Section 2. Registered Office 1

ARTICLE II.

MEETINGS OF SHAREHOLDERS:
Section 1. Annual Meeting............................ 1
Section 2. Special Meetings 1
Section 3. Notice 1
Section 4. Fixing Record Date 1
Section 5. Record of Shareholders 2
Section 6. Quorum 2
Section 7. Voting 2
Section 8. Conduct of Meetings 2
Section 9. Proper Business for Meetings 2

ARTICLE III.

BOARD OF DIRECTORS:
Section 1. Directors....................................... 3
Section 2. Chairman of the Board 3
Section 3. Compensation............................... 3

ARTICLE IV.

MEETINGS OF THE BOARD OF DIRECTORS:
Section 1. Regular Meetings 3
Section 2. Special Meetings 4
Section 3. Waiver of Notice 4
Section 4. Quorum 4
Section 5. Manner of Acting 4
Section 6. Action Without a Meeting............ 4

ARTICLE V.

COMMITTEES OF THE BOARD:
Section 1. Governance Committee................ 4
Section 2. Audit Committee 4
Section 3. Organization and Executive Compensation Committee 4
Section 4. Strategic Planning Committee 5
Section 5. Finance Committee 5
Section 6. Public Affairs and Environmental Policy Committee 5
Section 7. Other Committees 5
Section 8. Changes of Size and Function....... 5
Section 9. Conduct of Meetings 5
Section 10. Compensation.............................. 5

ARTICLE VI.

NOTICES: Page
Section 1. Form and Manner.......................... 5
Section 2. Waiver... 6

ARTICLE VII.

OFFICERS:
Section 1. Election 6
Section 2. Compensation................................ 6
Section 3. Term... 6
Section 4. Removal 6
Section 5. President.. 6
Section 6. Vice Presidents.............................. 6
Section 7. Secretary 6
Section 8. Treasurer 6

ARTICLE VIII.

CONTRACTS, LOANS, CHECKS AND DEPOSITS:
Section 1. Contracts 7
Section 2. Loans 7
Section 3. Checks and Drafts 7
Section 4. Deposits... 7

ARTICLE IX.

CERTIFICATES FOR SHARES AND THEIR TRANSFER:
Section 1. Certificates for Shares 7
Section 2. Transfer 7
Section 3. Owner of Record 7

ARTICLE X.

INDEMNIFICATION AND INSURANCE:
Section 1. Indemnification 7
Section 2. Insurance 8

ARTICLE XI.

SEAL 8

ARTICLE XII.

AMENDMENTS... 8

The following Bylaws were adopted by Northwest Natural Gas Company on July 17, 1975 superseding amended Bylaws originally adopted in conformity with an order of the District Court of the United States for the District of Oregon enforcing a plan for rearrangement of the Company's capital structure effective December 31, 1951, and subsequently amended by the stockholders on May 17, 1954, May 20, 1957, May 21, 1973, and May 20, 1974.

BYLAWS
OF
NORTHWEST NATURAL GAS COMPANY

ARTICLE I.

OFFICES

Section 1. Office. The principal office of the company shall be located in the City of Portland, Oregon. The company also may have offices at such other places both within and without the State of Oregon as the board of directors from time to time may determine.

Section 2. Registered Office. The registered office of the company required by law to be maintained in the state shall be at the same location as the principal office unless otherwise designated by resolution of the board of directors.

ARTICLE II.

MEETINGS OF SHAREHOLDERS

Amended 1/1/85

Section 1. Annual Meeting. The annual meeting of shareholders of the company for the election of directors and for the transaction of other business shall be held at the company's office in the City of Portland, Oregon, or such other place in that City as shall be determined by the board of directors, on the fourth Thursday of May in each year, unless such day shall be a legal holiday, in which event such meeting shall be held on the next business day. If such meeting shall not be held on such day in any year, it shall be held within 60 days thereafter on such day as shall be fixed by the board of directors and be specified in the notice of the meeting. Every such meeting shall be held at the hour of two o'clock p.m., or at such other hour as shall be fixed by the board and specified in such notice.

Section 2. Special Meetings. Special meetings of the shareholders of the company may be called by the board of directors or the holders of not less than one-tenth of all shares entitled to vote at the meeting. Each special meeting shall be held for such purposes, at such place in the City of Portland, Oregon, and at such time as shall be specified in the notice thereof.

Section 3. Notice. Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than 10 nor more than 50 days before the date of the meeting, either personally or by mail, by or at the direction of the board of directors or the persons calling the meeting, to each shareholder of record entitled to vote at such meeting.

Section 4. Fixing Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 50 days and, in the case of a meeting of shareholders, not less than 10 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the board declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

Section 5. Record of Shareholders. The officer or agent having charge of the transfer books for shares of the company shall make, at least 10 days before each meeting of shareholders, a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order with the address of and the number of shares held by each, which record, for a period of 10 days prior to such meeting, shall be kept on file at the registered office of the company and shall be subject to inspection by any shareholder at any time during usual business hours. Such record also shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original transfer books for shares shall be prima facie evidence as to who are the shareholders entitled to examine such record or transfer books or to vote at any meeting of the shareholders.

Section 6. Quorum. A majority of the shares of the company entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of shareholders. If a quorum is present, in person or by proxy, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater number, or voting by classes, is required by law or the Restated Articles of Incorporation.

If a quorum shall not be represented at any meeting of shareholders, the shareholders represented may adjourn the meeting from time to time without further notice. At such adjourned meeting, at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders represented at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Amended 12/13/01

Section 7. Voting. Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by law or the Restated Articles of Incorporation. At each election of directors holders of shares of common stock have the right to cumulative voting as provided for in the Restated Articles of Incorporation. A shareholder may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy in any manner permitted by law. An authorization of a proxy is effective when received by the secretary of the company or other officer or agent authorized to tabulate votes.

Amended 5/23/02

Section 8. Conduct of Meetings. Every meeting of shareholders shall be presided over by the chairman of the board, in his or her absence by the president, in their absence by a vice president or, if none be present, by a chairman appointed by the shareholders present at the meeting. The minutes of such meeting shall be recorded by the secretary or an assistant secretary but, if neither be present, by a secretary appointed for that purpose by the chairman of the meeting. The board of directors may adopt by resolution such rules and regulations for the conduct of meetings of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the board of directors, the chairman of any meeting of shareholders shall have the exclusive right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the board of directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to shareholders of record of the company, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the board of directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Amended 5/23/02

Section 9. Proper Business for Meetings. (a) No business shall be conducted at any meeting of shareholders that has not been properly brought before the meeting. To be properly brought before a special meeting of shareholders, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors or the persons calling the meeting. To be properly brought before an annual meeting of shareholders, business must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise brought before the meeting by or at the direction of the board of directors or

the chairman of the board, or (iii) otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the company. To be timely, a shareholder's notice must be delivered to the secretary at the principal executive office of the company not less than 90 days prior to the first anniversary of the previous year's annual meeting of shareholders; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed (other than as a result of adjournment) by more than 30 days from the anniversary of the previous year's annual meeting, notice by a shareholder to be timely must be delivered not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission; (b) A shareholder's notice to the secretary shall set forth (i) one or more matters appropriate for shareholder action that the shareholder proposes to bring before the meeting, (ii) a brief description of the matters desired to be brought before the meeting and the reasons for conducting such business at the meeting, (iii) the name and record address of the shareholder, (iv) the class and number of shares of the company that the shareholder owns or is entitled to vote and (v) any material interest of the shareholder in such matters; and (c) The chairman of the meeting shall have the power and duty (i) to determine whether any proposed business was properly brought before the meeting in accordance with the procedures set forth in this Section 9, and (ii) if the chairman determines that any proposed business was not brought before the meeting in compliance with this Section 9, to declare that such proposed business shall not be transacted.

ARTICLE III.

BOARD OF DIRECTORS

Section 1. Directors. The business and affairs of the company shall be managed by its board of directors. The number of members of the board, their classification and terms of office, and the manner of their election and removal shall be determined as provided by the Restated Articles of Incorporation. Directors need not be residents of the State of Oregon or shareholders of the company. Effective July 1, 2002, no person who has reached the age of 70 years shall be eligible to be elected a director.

Amended 5/17/84
Amended 5/23/02
Amended 12/18/03

Section 2. Chairman of the Board. The board of directors may elect one of its members as chairman of the board. The chairman of the board, if that position be filled, shall preside at all meetings of the shareholders and the board of directors and shall have such other duties and responsibilities as may be prescribed by the board of directors. If there shall be no chairman of the board, or in his or her absence or disability, the president also shall exercise the duties and responsibilities of that position.

Amended 1/1/85

Section 3. Compensation. Directors shall receive such reasonable compensation for their services as may be fixed from time to time by resolution of the board of directors, and shall be reimbursed for their expenses properly incurred in the performance of their duties as directors. No such payment shall preclude any director from serving the company in any other capacity and receiving such reasonable compensation for such services as may be fixed by resolution of the board.

Amended 5/17/84

ARTICLE IV.

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the board of directors shall be held in the company's offices at two o'clock p.m., Pacific Time, on the fourth Thursday of February, April, May, July and September, and on the third Thursday of December, or on such other date or at such other hour and place as shall be specified in the notice of meeting. The date, time and place for holding regular meetings of the board of directors may be changed upon the giving of notice to all directors by or at the request of the chairman of the board or the president. The board may provide by resolution the time and place either within or without the State of Oregon for holding of meetings or may omit the holding of any meeting without other notice than such resolution.

Amended 5/26/88
Amended 5/23/91
Amended 12/16/93
Amended 7/25/96
Amended 5/28/98

Amended 1/1/85
Amended 2/24/95
Amended 5/23/02

Section 2. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the chairman of the governance committee, the president or any two directors. The person or persons authorized to call special meetings of the board may fix any place, either within or without the State of Oregon, as the place for holding any special meeting of the board called by them. Notice of the time and place of special meetings shall be given to each director at least one day in advance by the secretary or other officer performing his or her duties.

Section 3. Waiver of Notice. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise provided by law or the Restated Articles of Incorporation, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Amended 5/17/84

Section 4. Quorum. A majority of the number of directors at any time fixed by resolution adopted by the affirmative vote of a majority of the entire board of directors shall constitute a quorum for the transaction of business. If a quorum shall not be present at any meeting of directors, the directors present may adjourn the meeting from time to time without further notice until a quorum shall be present.

Section 5. Manner of Acting. Except as otherwise provided by law or the Restated Articles of Incorporation, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 6. Action Without a Meeting. Any action required or permitted to be taken at a meeting of the board of directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors entitled to vote with respect to the subject matter thereof.

ARTICLE V.

COMMITTEES OF THE BOARD

Amended 5/17/84
Amended 1/1/85
Amended 11/21/91
Amended 2/24/95
Amended 5/23/96
Amended 5/23/02

Section 1. Governance Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint a governance committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The committee shall have and may exercise all of the authority of the board of directors in the management of the company, except with respect to matters upon which by law only the board of directors may act. The committee's responsibilities shall include serving as the nominating committee of the board; making recommendations to the board on board and board committee composition and structure, including recommendations with respect to committee and committee chairmanship assignments; and conducting periodic board self-assessments, peer reviews of individual directors and evaluations of committee effectiveness. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 2/24/95
Amended 5/23/02

Section 2. Audit Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint an audit committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The duties of the committee shall be to discuss and review with the company's independent auditors the annual audit of the company, including the scope of the audit, and report the results of this review to the board; to meet with the independent auditors at such other times as the committee shall deem to be advisable; and to perform such other functions as the board by resolution from time to time may direct.

Amended 2/22/90
Amended 2/24/95
Amended 5/23/02

Section 3. Organization and Executive Compensation Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint an organization and executive compensation committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The duties of the committee shall be to discuss and review the management of the affairs of the company relating to its organization and to executive personnel and their compensation, and to perform such other functions as the board by resolution from time to time may direct.

Section 4. Strategic Planning Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members a strategic planning committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be to review and make recommendations to the board with respect to the company's long-term strategic goals, objectives and plans. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 7/24/03
Amended 9/25/03

Section 5. Finance Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint a finance committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be to discuss and review the management of the affairs of the company relating to financing, including the development of financial planning goals and financial policy, and to perform such other functions as the board by resolution from time to time may direct.

Amended 2/24/95
Amended 2/25/99
Amended 9/25/03

Section 6. Public Affairs and Environmental Policy Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members a public affairs and environmental policy committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be (i) to consider, review and monitor significant matters of public interest and societal trends, and the company's community affairs, charitable contributions, diversity and equal employment opportunity compliance programs, and (ii) to monitor significant environmental issues affecting the company and to recommend to the board appropriate environmental policies. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 5/22/03
Amended 9/25/03

Section 7. Other Committees. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members such other committees and the chairmen thereof as it may deem to be advisable. Each such committee shall have such powers and authority as are set forth in the resolutions pertaining thereto from time to time adopted by the board.

Amended 2/24/95

Section 8. Changes of Size and Function. Subject to the provisions of law, the board of directors shall have the power at any time to increase or decrease the number of members of any committee, to fill vacancies thereon, to change any members thereof and to change the functions and terminate the existence thereof.

Section 9. Conduct of Meetings. Each committee shall conduct its meetings in accordance with the applicable provisions of these bylaws relating to the conduct of meetings of the board of directors. Each committee shall adopt such further rules and regulations regarding its conduct, keep such minutes and other records and appoint such subcommittees and assistants as it shall deem to be appropriate.

Section 10. Compensation. Persons serving on any committee shall receive such reasonable compensation for their services on such committee as may be fixed by resolution of the board of directors, provided that no person shall receive compensation for his or her services on any committee while serving as an officer of the company.

ARTICLE VI.

NOTICES

Section 1. Form and Manner. Whenever, under the provisions of law or the Restated Articles of Incorporation, notice is required to be given to any director or shareholder, unless otherwise specified, it shall be given in writing by mail addressed to such director or shareholder at his or her address as it appears on the stock transfer books or other records of the company, with postage thereon prepaid, and such notice shall be deemed to be delivered when deposited in the United States Mail. Notice to directors also may be given by telephone or in any other manner which is reasonably

calculated to give adequate notice.

Section 2. Waiver. Whenever any notice whatever is required to be given under the provisions of law, the Restated Articles of Incorporation or these bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE VII.

OFFICERS

Amended 1/1/85

Section 1. Election. The board of directors, at its first meeting following the annual meeting of shareholders each year, shall elect one of its members as president and shall elect a secretary. At such meeting, or at any other time it shall deem appropriate, the board may elect one or more vice presidents and a treasurer. The board also may elect or appoint such other officers and agents as it may deem necessary. Any two or more offices may be held by the same person, except the offices of president and secretary.

Section 2. Compensation. The officers of the company shall receive such reasonable compensation for their services as from time to time may be fixed by resolution of the board of directors.

Amended 5/17/84

Section 3. Term. The term of office of all officers shall commence upon their election or appointment and shall continue until the first meeting of the board of directors following the annual meeting of shareholders and thereafter until their successors shall be elected or until their resignation or removal. A vacancy occurring in any office of the company for whatever reason may be filled by the board.

Section 4. Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board whenever in its judgment the best interests of the company will be served thereby but such removal shall be without prejudice to the contract rights, if any, of the officer or agent so removed.

Amended 10/18/84
Amended 3/1/96

Section 5. President. Unless otherwise determined by the board of directors, the president shall be the chief executive officer of the company and, subject to the control of the board of directors, shall be responsible for the general administration and operation of the company. He shall have such other duties and responsibilities as may pertain to such office or be prescribed by the board of directors. In the absence or disability of the president, an officer designated by the board shall exercise the duties and responsibilities of the president.

Section 6. Vice Presidents. Each vice president shall have such duties and responsibilities as may be prescribed by the board of directors and the president. The board or the president may confer a special title upon a vice president.

Section 7. Secretary. The secretary shall record and keep the minutes of the shareholders in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; and perform such other duties as may be prescribed by the board or the president. The secretary shall have custody of the corporate seal of the company and shall affix the seal to any instrument requiring it and attest the same by his or her signature.

The assistant secretaries shall have such duties as may be prescribed from time to time by the board, the president or the secretary. In the absence or disability of the secretary, his or her duties shall be performed by an assistant secretary.

Amended 1/1/85

Section 8. Treasurer. The treasurer shall have charge and custody and be responsible for all funds and securities of the company; deposit all moneys and other valuable effects in the name and to the credit of the company in such depositories as may be designated by the board of directors; and disburse the funds of the company as may be authorized by the board and take proper vouchers for such disbursements. The treasurer shall have such other duties as may be prescribed from time to time by the board or the president. In the absence or disability of the treasurer, his or her duties shall be performed by an assistant treasurer.

ARTICLE VIII.

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. Contracts. The board of directors by resolution may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the company, and such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the company and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 3. Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the company shall be signed by such officer or officers, agent or agents of the company and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 4. Deposits. All funds of the company not otherwise employed shall be deposited from time to time to the credit of the company in such banks, trust companies or other depositories as the board of directors or officers of the company designated by the board may select, or be invested as authorized by the board.

ARTICLE IX.

CERTIFICATES FOR SHARES AND THEIR TRANSFER

Amended 1/1/93
Amended 7/22/04

Section 1. Certificates for Shares. The shares of the company shall be represented by certificates; provided, however, the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of the company's shares shall be uncertificated shares. When shares are not represented by certificates then within a reasonable time after the issuance or transfer of such shares, the company shall send or cause to be sent to the shareholder to whom such shares have been issued or transferred a written statement of the information required by the laws of the State of Oregon to be on certificates.

Certificates representing shares of the company shall be issued only for whole numbers of shares and shall be in such form as the board of directors may, from time to time, prescribe in accordance with the laws of the State of Oregon. Such certificates shall be signed by the president or a vice president and by the secretary or an assistant secretary and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles thereof. In case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the company as the board may authorize.

Amended 7/22/04

Section 2. Transfer. Shares of stock of the company shall be transferable on the books of the company by the holder of record thereof, or by his or her legal representative who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by duly executed power of attorney, and on surrender for cancellation of the certificates, if any, for such shares. The board of directors may appoint one or more transfer agents and registrars of stock of the company.

Section 3. Owner of Record. The company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE X.

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. The company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee or agent of the company, or is or was serving at the request of the

company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise or any employee benefit plan, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the defense or settlement of such action, suit or proceeding to the fullest extent permissible under the Oregon Business Corporation Act or the indemnification provisions of any successor Act. The foregoing rights of indemnification shall not be exclusive of any other rights to which any such person so indemnified may be entitled, under any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office; shall continue as to a person who has ceased to be a director, officer, employee or agent; and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 2. Insurance. The company may purchase and maintain insurance (and pay the entire premium therefor) on behalf of any person who is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the company would have the power to indemnify him or her against such liability under the provisions of the Oregon Business Corporation Act or any successor Act; and on behalf of any person who is or was a fiduciary under the Employee Retirement Income Security Act of 1974 with regard to an employee benefit plan of the company against any liability asserted against him or her and incurred by him or her in his or her fiduciary capacity.

ARTICLE XI.

SEAL

The corporate seal of the company shall be circular in form and shall bear an inscription containing the name of the company, the year of its organization, the state of its incorporation and the words "Corporate Seal."

ARTICLE XII.

AMENDMENTS

These bylaws, or any of them, may be altered, amended or repealed, or new bylaws adopted, by resolution of a majority of the board of directors, subject to repeal or change by action of the shareholders.

CERTIFICATE

I, C. J. Rue, Secretary of Northwest Natural Gas Company, a corporation organized and existing under the laws of the State of Oregon, HEREBY CERTIFY that the foregoing eight printed pages entitled "Bylaws of Northwest Natural Gas Company" constitute a full and true copy of the Bylaws of said corporation as of the date hereof.

WITNESS my hand and seal of said corporation this ____ day of ____.

C. J. Rue
Secretary

EXHIBIT C

A copy of the resolutions adopted by the Company's Board of Directors on April 26, 2007 relating to the Company's back-up line of credit.

Exhibit C

Executive Offices

CERTIFIED COPY OF RESOLUTIONS

I, C. J. Rue, the duly elected and acting secretary of Northwest Natural Gas Company, a corporation organized and existing under the laws of the State of Oregon, HEREBY CERTIFY that the following is a true and complete copy of resolutions adopted by the Board of Directors of said Corporation at a meeting thereof duly convened and held on the 26th day of April 2007, relating to the establishment of a revolving senior unsecured bank line of credit initially aggregating $250 million; and that said resolutions are in full force and effect as of the date of this certificate, namely:

WHEREAS, Northwest Natural Gas Company (the "Company") finds it to be desirable and in its best interests, based on working capital needs, financing requirements and market conditions, to terminate its existing lines of credit and to negotiate and arrange a revolving bank line of credit aggregating up to $250 million ("Commitment") with JP Morgan Chase Bank, N.A. ("JPMorgan") as administrative agent pursuant to a senior unsecured revolving credit agreement providing for a committed bank line, which line shall include the ability of the Company to obtain letters of credit from time to time up to the Commitment (taking into account any outstanding loans); and

WHEREAS, the Company also finds it to be in its best interest to provide for increases in the Commitment from time to time such that the aggregate commitment would not exceed $400 million; and

WHEREAS, all or a portion of such line of credit may provide for a commitment exceeding a 364-day period, which commitment will require regulatory approval by the Public Utility Commission of Oregon ("OPUC") and the Washington Utilities and Transportation Commission ("WUTC");

NOW THEREFORE BE IT RESOLVED, that the Board of Directors of the Company authorizes the termination of the Company's existing unsecured lines of credit in the aggregate amount of $250 million; and further

RESOLVED, that the Board of Directors of the Company ratifies, approves and confirms the actions of the officers of the Company in negotiating and arranging, on behalf of the Company, a senior unsecured line of credit initially aggregating $250 million with JPMorgan as administrative agent, pursuant to a senior unsecured credit agreement ("Credit Facility") to be entered into providing for a committed bank line for an initial five-year period, with authority to agree to one-year extensions from time to time as the Company may deem desirable or appropriate; and further

RESOLVED, that the President, any Vice President, the Treasurer or an Assistant Treasurer of the Company (each an "Authorized Officer"), or any one of them, are authorized in the Company's name and behalf, to increase the Commitment under the Credit Facility, such that the aggregate amount committed under the Credit Facility shall not exceed $400 million; and further

RESOLVED, that the Board of Directors of the Company approves an increase in the aggregate amount of short-term borrowings which the Company is authorized to have outstanding at any one time to a level not to exceed the lesser of (a) the amount of the Company's primary line of credit or (b) $400 million; and further

RESOLVED, that the Authorized Officers, or any one of them, are authorized in the Company's name and behalf, from time to time to negotiate, execute, approve and deliver a credit agreement, note, borrowing certificate, and all related documents, instruments, certificates or agreements contemplated in connection therewith (collectively the "Credit Documents"), in such form and with such changes as the Authorized Officers, or any one of them, shall approve, such approval to be conclusively evidenced by such Authorized Officer's execution thereof; and further

RESOLVED, that the Authorized Officers, or any one of them, are authorized, in the Company's name and behalf to cause the Company to perform all of its obligations under the Credit Documents; and further

RESOLVED, that the Authorized Officers or one or more employees of the Company to whom such authority may from time to time may be delegated in writing by any two Authorized Officers (the "Authorized Delegates"), or any one of the Authorized Officers or Authorized Delegates, is authorized, in the Company's name and behalf, at any time and from time to time, to borrow such sums of money and obtain the issuance of letters of credit as may be required for the purposes of the Company within the limitations set forth in the prior resolutions and in the Credit Documents, and to pay any required fees, issue such notes, execute such other instruments, make any such securities or regulatory filings, and do such other acts as may be necessary and proper to effect such borrowings under the Credit Documents; and further

RESOLVED, that the Authorized Officers, or any one of them, are hereby authorized to negotiate, execute, approve and deliver to any bank that is party to such unsecured line of credit or any additional bank that becomes a party to such unsecured line of credit, in the future, one or more amendments, supplements, extensions, modifications or waivers to the Credit Documents which such Authorized Officers, or any one of them, shall approve, such approval to be conclusively evidenced by such Authorized Officer's execution thereof; provided that such amendments, supplements, extensions, modifications or waivers may not result in the line of credit to be more than $400 million; and further

RESOLVED, that the officers of the Company are authorized and directed in its name and behalf, to prepare, execute and file with the OPUC and the WUTC appropriate applications (and the Board ratifies, approves and confirms any actions of the officers of the Company taken to file such applications), together with any and all necessary amendments, exhibits and other documents related thereto, for an order, in the case of the OPUC, authorizing, and in the case of the WUTC, establishing compliance with applicable statutory requirements in connection with, an unsecured credit agreement to be entered into providing, among other things, for a committed bank line exceeding a 364-day period aggregating up to $400 million;

and further

RESOLVED, that the officers and Authorized Delegates of the Company, or any one of them, are authorized and directed, in the Company's name and behalf, to execute and deliver such instruments and documents and to do or cause to be done any and all such acts and things as they may deem to be desirable or appropriate in order to carry out the purposes of the foregoing resolutions.

WITNESS my hand and the seal of Northwest Natural Gas Company this 2nd day of May 2007.

/s/ C. J. Rue
Secretary

(S E A L)

EXHIBIT D

Form of draft Term Sheet for the Facility. The Company will forward under separate cover the final form of Credit Agreement for the Facility along with the documents ancillary thereto.

NORTHWEST NATURAL GAS COMPANY

TERM SHEET

April 2007

GENERAL TERMS

Borrower: Northwest Natural Gas Company.

Administrative Agent: JPMorgan Chase Bank, N.A. ("JPMorgan") will act as sole and exclusive administrative agent (in such capacity, the "Administrative Agent").

Syndication Agent: Bank of America, N.A. will act as sole and exclusive syndication agent (in such capacity, the "Syndication Agent").

Co-Lead Arrangers and Joint Bookrunners: J.P. Morgan Securities Inc. and Banc of America Securities LLC will act as co-lead arrangers and joint bookrunners (in such capacity, collectively, the "Arrangers").

Lenders: A group of lenders satisfactory to the Borrower, the Administrative Agent, the Syndication Agent and the Arrangers (collectively, the "Lenders").

FACILITY

Type: Senior Unsecured Revolving Credit Agreement (the "Facility").

Facility Amount: $250,000,000 (the "Aggregate Commitment") available to the Borrower in U.S. Dollars.

Increase Option: The documentation will include an "accordion" provision pursuant to which the Borrower may increase the Aggregate Commitment from time to time by obtaining the agreement of one or more Lenders to increase their commitments and/or adding new Lenders reasonably acceptable to the Administrative Agent. The aggregate amount of all such increases during the term of the Facility shall not exceed $150,000,000. No Lender shall be obligated to participate in any increase.

Letters of Credit: The Facility will permit the issuance of letters of credit in an aggregate amount up to the Aggregate Commitment for the account of the Borrower by JPMorgan, or such other Lender as may be designated by the Borrower and the Administrative Agent from time to time, as the issuing bank. Each Lender that is not the issuing bank for a letter of credit shall purchase a participation interest in such letter of credit equal to its pro rata portion of the Aggregate Commitment. Any drawing on a letter of credit shall be deemed an advance under the Facility and shall bear interest at the rate applicable to ABR Loans (as defined below).

Maturity: Subject to the extension option described below, the Facility shall terminate and all amounts outstanding thereunder shall be due and payable in full five years after the Closing Date (as defined below) (the "Termination Date"). No letter of credit under the Facility shall have a scheduled expiration date that is later than the then scheduled Termination Date.

Extension of Maturity Option: The Borrower may, not more than 60 nor less than 30 days prior to any anniversary date of the Closing Date (each an "Anniversary Date"), request that the scheduled Termination Date be extended for an additional one-year period by delivering written notice of such request to the Administrative Agent (which shall promptly advise each Lender of such request). In response to any such request, each Lender shall, not later than 20 days prior to the applicable Anniversary Date, notify the Administrative Agent whether it is willing (in its sole and complete discretion) to extend the scheduled Termination Date for an additional year (and any Lender that fails to give such notice to the Administrative Agent shall be deemed to have elected not to extend the scheduled Termination Date). The Administrative Agent will notify the Borrower of the Lenders' decisions no later than 15 days prior to such Anniversary Date. If Lenders holding more than 50% of the commitments elect to extend the scheduled Termination Date, then on such Anniversary Date the commitments of such Lenders shall be extended for an additional year; provided that (i) no default or unmatured default exists on such Anniversary Date and (ii) the representations and warranties made on the Closing Date are true and correct on such Anniversary Date, as though made as of such Anniversary Date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date). No Lender shall be required to consent to any extension request and any Lender that elects, or is deemed to have elected, not to extend the scheduled Termination Date (a "Declining Lender") will have its commitment terminated on the then existing scheduled Termination Date (without regard to any extension by other Lenders). The Borrower may, at its sole expense and effort, upon notice to any Declining Lender and the Administrative Agent, require such Declining Lender to assign and delegate its rights and obligations under the Facility to an assignee selected by the Borrower and willing to accept such assignment (in accordance with, and

subject to, the restrictions and consents otherwise required for assignments generally).

Swing Line Option: Swing line loans will be made available on a same day basis to the Borrower by a Lender (in such capacity, the "Swing Line Lender") in an aggregate amount not exceeding $25,000,000 and in minimum amounts of $1,000,000. The Borrower must repay each swing line loan in full upon demand of the Swing Line Lender. Each swing line loan may be outstanding no more than five consecutive business days, and the Borrower may not have, in the aggregate, swing line loans outstanding more than ten business days in a calendar month.

Purpose: For general corporate purposes, working capital and letters of credit.

Documentation: The Facility will be evidenced by a credit agreement (the "Credit Agreement") and other legal documentation mutually satisfactory to the Borrower, the Administrative Agent and the Lenders.

Closing Date: The execution of definitive loan documentation, to occur on or before May 17, 2007 (the "Closing Date").

INTEREST RATES AND FEES

Rate Options: At the Borrower's option:

-ABR ("ABR Loans")

-Eurodollar Rate plus the Applicable Margin as set forth in the Pricing Schedule attached hereto ("Eurodollar Loans")

General Provisions Relating to Interest Rates: Interest periods for Eurodollar Loans shall be one, two, three or six months, or such shorter period agreed to by the Borrower and the Lenders (provided that no interest period shall extend beyond the scheduled Termination Date). Interest on ABR Loans shall be payable in arrears for each calendar quarter on the second business day of the following calendar quarter and at final maturity. Interest on Eurodollar Loans shall be payable in arrears on the last day of each interest period, three months after the first day of any six-month interest period, upon any prepayment (whether due to acceleration or otherwise) and at final maturity. Interest on ABR Loans when ABR is based upon the Prime Rate shall be calculated for actual days elapsed on the basis of a 365, or when appropriate 366, day year. All other interest and all fees shall be calculated for actual days elapsed on the basis of a 360 day year.

The Credit Agreement will include customary provisions (a) protecting the Lenders against increased costs or loss of yield resulting from changes in reserve, tax, capital adequacy and other requirements (including capital cost increases imposed by regulatory authorities) and (b) indemnifying the Lenders for breakage costs incurred in connection with, among other things, any prepayment of a Eurodollar Loan on a day other then the last day of an interest period with respect thereto. Any advance not paid by the Borrower at maturity shall bear interest at a rate per annum equal to the higher of (i) the interest rate otherwise applicable thereto plus 1% or (ii) ABR plus 1%.

Definitions Relating to Interest Rates:

The following terms shall have the meanings set forth below:

"ABR" means a fluctuating rate of interest equal to the higher of (a) the Prime Rate or (b) the sum of the Federal Funds Effective Rate most recently determined by the Administrative Agent plus 1/2% per annum.

"Eurodollar Rate" means the applicable London interbank offered rate for deposits in U.S. dollars appearing on page 3750 of the Dow Jones Market Service as of 11:00 a.m. (London time) two business days prior to the first day of the applicable interest period, and having a maturity equal to such interest period, adjusted for Federal Reserve Board reserve requirements.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day by the Federal Reserve Bank of New York, or if such rate is not so published for such day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by JPMorgan (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

FEES

Facility Fee:

A per annum fee as set forth on the Pricing Schedule attached hereto, payable on each Lender's commitment amount, regardless of usage, quarterly in arrears on each interest payment date, on the date of any reduction of the Aggregate Commitment and on termination of the Facility.

Utilization Fee: For any day on which the outstanding credit extensions under the Facility exceed 50% of the Aggregate Commitment, the Borrower will pay a utilization fee of 5.0 bp on all credit extensions.

Letter of Credit Fees: Letter of credit risk-participation fees shall be payable quarterly in arrears on each interest payment date for ABR Loans and on termination of the Facility (and, if applicable, thereafter on demand) to the Lenders at rates equal to the then LC Fee Rate set forth on the Pricing Schedule attached hereto, together with fronting fees for the letter of credit fronting bank set forth in the JPMorgan Fee Letter.

PREPAYMENTS AND COMMITMENT REDUCTIONS

Voluntary Commitment Reductions: The Borrower may terminate the unused commitments in amounts of at least $10,000,000 at any time on five business days' prior written notice.

Voluntary Prepayments: ABR Loans may be prepaid in a minimum amount of $10,000,000 at any time on one business days' prior notice. Eurodollar Loans may be prepaid in a minimum amount of $10,000,000 on three business days' prior notice, subject to payment of breakage charges and costs.

CONDITIONS PRECEDENT

Conditions to Closing: Conditions precedent to closing of the Facility will include, without limitation, (a) the delivery of satisfactory loan and other closing documents, including but not limited to the Facility, appropriate resolutions, good standing certificates, incumbency certificates and opinions of counsel, (b) the accuracy of all representations and warranties and (c) termination of all of the Borrower's existing bilateral credit agreements.

Conditions to Each Credit Extension: The Credit Agreement will contain usual and customary conditions to each loan and/or letter of credit, to include without limitation: (i) all agreed-upon representations and warranties customarily brought-down at each credit extension are true and correct as of the date of each credit extension (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), and (ii) no default or unmatured default shall exist under the Facility or would result from such credit extension.

REPRESENTATIONS AND WARRANTIES, COVENANTS AND DEFAULTS

Representations and Warranties: The Credit Agreement will contain representations and warranties usual and customary for transactions of this type, to include without limitation: (i) corporate existence and authorization, (ii) enforceability, (iii) financial information, (iv) compliance with laws, (v) no material litigation, (vi) ownership of property, (vii) taxes, (viii) subsidiaries, (ix) ERISA matters, (x) environmental matters and (xi) ranking of indebtedness.

Covenants: The Credit Agreement will contain affirmative and negative covenants usual and customary for transactions of this type, to include without limitation: (i) delivery of financial statements, certificates, notices and other information, (ii) payment of taxes, (iii) conduct of business, (iv) maintenance of property and insurance, (v) inspection of property, books and records, (vi) maintenance of debt ratings and (vii) limitations of fundamental changes.

The Credit Agreement will also require the Borrower, as at the end of any fiscal quarter of the Borrower, to have a Consolidated Debt to Capitalization Ratio of no more than 0.70 to 1.00.

Defaults: The Credit Agreement will contain defaults usual and customary for transactions of this type, to include without limitation: (i) nonpayment of principal, interest, fees or other amounts, (ii) violation of covenants, (iii) inaccuracy of representations and warranties, (iv) payment cross-defaults to certain other material agreements and indebtedness, (v) bankruptcy and other insolvency events and (vi) nonpayment of material judgments.

OTHER PROVISIONS

Assignments and Participations: Each Lender may, in its sole discretion, sell participations or make assignments, subject, in the case of assignments (other than to another Lender or to an affiliate of a Lender), to the consent of the Administrative Agent and, so long as no default is continuing, the Borrower (which consent in each case shall not be unreasonably withheld). In the case of partial assignments (other than to another Lender or to an affiliate of a Lender), the minimum assignment amount shall be $5,000,000, and, after giving effect thereto, the assigning Lender shall have a commitment aggregating at least $5,000,000, in each case unless otherwise agreed by the Administrative Agent and, so long as no default is continuing, the Borrower. Assignments shall be subject to a customary $3,500 fee payable to the Administrative

	Agent. Participants shall have the same benefits as the Lenders with respect to yield protection and increased costs provisions. Voting rights of participants shall be limited to those matters that require approval by all Lenders. Pledges of loans in accordance with applicable law shall be permitted without restriction.
Required Lenders:	Lenders holding more than 50% of the commitments under the Facility or, if such commitments have been terminated, of the outstanding credit extensions under the Facility.
Governing Law:	The Credit Agreement shall be governed by the internal laws of the State of New York.
Electronic Delivery:	The Credit Agreement will permit the electronic delivery by the Borrower, and the posting on an electronic platform by the Administrative Agent, of certain financial information, notices and other documents.
Administrative Agent's Counsel:	Mayer, Brown, Rowe & Maw LLP.
Expenses:	The out of pocket expenses of the Administrative Agent and the Arranger, whether incurred prior to or subsequent to closing, in investigation, preparation, negotiation, documentation, syndication, administration and collection will be for the account of the Borrower, including the expenses of and fees for attorneys for the Administrative Agent and the Arranger (who may or may not be employees of the Administrative Agent or the Arranger) and other advisors and professionals engaged by the Administrative Agent or the Arranger.

* * *

This Term Sheet is intended as an outline only and does not purport to summarize all the conditions, covenants, representations, warranties and other provisions which would be contained in definitive legal documentation for the financing contemplated hereby.

PRICING SCHEDULE

Debt Rating[1]	Facility Fee	Applicable Margin for LIBOR Loans / LC Fee Rate	All-in Drawn (including Facility and Utilization Fees)
≥ AA- / Aa3	3.0 bps	12.0 bps	20.0 bps
A+ / A1	4.0 bps	13.5 bps	22.5 bps
A / A2	5.0 bps	15.0 bps	25.0 bps
A- / A3	6.0 bps	19.0 bps	30.0 bps
BBB+ / Baa1	7.0 bps	23.0 bps	35.0 bps
BBB / Baa2	9.0 bps	31.0 bps	45.0 bps
≤ BBB- / Baa3	10.0 bps	40.0 bps	55.0 bps

(1) The Facility Fee and Applicable Margin for LIBOR Loans shall be the applicable rate per annum set forth in the table below opposite the Borrower's credit rating from Standard & Poor's ("S&P") or Moody's Investors Service Inc. ("Moody's"), changing when any applicable credit rating changes. In the case of a split rating, the higher rating will apply, unless, if ratings are available from S&P, Moody's and Fitch, Inc., doing business as Fitch Ratings, the rating given by two of them are equal, in which case such rating shall apply.

EXHIBIT E

Balance Sheet of the Company at Dec. 31, 2006.

Exhibit E

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS

Thousands (December 31)	2006	2005
Assets:		
Plant and property:		
Utility plant	$1,963,498	$1,875,444
Less accumulated depreciation	574,093	536,867
Utility plant - net	1,389,405	1,338,577
Non-utility property	42,652	40,836
Less accumulated depreciation and amortization	6,916	5,990
Non-utility property - net	35,736	34,846
Total plant and property	1,425,141	1,373,423
Current assets:		
Cash and cash equivalents	5,767	7,143
Accounts receivable	82,070	84,418
Accrued unbilled revenue	87,548	81,512
Allowance for uncollectible accounts	(3,033)	(3,067)
Regulatory assets	31,509	3,879
Fair value of non-trading derivatives	5,109	163,759
Inventories:		
Gas	68,576	77,256
Materials and supplies	9,552	8,905
Income taxes receivable	-	13,234
Prepayments and other current assets	21,695	54,309
Total current assets	308,793	491,348
Investments, deferred charges and other assets:		
Regulatory assets	164,771	94,972
Fair value of non-trading derivatives	1,448	14,894
Other investments	47,985	58,451
Other	8,718	9,216
Total investments, deferred charges and other assets	222,922	177,533
Total assets	$1,956,856	$2,042,304

See Notes to Consolidated Financial Statements.

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS

Thousands (December 31)	2006	2005
Capitalization and liabilities:		
Capitalization:		
Common stock	$ 371,127	$ 87,334
Premium on common stock	-	296,471
Earnings invested in the business	230,774	205,687
Unearned stock compensation	-	(650)
Accumulated other comprehensive income (loss)	(2,356)	(1,911)
Total common stock equity	599,545	586,931
Long-term debt	517,000	521,500
Total capitalization	1,116,545	1,108,431
Current liabilities:		
Notes payable	100,100	126,700
Long-term debt due within one year	29,500	8,000
Accounts payable	113,579	135,287
Taxes accrued	21,230	12,725
Interest accrued	2,924	2,918
Regulatory liabilities	11,919	163,660
Fair value of non-trading derivatives	38,772	99
Other current and accrued liabilities	21,455	29,916
Total current liabilities	339,479	479,305
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	210,084	227,400
Regulatory liabilities	202,982	180,827
Pension and other postretirement benefit liabilities	52,690	17,323
Fair value of non-trading derivatives	11,031	6,777
Other	24,045	22,241
Total deferred credits and other liabilities	500,832	454,568
Commitments and contingencies (see Note 12)	-	-
Total capitalization and liabilities	$1,956,856	$2,042,304

See Notes to Consolidated Financial Statements.

EXHIBIT F

A list of all known contingent liabilities, other than minor items such as damages, claims and similar items involving relatively small amounts.

12. COMMITMENTS AND CONTINGENCIES:

Lease Commitments

We lease land, buildings and equipment under agreements that expire in various years through 2045. Rental expense under operating leases was $4.4 million, $4.1 million and $4.5 million for the years ended December 31, 2006, 2005 and 2004, respectively. The table below reflects the future minimum lease payments due under non-cancelable leases at December 31, 2006. Such payments total $55.9 million for operating leases. The net present value of payments on capital leases less imputed interest was $0.6 million. These commitments relate principally to the lease of our office headquarters, underground gas storage facilities, vehicles and computer equipment.

Millions	2007	2008	2009	2010	2011	Later years
Operating leases	$4.2	$4.1	$4.1	$4.1	$4.1	$35.3
Capital leases	0.3	0.2	0.1	-	-	-
Minimum lease payments	$4.5	$4.3	$4.2	$4.1	$4.1	$35.3

Gas Purchase and Pipeline Capacity Purchase and Release Commitments

We have signed agreements providing for the reservation of firm pipeline capacity under which we are required to make fixed monthly payments for contracted capacity. The pricing component of the monthly payment is established, subject to change, by U.S. or Canadian regulatory bodies. In addition, we have entered into long-term sale agreements to release firm pipeline capacity. We also enter into gas purchase agreements. The aggregate amounts of these agreements were as follows at December 31, 2006:

Thousands	Gas Purchase Agreements	Pipeline Capacity Purchase Agreements	Pipeline Capacity Release Agreements
2007	$283,180	$ 86,129	$ 5,105
2008	177,943	75,953	5,105
2009	98,807	70,093	5,105
2010	47,263	70,339	4,254
2011	25,828	70,059	-
2012 through 2026	73,179	198,863	-
Total	706,200	571,436	19,569
Less: Amount representing interest	59,737	100,411	1,663
Total at present value	$646,463	$471,025	$17,906

Our total payments of fixed charges under capacity purchase agreements in 2006, 2005 and 2004 were $69.2 million, $83.1 million and $89.3 million, respectively. Included in the amounts for 2006, 2005 and 2004 were reductions for capacity release sales of $3.7 million in each year. In addition, per-unit charges are required to be paid based on the actual quantities shipped under the agreements. In certain take-or-pay purchase commitments, annual deficiencies may be offset by prepayments subject to recovery over a longer term if future purchases exceed the minimum annual requirements.

Environmental Matters

We own, or have previously owned, properties that may require environmental remediation or action. We accrue all material loss contingencies relating to these properties that we believe to be probable of assertion and reasonably estimable. We continue to study the extent of our potential environmental liabilities, but due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several environmental site investigations, the range of potential loss beyond the amounts currently accrued, and the probabilities thereof, cannot be reasonably estimated. We regularly review our remediation liability for each site where we may be exposed to remediation responsibilities. The costs of environmental remediation are difficult to estimate. A number of steps are involved in each environmental remediation effort, including site investigations, remediation, operations and maintenance, monitoring and site closure. Each of these steps may, over time, involve a number of alternative actions, each of which can change the course of the effort. In certain cases, in addition to ourselves, there are a number of other potentially responsible parties, each of which, in proceedings and negotiations with other potentially responsible parties and regulators, may influence the course of the remediation effort. The allocation of liabilities among the potentially

responsible parties is often subject to dispute and can be highly uncertain. The events giving rise to environmental liabilities often occurred many decades ago, which complicates the determination of allocating liabilities among potentially responsible parties. Site investigations and remediation efforts often develop slowly over many years. To the extent reasonably estimable, we estimate the costs of environmental liabilities using current technology, enacted laws and regulations, industry experience gained at similar sites and an assessment of the probable level of involvement and financial condition of other potentially responsible parties. Unless there is a better estimate within this range of probable cost, we record the liability at the lower end of this range. It is likely that changes in these estimates will occur throughout the remediation process for each of these sites due to uncertainty concerning our responsibility, the complexity of environmental laws and regulations and the selection of compliance alternatives. The status of each of the sites currently under investigation is provided below.

Gasco site. We own property in Multnomah County, Oregon that is the site of a former gas manufacturing plant that was closed in 1956 (the Gasco site). The Gasco site has been under investigation by us for environmental contamination under the Oregon Department of Environmental Quality's (ODEQ) Voluntary Clean-Up Program. In June 2003, we filed a Feasibility Scoping Plan and an Ecological and Human Health Risk Assessment with the ODEQ, which outlined a range of remedial alternatives for the most contaminated portion of the Gasco site. In 2006, the estimated liability for this site increased $7.2 million due to updated estimates for the completion of the Feasibility Study and Work Plan, the design and treatment system for pilot wells and the construction of a containment wall for source control. We have accrued a liability of $6.4 million for the Gasco site, which is at the low end of the range because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

Siltronic (formerly Wacker) site. We previously owned property adjacent to the Gasco site that now is the location of a manufacturing plant owned by Siltronic Corporation (formerly Wacker Siltronic Corporation) (the Siltronic site). We are currently working with the ODEQ to develop a study of manufactured gas plant wastes on the uplands at this site. The amount of the additional accrual was deferred to a regulatory asset account pursuant to an order of the OPUC (see "Regulatory and Insurance Recovery for Environmental Matters," below).

Portland Harbor site. In 1998, the ODEQ and the U.S. Environmental Protection Agency (EPA) completed a study of sediments in a 5.5-mile segment of the Willamette River (Portland Harbor) that includes the area adjacent to the Gasco site and the Siltronic site. The Portland Harbor was listed by the EPA as a Superfund site in 2000 and we were notified that we are a potentially responsible party. Subsequently, the EPA approved a Programmatic Work Plan, Field Sampling Plan and Quality Assurance Project Plan for the Portland Harbor Remedial Investigation/Feasibility Study (RI/FS). As a result of the EPA's requests for additional data after reviewing the data collected to date at the site, an additional accrual of $1.3 million was recorded in 2006 for the additional studies, regulatory oversight and related legal costs. Current information is not sufficient to reasonably estimate additional liabilities, if any, or the range of potential liabilities, for environmental remediation and monitoring after the RI/FS work plan is completed, except for the early action removal of a tar deposit in the river sediments discussed below.

In April 2004, we entered into an Administrative Order on Consent providing for early action removal of a deposit of tar in the river sediments adjacent to the Gasco site. We completed the

removal of the tar deposit in the Portland Harbor in October 2005 and on November 5, 2005, the EPA approved the completed project. The estimated cost for the removal, including technical work, oversight, consultants, legal fees and ongoing monitoring, is $10.3 million. To date we have spent $9.8 million on work related to the removal of the tar deposit with a remaining liability of $0.5 million.

Central Gas Storage Tanks. On September 22, 2006, we received notice from the ODEQ that our Central Service Center has been assigned a high priority for further environmental investigation. Previously there were three manufactured gas storage tanks on the premises. The ODEQ believes there could be site contamination associated with releases of condensate from stored manufactured gas, or through historic gas handling practices. In the early 1990s, we excavated waste piles and much of the contaminated surface soils and removed accessible waste from some of the abandoned piping. A negligible accrual was recorded in September 2006 for the ODEQ site assessment and legal and technical costs to investigate and determine the appropriate action, if any. In February 2007, we received notice that the site has been added to the ODEQ's list of sites where releases of hazardous substances have been confirmed and its list where it has been determined that additional investigation or cleanup is necessary. Possible costs are not currently estimable; however, we intend to seek regulatory authorization for the deferral of environmental costs related to this site (see "Regulatory and Insurance Recovery for Environmental Matters," below).

Oregon Steel Mills site. See "Legal Proceedings," below.

Regulatory and Insurance Recovery for Environmental Matters. In May 2003, the OPUC approved our request for deferral of environmental costs associated with specific sites, including the Gasco, Siltronic and Portland Harbor sites. The authorization, which was extended through January 2007 and expanded to include the Oregon Steel Mills site, allows us to defer and seek recovery of unreimbursed environmental costs in a future general rate case. In April 2006, the OPUC authorized us to accrue interest on deferred balances effective January 27, 2006, subject to an annual demonstration that we have maximized our insurance recovery or made substantial progress in securing insurance recovery for unrecovered environmental expenses. An application for extension of the regulatory approval to defer environmental costs and accrued interest is pending. As of December 31, 2006, we have paid a cumulative total of $19.1 million relating to the named sites since the effective date of the deferral authorization.

On a cumulative basis, we have recognized a total of $32.7 million for environmental costs, including legal, investigation, monitoring and remediation costs. Of this total, $24.0 million has been spent to-date and $8.7 million is reported as an outstanding liability. At December 31, 2006, we had a regulatory asset of $27.8 million which includes $19.1 million of total expenditures to date and accruals for an additional estimated cost of $8.7 million. We believe the recovery of these costs is probable through the regulatory process. We also have an insurance receivable of $1.1 million, which is not included in the regulatory asset amount. We intend to pursue recovery of these environmental costs from our general liability insurance policies, and the regulatory asset will be reduced by the amount of any corresponding insurance recoveries. We consider insurance recovery of some portion of our environmental costs probable based on a combination of factors, including a review of the terms of our insurance policies, the financial condition of the insurance companies providing coverage, a review of

successful claims filed by other utilities with similar gas manufacturing facilities, and Oregon legislation that allows an insured party to seek recovery of "all sums" from one insurance company. As of January 2007, we have entered into settlement discussions with six of our major insurers, and expect to add another four insurers within the next several months. We anticipate that our overall insurance recovery effort will extend over several years.

The following table summarizes the regulatory assets and accrued liabilities relating to environmental matters at December 31, 2006 and 2005:

	Regulatory Asset		Accrued Liability	
Millions	2006	2005	2006	2005
Gasco site	$ 10.3	$ 3.2	$ 6.4	$ 1.4
Siltronic site	0.5	0.3	-	-
Portland Harbor site	16.8	15.1	2.1	4.9
Oregon Steel Mills site	0.2	0.2	0.2	0.1
Total	$ 27.8	$ 18.8	$ 8.7	$ 6.4

Legal Proceedings

We are subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings, including the matters described below, cannot be predicted with certainty, we do not expect that the ultimate disposition of these matters will have a material adverse effect on our financial condition, results of operations or cash flows.

Georgia-Pacific Corporation vs. Northwest Natural Gas Company. On February 3, 2006, Georgia-Pacific Corporation (Georgia-Pacific) filed suit against NW Natural (Georgia-Pacific Corporation v. Northwest Natural Gas Company, Case No. CV06-151-PK, United States District Court, District of Oregon), alleging that we offered to sell natural gas to Georgia-Pacific under the interruptible sales service provisions of Rate Schedule 32 at a commodity rate set at our Weighted Average Cost of Gas. Georgia-Pacific further alleged that it accepted this offer and that we failed to perform as promised when, in October 2005, we notified Georgia-Pacific that we would have to charge Georgia-Pacific the incremental costs of acquiring gas on the open market. Georgia-Pacific also alleged breach of contract, promissory estoppel, fraudulent misrepresentation and breach of the duty of good faith and fair dealing.

On February 23, 2006, we filed a motion for summary judgment on all claims. On June 30, 2006, an order was issued by the U.S. District Court for the District of Oregon dismissing the lawsuit with prejudice and denying all pending motions, if any, as moot. On July 27, 2006, Georgia-Pacific appealed this ruling to the Ninth Circuit Court of Appeals. We have reached agreement with Georgia-Pacific on settlement terms and the lawsuit has been dismissed.

Independent Backhoe Operator Action. Since May 2004, five lawsuits have been filed against NW Natural by independent backhoe operators who performed backhoe services for NW Natural under contract. These five lawsuits have been consolidated into one case, in which 10 plaintiffs remain (*Law and Zuehlke, et. al. v. Northwest Natural Gas Co.*, CV-04-728-KI, United States District Court, District of Oregon). Plaintiffs allege violation of the Fair Labor Standards Act for failure to pay overtime and also assert state wage and hour claims. Plaintiffs claim that they should have been considered "employees," and seek overtime wages and

interest in amounts to be determined, liquidated damages equal to the overtime award, civil penalties and attorneys' fees and costs. Additionally, plaintiffs allege that the failure to classify them as employees constituted a breach of contract under and with respect to certain employee benefits plans, programs and agreements. Plaintiffs seek an unspecified amount of damages for the value of what they would have received under these employee benefit plans if they had been classified as employees. There is insufficient information at this time to reasonably estimate the range of liability, if any, from these claims. We will vigorously contest these claims and do not expect the outcome of this litigation to have a material adverse effect on our results of operations or financial condition.

Oregon Steel Mills site. In 2004, NW Natural was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, *Oregon Steel Mills, Inc. v. The Port of Portland.* The Port alleges that in the 1940s and 1950s petroleum wastes generated by our predecessor, Portland Gas & Coke Company, and 10 other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The Port's complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. In March 2005, motions to dismiss by ourselves and other third-party defendants were denied on the basis that the failure of the Port to plead and prove that we were in violation of law was an affirmative defense that may be asserted at trial, but did not provide a sufficient basis for dismissal of the Port's claim. No date has been set for trial and discovery is ongoing. We do not expect that the ultimate disposition of this matter will have a material adverse effect on our financial condition, results of operations or cash flows.

EXHIBIT G

Comparative Income Statement for the 12 months ended Dec. 31, 2006, as filed in the Company's report to the SEC on Form 10-K. The credit amounts in the Facility do not have an effect on the Income Statements except to the extent that the Company records interest expense on loans that may be outstanding from time to time under the Facility (See Exhibit E for Notes to Financial Statements)

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME

Thousands, except per share amounts (year ended December 31)	2006	2005	2004
Operating revenues:			
Gross operating revenues	$1,013,172	$910,486	$707,604
Less: Cost of sales	648,156	563,860	399,244
Revenue taxes	24,840	21,633	16,865
Net operating revenues	340,176	324,993	291,495
Operating expenses:			
Operations and maintenance	114,560	113,216	102,155
General taxes	24,419	23,185	21,943
Depreciation and amortization	64,435	61,645	57,371
Total operating expenses	203,414	198,046	181,469
Income from operations	136,762	126,947	110,026
Other income and expense - net	2,134	1,205	2,828
Interest charges - net of amounts capitalized	39,247	37,283	35,751
Income before income taxes	99,649	90,869	77,103
Income tax expense	36,234	32,720	26,531
Net income	$ 63,415	$ 58,149	$ 50,572
Average common shares outstanding:			
Basic	27,540	27,564	27,016
Diluted	27,657	27,621	27,283
Earnings per share of common stock:			
Basic	$ 2.30	$ 2.11	$ 1.87
Diluted	$ 2.29	$ 2.11	$ 1.86

See Notes to Consolidated Financial Statements.

NORTHWEST NATURAL GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Principles of Consolidation

The consolidated financial statements include the accounts of Northwest Natural Gas Company (NW Natural), our regulated gas distribution business and our regulated gas storage business and a non-regulated wholly-owned subsidiary business, NNG Financial Corporation (Financial Corporation).

In this report, the term "utility" is used to describe the regulated gas distribution business and the term "non-utility" is used to describe the gas storage business and other non-regulated activities (see Note 2). Intercompany accounts and transactions have been eliminated.

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 (see Note 9).

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimates and changes would be reported in future periods. Management believes that the estimates and assumptions used are reasonable.

Industry Regulation

Our principal business is the distribution of natural gas, which is regulated by the Oregon Public Utility Commission (OPUC) and the Washington Utilities and Transportation Commission (WUTC). Accounting records and practices of the regulated business conform to the requirements and uniform system of accounts prescribed by these regulatory authorities in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." The utility business segment is authorized by the OPUC and the WUTC to earn a reasonable return on invested capital.

In applying SFAS No. 71, we capitalize or defer certain costs and revenues as regulatory assets and liabilities pursuant to orders of the OPUC or WUTC in general rate or expense deferral proceedings, to provide for recovery of revenues or expenses from, or refunds to, utility customers in future periods, including a return or a carrying charge.

At December 31, 2006 and 2005, the amounts deferred as regulatory assets and liabilities were as follows:

Thousands	Current 2006	Current 2005	Non-Current 2006	Non-Current 2005
Regulatory assets:				
Gas costs receivable	$ -	$ 2,890	$ -	$ 4,084
Unrealized loss on non-trading derivatives[3]	30,798	-	9,584	-
Income tax asset	-	-	67,141	65,843
Pension and other postretirement benefit obligations[1]	-	-	54,425	-
Environmental costs - paid[2]	-	-	19,113	12,439
Environmental costs - accrued but not yet paid[2]	-	-	8,760	6,440
Other	711	989	5,748	6,166
Total regulatory assets	$31,509	$ 3,879	$164,771	$ 94,972
Regulatory liabilities:				
Gas costs payable	$ 737	$ -	$ 13,041	$ -
Unrealized gain on non-trading derivatives[3]	-	163,660	-	8,117
Accrued asset removal costs	-	-	187,422	169,927
Other	11,182	-	2,519	2,783
Total regulatory liabilities	$11,919	$163,660	$202,982	$180,827

1 Certain pension and other postretirement benefit obligations required by SFAS No. 158 are approved for regulatory deferral. Such amounts are recoverable in rates, including an interest component, when recognized in net periodic benefit cost (see Note 7.)

2 Environmental costs are related to sites that are approved for regulatory deferral. We earn the authorized rate of return as a carrying charge on amounts paid, but the amounts accrued but not yet paid do not earn a rate of return or a carrying charge until expended.

3 Unrealized gain or loss on non-trading derivatives do not earn a rate of return or a carrying charge. These amounts, when realized at settlement, are recoverable through utility rates as part of the PGA mechanism.

We believe that continued application of SFAS No. 71 for regulated activities is appropriate and consistent with the current regulatory environment, and that all regulated assets and liabilities at December 31, 2006 and 2005 are recoverable or refundable through future utility rates. We review all regulatory assets at least annually for recoverability. If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of SFAS No. 71, then we would be required to write off the net unrecoverable balances against earnings.

New Accounting Standards

Adopted Standards

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires balance sheet recognition of the overfunded or underfunded status of pension and other postretirement

benefit plans. For pension plans, the liability will be based on the projected benefit obligation. Under SFAS No. 158, any actuarial gains and losses, prior service costs and transition assets or obligations that were not recognized under previous accounting standards must be recognized in accumulated other comprehensive income (AOCI) under common stock equity, net of tax, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, which is the date when the fair value of plan assets and benefit obligations are measured, is required to be a company's fiscal year end. The measurement date change did not have an impact on our measurement of benefit obligations or the fair value of plan assets because we previously used our fiscal year end as our measurement date.

Effective December 31, 2006, we adopted SFAS No. 158 and recorded balance sheet adjustments to recognize the funded status of our pension and other postretirement plans. These adjustments did not have a material impact on our results of operations, cash flows or our ability to meet our financial debt covenants. We received regulatory approval from the OPUC for deferred asset recognition of AOCI related to the funded status of certain plans under SFAS No. 71 as these amounts are probable of collection in future rates. As such, we have recognized the unfunded status of our qualified pension plans and our postretirement benefit plan as a deferred regulatory asset, and we will recognize changes in actuarial gains and losses, prior service costs and transition assets or obligations each year as an adjustment to the regulatory deferred asset or liability account as these amounts are recognized as components of net periodic benefit costs each year. See Note 7 for a discussion of pension and other postretirement plans.

Share Based Payment. Effective January 1, 2006, we adopted SFAS No. 123R, "Share Based Payment," using the Modified Prospective Application method without restatement of prior periods. Prior to implementation of SFAS No. 123R, we accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires companies to recognize compensation expense for all equity-based compensation awards issued to employees that are expected to vest. Under this method, we began to amortize compensation cost for the remaining portion of outstanding awards for which the requisite service was not yet rendered at January 1, 2006. Compensation cost for these awards was based on the fair value of the awards at the grant date, which was determined under the intrinsic value method. We determine the fair value of and account for awards that are granted, modified or settled on or after January 1, 2006 in accordance with SFAS No. 123R. The adoption of SFAS No. 123R did not have a material impact on our financial condition, results of operations or cash flows. See Note 4 for a discussion of stock-based compensation.

Accounting for Changes and Error Corrections. Effective January 1, 2006, we adopted SFAS No. 154, "Accounting for Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3," which provides guidance on the accounting for and reporting of accounting changes and error corrections. The statement requires retrospective application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. The guidance provided in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements remains unchanged and requires the restatement of previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have an impact upon our financial condition, results of operations or cash flows.

Inventory Costs. Effective January 1, 2006, we adopted SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," which amends the guidance on inventory pricing to require that abnormal amounts of idle facility expense, freight, handling costs and wasted material be charged to current period expense rather than capitalized as inventory costs. The adoption of SFAS No. 151 did not have a material impact on our financial condition, results of operations or cash flows.

Purchases and Sales of Inventory with the Same Counterparty. Effective April 1, 2006, we adopted FASB Emerging Issues Task Force (EITF) Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." EITF 04-13 requires that two or more legally separate exchange transactions with the same counterparty be combined and considered a single arrangement for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions," when the transactions are entered into in contemplation of one another. EITF 04-13 was effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. Adoption of this standard did not have a material impact on our financial condition, results of operations or cash flows.

Variable Interest Entities. In April 2006, the FASB issued a staff position (FSP) interpreting variable interest entities (VIE) under FASB Interpretation No. (FIN) 46(R)-6, "Determining the Variability to be Considered in Applying FIN 46(R)." This FSP emphasizes that preparers should use a "by design" approach in determining whether an interest is variable. A "by design" approach includes evaluating whether an interest is variable based on a thorough understanding of the design of the potential VIE, including the nature of the risks that the potential VIE was designed to create and pass along to interest holders in the entity. Consolidation of a VIE by the primary beneficiary is required if it is determined that the VIE does not effectively disperse risks among the parties involved. FSP No. FIN 46(R)-6 must be applied prospectively to all entities with which the company first becomes involved and to all entities previously required to be analyzed under FIN 46(R) when a reconsideration event has occurred effective on or after July 1, 2006. Implementation of FSP No. FIN 46(R)-6 did not have a material impact on our financial condition, results of operations or cash flows.

Recent Accounting Pronouncements

Accounting for Certain Hybrid Instruments. In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments," which amends SFAS Nos. 133 "Accounting for Derivative Instruments and Hedging Activities," and 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125." SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. The statement is effective for all financial instruments acquired or issued after January 1, 2007. We are evaluating the effect of the adoption and implementation of SFAS No. 155, which is not expected to have a material impact on our financial condition, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes. In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109," which provides guidance for the recognition and measurement of a tax position taken or expected to be taken in a tax return.

FIN 48 is effective as of the beginning of the first annual period after December 15, 2006, or January 1, 2007. It replaces the "probable" and "reasonable estimate" standards of SFAS No. 5 with a two-step approach for determining the amount of tax benefits (thus treating "loss contingencies" and "gain contingencies" consistently) to be recorded in a company's financial statements. Management is required to evaluate all tax positions taken for each jurisdiction and determine the likelihood of the positions being sustained. If management is highly confident that a tax position will be sustained and there is a greater than 50 percent likelihood that the full amount of the tax position will be ultimately realized, a company would recognize the full benefit associated with the tax position.

New disclosures under FIN 48 will primarily consist of:

- A policy on classification of interest and penalties (either as components of operating income or components of the income tax provision);
- A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period;
- The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate; and,
- A description of tax years that remain subject to examination by major tax jurisdictions.

Adoption of FIN 48 will require us to identify and evaluate all material tax positions taken in previously filed and currently open tax returns as well as tax positions expected to be taken in future returns. Each tax position will need to be examined to determine whether the more likely than not recognition standard has been met, and if so, to compute the amount of the tax benefit to be recognized under FIN 48. Based upon a preliminary assessment of the application of FIN 48, the adoption of FIN 48 is not expected to have a material effect on our financial condition, results of operations or cash flows. See Note 8.

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides a common definition for the measurement of fair value for use in applying GAAP and in preparing financial statement disclosures. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are evaluating the effect of the adoption and implementation of SFAS No. 157, which is not expected to have a material impact on our financial condition, results of operations or cash flows.

Plant and Property and Accrued Asset Removal Costs

Plant and property is stated at cost, including capitalized labor, materials and overhead (see Note 9). The cost of constructing utility plant and gas storage assets includes an allowance for funds used during construction, which represents the net financing cost during the period of funds used for construction purposes (see "Allowance for Funds Used During Construction," below).

Our provision for depreciation of utility property is computed under the straight-line, age-life method in accordance with independent engineering studies and as approved by regulatory authorities. The weighted average depreciation rate for utility plant in service was approximately 3.4 percent for the each of the years ended December 31, 2006, 2005 and 2004, reflecting the approximate economic life of the property.

In accordance with long-standing industry practice, we accrue for future asset removal costs on many long-lived assets through a charge to depreciation expense allowed in rates and accumulate such amounts in regulatory liabilities. At the time removal costs are incurred, accumulated depreciation is charged with the costs of removal and the book cost of the asset. Our estimate of accumulated removal costs is based on rates using our most recent depreciation study. No gain or loss is recognized upon normal retirement. In the rate setting process, the accrued asset removal costs are treated as a reduction to the net rate base.

Allowance for Funds Used During Construction

Certain additions to utility plant include an allowance for funds used during construction, which represents the net cost of borrowed or other funds used during construction and is calculated using actual current interest rates. If borrowings are less than the total costs of construction work in progress, then a composite rate of interest on all debt, shown as a reduction to interest charges, and a return on equity funds, shown as other income, is used to compute the allowance. While cash is not realized currently from allowance for funds used during construction, it is realized in future years through increased revenues from rate recovery resulting from higher rate base and higher depreciation expense. Our composite allowance for funds used during construction rates were 4.7 percent in 2006, 3.1 percent in 2005 and 3.0 percent in 2004.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and highly liquid temporary investments with original maturity dates of three months or less. At December 31, 2006 and 2005, book overdrafts of $3.7 million and $4.1 million, respectively, were included within accounts payable.

Revenue Recognition and Accrued Unbilled Revenues

Utility revenues, derived primarily from the sale and transportation of gas, are recognized when the gas is delivered to and received by the customer. Revenues include accruals for gas delivered but not yet billed to customers based on estimates of gas deliveries from meter reading dates to month end (accrued unbilled revenues). Accrued unbilled revenues are dependent upon a number of factors that require management's judgment, including total gas receipts and deliveries, customer use and weather. Accrued unbilled revenues are reversed the following month when actual billings occur. Our accrued unbilled revenues at December 31, 2006 and 2005 were $87.5 million and $81.5 million, respectively.

Non-utility revenues, derived primarily from gas storage services, are recognized upon delivery of the service to customers. Revenues from optimization of excess storage and transportation capacity include amounts that are recognized ratably over the life of the contract for guaranteed amounts, or as earned for amounts above the guaranteed amount based on the terms of our contract with the independent energy marketing company which optimizes the value of our assets primarily through the use of commodity transactions and capacity release transactions (see Note 2).

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consist primarily of amounts due for gas sales and transportation services to core (residential, commercial and industrial firm) customers, plus amounts due for gas storage and other miscellaneous receivables. With respect to these trade receivables and accrued unbilled revenues, we establish an allowance for uncollectible accounts (allowance) based on the aging of receivables, collection experience of past due accounts on payment plans, and historical trends of write-offs as a percent of revenues. With respect to large individual customer receivables, a specific allowance is established and added to the general allowance when amounts are identified as unlikely to be partially or fully recovered. Inactive accounts are written-off against the allowance after 120 days past due or when deemed to be uncollectible. Differences between our estimated allowance and actual write-offs will occur based on changes in general economic conditions, customer credit issues and the level of natural gas prices. Each quarter the allowance for the uncollectible accounts is adjusted, if necessary, based on the most current information available.

Inventories

Inventories, which consist primarily of natural gas in storage for the utility, are generally stated at the lower of average cost or net realizable value. The regulatory treatment of gas inventories provides for full cost recovery in customer rates, subject to a prudency review, including any differences between the actual purchase cost of gas injected into inventory and the embedded cost of inventory in current rates. All gas that is injected into storage is priced into inventory at the actual purchase cost based on a regulatory dispatch model for our gas purchases. All gas that is withdrawn from inventory is charged to cost of gas during the current period at the weighted average cost of inventory embedded in customer rates, which is established in our annual purchased gas adjustment (PGA) filing. Material and supplies inventories are stated at the lower of average cost or net realizable value.

Derivatives

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (collectively referred to as SFAS No. 133), we measure derivatives at fair value and recognize them as either assets or liabilities on the balance sheet. SFAS No. 133 requires that changes in the fair value of a derivative be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133 provides an exception for contracts intended for normal purchases and normal sales for which physical delivery is probable. In addition, certain derivatives contracts are approved by regulatory authorities for recovery through customer rates. Accordingly, the changes in fair value of these contracts are deferred as regulatory assets or liabilities pursuant to SFAS No. 71. Derivatives contracts entered into for core utility customer requirements after the PGA rate has been set are subject to the PGA incentive sharing mechanism, whereby 67 percent of the changes in fair value are deferred as regulatory assets or liabilities and the remaining 33 percent is recorded to the income statement (see Note 11).

Our Financial Derivatives Policy sets forth the guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. Our objective for using derivatives is to decrease the volatility of earnings and cash flows and to prevent speculative risk. The use of derivatives is permitted only after the risk exposures have been identified, are determined to exceed acceptable tolerance levels and are considered to be unavoidable because they are necessary to support normal business activities. We do not enter into derivative instruments for trading purposes and we believe that any increase in market risk created by holding derivatives should be offset by the exposures they modify.

Revenue Taxes

We account for utility revenue-based taxes assessed by governmental entities as a separate cost collected from customers for remittance to those governmental entities. Therefore our revenue taxes are accounted for as a cost of sale and presented separately on the income statement.

Income Tax Expense

NW Natural and its one active wholly-owned subsidiary file consolidated federal and state income tax returns. Current income taxes are allocated based on each entity's respective taxable income or loss and investment tax credits as if each entity filed a separate return. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires recognition of deferred tax liabilities and assets for the future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse (see Note 8).

SFAS No. 109 also requires recognition of deferred income tax assets and liabilities for temporary differences where regulators prohibit deferred income tax treatment for ratemaking purposes. We have recorded a deferred tax liability equivalent to $67.1 million and $65.8 million at December 31, 2006 and 2005, respectively, to recognize future taxes payable resulting from transactions that have previously been reflected in the financial statements for these temporary differences. Regulatory assets or liabilities corresponding to such additional deferred income tax assets or liabilities may be recorded to the extent we believe they will be recoverable from or payable to customers through the ratemaking process. Pursuant to SFAS No. 71, a corresponding regulatory asset has been recorded which represents the probable future revenue that will result from inclusion in rates charged to customers of taxes which will be paid in the future. The probable future revenue to be recorded takes into consideration the additional future taxes which will be generated by that revenue. Amounts applicable to income taxes due from customers primarily represent differences between the book and tax basis of net utility plant in service and actual removal costs incurred.

Deferred investment tax credits on utility plant additions and leveraged leases, which reduce income taxes payable, are deferred for financial statement purposes and amortized over the life of the related plant or lease. Investment and energy tax credits generated by the non-regulated subsidiary are amortized over a period of one to five years.

Other Income and Expense—Net

Other income and expense—net consists of interest income, gain on sale of investments, investment income of Financial Corporation and other miscellaneous income from merchandise sales, rents, leases and other items.

Thousands	2006	2005
Other Income and Expense - Net		
Gains from company-owned life insurance	$2,609	$ 1,856
Interest income	363	403
Earnings from equity investments of Financial Corporation	191	57
Other non-operating expenses	(852)	(1,393)
Net interest on deferred regulatory accounts	(177)	282
Other Income and Expense - Net	$2,134	$ 1,205

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding each year. Diluted earnings per share reflect the potential effects of the conversion of convertible debentures and the exercise of stock options. Diluted earnings per share are calculated as follows:

Thousands, except per share amounts	2006	2005	2004
Net income	$63,415	$58,149	$50,572
Convertible debenture interest less taxes	-	-	200
Net income - diluted	$63,415	$58,149	$50,772
Average common shares outstanding - basic	27,540	27,564	27,016
Stock based compensation	117	57	40
Convertible debentures	-	-	227
Average common shares outstanding - diluted	27,657	27,621	27,283
Earnings per share of common stock - basic	$ 2.30	$ 2.11	$ 1.87
Earnings per share of common stock - diluted	$ 2.29	$ 2.11	$ 1.86

For the years ended December 31, 2006, 2005 and 2004, 105,600 shares, 6,000 shares and 201,800 shares, respectively, represent the number of stock options which were excluded from the calculation of diluted earnings per share because the effect was antidilutive.

Stock-Based Compensation

We periodically provide stock-based compensation to employees in the form of stock options and other incentive awards. As required by SFAS No. 123R, we recognize the fair value of all share-based payments as compensation expense in the financial statements. Prior to January 1, 2006, as permitted by SFAS No. 123, we applied APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. Accordingly, we did not recognize compensation expense for the fair value of our stock option grants. We implemented SFAS 123R effective January 1, 2006 by applying the modified prospective transition method. The impact on net income of this new standard, had it been adopted in 2005, is reflected in the pro forma amounts in Note 4. We have recognized and will continue to recognize compensation

expense for the fair value of stock awards granted under our Long-Term Incentive Plan (LTIP) and the Non-Employee Directors Stock Compensation Plan (NEDSCP) in the period when the shares are earned (see "New Accounting Standards—Adopted Standards—Share Based Payments," above, and Note 4).

2. CONSOLIDATED SUBSIDIARY OPERATIONS AND SEGMENT INFORMATION:

At December 31, 2006, we had one active, direct wholly-owned subsidiary, Financial Corporation.

Our core business segment is the local gas distribution segment, also referred to as the "utility," which involves the distribution and sale of natural gas. Another business segment, "gas storage" (previously referred to as "interstate gas storage") represents natural gas storage services provided to intrastate and interstate customers, and includes asset optimization services under a contract with an independent energy marketing company. The remaining business segment, "other," primarily consists of non-regulated investments in alternative energy projects in California (see "Financial Corporation," below), a Boeing 737-300 aircraft leased to Continental Airlines and low-income housing in Portland, Oregon (see Note 9).

Gas Storage

The gas storage business segment is primarily made up of underground natural gas storage services that we provide to large intra- and inter-state customers using our owned storage capacity that has been developed in advance of core utility customers' requirements. In Oregon, we retain 80 percent of the income before tax from these services and credit the remaining 20 percent to a deferred regulatory account for sharing with core utility customers. For each of the years ended December 31, 2006, 2005 and 2004, this business segment derived a majority of its revenues from five customers. The largest of these customers is served under a long-term contract.

Results for the gas storage segment include revenues, net of amounts shared with core utility customers, from a contract with an independent energy marketing company that optimizes the use of the our assets primarily through the use of commodity transactions and transportation capacity release transactions. In Oregon, we retain 80 percent of the pre-tax income when the costs of the capacity have not been included in utility rates, or 33 percent of the pre-tax income when the costs have been included in core utility rates. The remaining 20 percent and 67 percent, respectively, are credited to a deferred regulatory account for distribution to core utility customers. We have a similar sharing mechanism in Washington for revenue derived from storage and third party optimization.

Other

At December 31, 2006, we reclassified to current assets our net investment of $5.3 million in a Boeing 737-300 airplane leased to Continental Airlines. The original lease term expires in September 2007, and we expect to sell the airplane by the end of 2007. Also in 2006, we sold non-utility real estate investments for $1.8 million, which resulted in a gain on sale of $0.5 million.

Financial Corporation has several financial investments, including investments as a limited partner in windpower electric generating projects and low-income housing projects. Financial Corporation's total assets were $2.6 million and $3.3 million at December 31, 2006 and 2005,

respectively. On January 31, 2005, Financial Corporation sold its limited partnership interests in three solar electric generating systems for approximately $3 million.

Segment Information Summary

The following table presents summary financial information about the reportable segments for 2006, 2005 and 2004. Inter-segment transactions are insignificant.

Thousands	Utility	Gas Storage	Other	Total
2006				
Net operating revenues	$ 327,267	$12,761	$ 148	$ 340,176
Depreciation and amortization	63,552	883	-	64,435
Income from operations	126,366	9,870	526	136,762
Income from financial investments	2,609	-	191	2,800
Net income	56,653	5,982	780	63,415
Total assets at Dec. 31, 2006	1,912,021	35,970	8,865	1,956,856
2005				
Net operating revenues	$ 315,248	$ 9,609	$ 136	$ 324,993
Depreciation and amortization	60,935	710	-	61,645
Income (loss) from operations	118,794	8,158	(5)	126,947
Income from financial investments	1,856	-	57	1,913
Net income	52,759	4,557	833	58,149
Total assets at Dec. 31, 2005	1,994,868	34,574	12,862	2,042,304
2004				
Net operating revenues	$ 284,904	$ 6,423	$ 168	$ 291,495
Depreciation and amortization	56,899	472	-	57,371
Income (loss) from operations	104,781	5,299	(54)	110,026
Income from financial investments	2,855	-	181	3,036
Net income	47,090	2,880	602	50,572

3. CAPITAL STOCK:

Common Stock

At December 31, 2006, we had reserved 244,406 shares of common stock for issuance under the Employee Stock Purchase Plan, 753,934 shares under our Dividend Reinvestment and Direct Stock Purchase Plan and 1,469,000 shares under our Restated Stock Option Plan (see Note 4).

In connection with the restatement of our Restated Articles of Incorporation, effective May 31, 2006, the par value of our common stock was eliminated. As a result, at December 31, 2006, our "common stock" and "premium on common stock" account balances are reflected on the balance sheet as "common stock."

Expiration of Common Share Purchase Rights

In February 2006, our Board of Directors decided to allow all of the common stock purchase rights (Rights) issued under the Rights Agreement, dated as of February 27, 1996, as amended, to expire in accordance with their terms at the close of business on March 15, 2006.

Stock Repurchase Program

Our publicly announced stock repurchase program allows us to purchase up to 2.6 million shares, or up to $85.0 million in total, of our common stock in the open market or through privately negotiated transactions. A total of 395,500 and 410,200 shares were repurchased under this program in 2006 and 2005, respectively; however, no shares were repurchased in 2004.

Restated Stock Option Plan

There are 2,400,000 shares authorized for option grants under the Restated Stock Option Plan. At December 31, 2006, options on 1,135,000 shares were available for grant and options on 334,000 shares were outstanding.

Convertible Debentures

In August 2005, we redeemed all of our outstanding Convertible Debentures, 7-1/4% Series due 2012, at 100 percent of their principal amount plus accrued interest to the date of redemption. During 2005, debentures with an aggregate principal amount of $4.0 million were converted into shares of common stock on or prior to the redemption date at the rate of 50.25 shares for each $1,000 principal amount of debentures and $0.5 million of debentures were redeemed.

Summary of Changes in Common Stock

The following table shows the changes in the number of shares of our common stock outstanding and the premium on common stock for the years 2006, 2005 and 2004:

	Shares	Premium on common stock (thousands)
Balance, Dec. 31, 2003	25,938,002	$ 255,871
Sales to public	1,290,000	35,905
Sales to employees	27,541	605
Sales to stockholders	157,124	4,323
Exercise of stock options - net	73,649	2,285
Conversion of convertible debentures to common	64,904	1,086
Lapse of restricted stock award	(4,500)	(41)
Balance, Dec. 31, 2004	27,546,720	$ 300,034
Sales to employees	30,896	741
Sales to stockholders	113,925	3,741
Exercise of stock options - net	97,068	2,241
Conversion of convertible debentures to common	200,887	3,360
Repurchase	(410,200)	(13,646)
Balance, Dec. 31, 2005	27,579,296	$ 296,471
Repurchase	(395,500)	(1,461)
Sales to employees	31,397	-
Exercise of stock options - net	68,548	285
Change to no-par common stock	-	(295,295)
Balance, Dec. 31, 2006	27,283,741	$ -

4. STOCK-BASED COMPENSATION:

We have the following stock-based compensation plans: 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 in NW Natural by employees and officers and, in the case of the NEDSCP, by non-employee directors.

Long-Term Incentive Plan. The LTIP is intended to provide a flexible, competitive compensation program for eligible officers and key employees. An aggregate of 500,000 shares of common stock was authorized for grants under the LTIP as stock bonus, restricted stock or performance-based stock awards. Shares awarded under the LTIP are purchased on the open market.

At December 31, 2006, 375,060 shares of common stock were available for award under the LTIP, assuming that outstanding performance based grants are awarded at the target level. The LTIP stock awards are compensatory awards for which compensation expense is recognized based on the market value of performance shares earned, or a pro rata amortization over the vesting period for the outstanding restricted stock awards.

Performance-based Stock Awards. Since the LTIP's inception in 2001 through December 31, 2006, performance-based stock awards have been granted annually based on three-year performance periods. At December 31, 2006, certain performance-based stock award measures had been achieved for the 2004-06 award period. Accordingly, participants will receive 40,446 shares of common stock and a dividend equivalent cash payment equal to the number of shares of common stock received on the award payout multiplied by the aggregate cash dividends paid per share during the performance period. For the 12 months ended December 31, 2006, we accrued and expensed $0.9 million related to the 2004-06 performance-based stock award. At December 31, 2006, on a cumulative basis, $1.7 million has been accrued for the 2004-06 performance period.

At December 31, 2006, the aggregate number of performance-based shares granted and outstanding at the threshold, target and maximum levels were as follows:

Year Awarded	Performance Period	Number of Performance Share Awards		
		Threshold	Target	Maximum
2005	2005-07	6,333	33,332	66,664
2006	2006-08	7,536	39,662	79,324
	Total	13,869	72,994	145,988

The threshold level estimates future payout assuming the minimum award payable other than no payout for each component of the formula in the Long-Term Incentive Plan. For each of these performance periods, awards will be based on total shareholder return relative to a peer group of gas distribution companies over the three-year performance period and on performance results achieved relative to specific core and non-core strategies. Compensation expense is recognized in accordance with SFAS No. 123R, based on performance levels achieved and an estimated fair value using a Black-Scholes or binomial model. The weighted-average grant date fair value of unvested shares at December 31, 2006 and 2005 was $30.65 and $42.86, respectively. The

weighted-average grant date fair value of shares vested during the year was $40.15 and granted during the year was $18.63. For the 12 months ended December 31, 2006, the amount accrued and expensed as compensation under these LTIP grants was $1.0 million. At December 31, 2006, on a cumulative basis, $1.5 million has been accrued for the 2005-07 and 2006-08 performance periods.

Restricted Stock Awards. Restricted stock awards also have been granted under the LTIP. A restricted stock award was granted in 2004 consisting of 5,000 shares that will vest ratably over the period 2005-09, and a restricted stock award was granted in 2006 consisting of 6,500 shares that will vest ratably over the period 2007-09. A total of 2,000 restricted stock award shares were vested at December 31, 2006. Compensation expense is recognized ratably over the vesting period.

Restated Stock Option Plan. The Restated SOP authorizes an aggregate of 2,400,000 shares of common stock for issuance as incentive or non-statutory stock options. These options may be granted only to officers and key employees designated by a committee of our Board of Directors. All options are granted at an option price not less than the market value at the date of grant and may be exercised for a period not exceeding 10 years from the date of grant. Option holders may exchange shares they have owned for at least six months, at the current market price, to purchase shares at the option price. We use original issue shares upon exercise of options under the plan (see Note 3.)

Employee Stock Purchase Plan. The ESPP allows employees to purchase common stock at 85 percent of the closing price on the trading day immediately preceding the initial offering date, which is set annually. Each eligible employee may purchase up to $24,000 worth of stock through payroll deductions over a six- to 12-month period. We use original issue shares upon exercise of options under the plan (see Note 3.)

In accordance with APB Opinion No. 25, no compensation expense was recognized for options granted under the Restated SOP or shares issued under the ESPP during 2005 or earlier years (see Note 1, "New Accounting Standards—Adopted Standards—Share Based Payment"). If compensation expense for awards under these two plans had been determined based on fair value at the grant dates using the method prescribed by SFAS No. 123R, net income and earnings per share would have been reduced to the pro forma amounts shown below:

Pro Forma Effect of Stock-Based Options and ESPP: Thousands, except per share amounts	2005	2004
Net income as reported	$58,149	$50,572
Add: Stock based compensation expense included in reported net income - net of related tax effects	613	96
Deduct: Pro forma stock-based compensation expense determined under the fair value based method - net of related tax effects	(940)	(519)
Pro forma earnings applicable to common stock - basic	57,822	50,149
Debenture interest less taxes	-	200
Pro forma earnings applicable to common stock - diluted	$57,822	$50,349
Basic earnings per share		
As reported	$ 2.11	$ 1.87
Pro forma	$ 2.10	$ 1.86
Diluted earnings per share		
As reported	$ 2.11	$ 1.86
Pro forma	$ 2.09	$ 1.85

The fair value of each stock option is estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005	2004
Risk-free interest rate	4.5%	4.2%	3.6%
Expected Life (in years)	6.2	7.0	7.0
Expected market price volatility factor	22.8%	24.6%	25.2%
Expected dividend yield	4.0%	3.6%	4.1%
Present value of options granted	$26.00	$27.87	$24.55

The simplified formula for "plain vanilla" options was utilized to determine the expected life as defined and permitted by Staff Accounting Bulletin No. 107. The risk-free interest rate was based on the implied yield currently available on U.S. Treasury zero-coupon issues with a life equal to the expected life of the options. Historical data was employed in order to estimate the volatility factor, measured on a daily basis, for a period equal to the duration of the expected life of the option awards. The dividend yield was based on management's current estimate for dividend payout at the time of grant. A forfeiture rate of 3 percent was applied to the calculation of compensation expense. We expense the total cost of stock option awards granted to retirement eligible employees at the date of grant in accordance with SFAS No. 123R and the retirement provisions of our plan.

Information regarding the Restated SOP's activity for the three years ended December 31, 2006 is summarized as follows:

		Price per Share	
	Option Shares	Range	Weighted-Average Exercise Price
Balance outstanding, Dec. 31, 2003	322,044	$20.25 - 27.875	$25.35
Granted	202,800	31.34 - 32.02	31.40
Exercised	(92,074)	20.25 - 27.875	24.39
Forfeited	(1,300)	26.30 - 31.34	30.18
Balance outstanding, Dec. 31, 2004	431,470	20.25 - 32.02	28.38
Granted	9,000	34.95 - 38.30	37.18
Exercised	(121,170)	20.25 - 31.34	26.59
Forfeited	(10,800)	27.60 - 31.34	30.79
Balance outstanding, Dec. 31, 2005	308,500	20.25 - 38.30	29.26
Granted	97,800	34.29	34.29
Exercised	(69,300)	20.25 - 31.34	27.15
Forfeited	(3,000)	31.34 - 34.29	32.52
Balance outstanding, Dec. 31, 2006	334,000	$20.25 - 38.30	$31.14
Shares available for grant Dec. 31, 2004	1,228,000		
Shares available for grant Dec. 31, 2005	1,229,800		
Shares available for grant Dec. 31, 2006	1,135,000		

The weighted average remaining life of outstanding stock options at December 31, 2006 was 7.10 years.

The weighted-average grant-date fair value of equity awards granted during 2005 and 2006 was $7.85 and $6.29, respectively. At December 31, 2006, a total of 179,700 options were exercisable.

During the year ended December 31, 2006, pre-tax compensation expense amounted to $0.6 million relating to options granted under the Restated SOP. This expense was recognized in operations and maintenance expense under the fair value method in accordance with SFAS No. 123R. In addition, $0.2 million of pre-tax compensation expense related to the ESPP was recognized for the year. As of December 31, 2006, there was $0.4 million of unrecognized compensation cost related to the unvested portion of outstanding stock option awards expected to be recognized over a period extending through 2009.

In the year ended December 31, 2006, 69,300 option shares were exercised with a total intrinsic value of $0.8 million. Cash of $2.2 million was received for these exercises and a $0.3 million related tax benefit was realized. The total intrinsic value of options exercised in the years ended December 31, 2005 and 2004 was $1.2 million and $0.7 million, respectively, and the total fair value of options that vested was $0.4 million in both 2006 and 2005 and $0.6 million in 2004.

The following table summarizes additional information about stock options outstanding and exercisable at December 31, 2006:

	Outstanding		Exercisable			
Range of Exercise Prices	Stock Options	(In millions) Aggregate Intrinsic Value	Stock Options	(In millions) Aggregate Intrinsic Value	Weighted-Average Exercise Price	Weighted-Average Remaining Life in Years
$20.25 - 38.30	334,000	$3.8	179,700	$2.4	$29.16	5.9

In accordance with SFAS No. 123R, we capitalize a portion of the expense recognized in relation to stock based compensation. The following table summarizes the effects of stock based compensation resulting from the application of SFAS No. 123R granted under our LTIP, SOP and ESPP:

Thousands, except per share amounts	2006
Operations and maintenance	$ 2,304
Stock-based compensation effect on income before taxes	2,304
Income taxes	(898)
Net stock-based compensation effect on net income	$ 1,406
Effect on basic earnings per share	$ 0.05
Effect on diluted earnings per share	$ 0.05
Effect on cash flow from operations	$(1,136)
Effect on cash flow from financing activities	$ 1,280

Non-Employee Directors Stock Compensation Plan. In February 2004, the NEDSCP was amended to permit non-employee directors to receive stock awards either in cash or in our stock. As a result of modifications to the directors' compensation arrangements, the NEDSCP was further amended in September 2004 to eliminate any further awards, either in cash or stock, on and after January 1, 2005.

Prior to the latter amendment to the NEDSCP, if non-employee directors elected to receive their awards in stock, approximately $100,000 worth of common stock was awarded upon joining the Board. These stock awards were subject to vesting and to restrictions on sale and transferability. The shares vested in monthly installments over the five calendar years following the award. On January 1 of each year following the initial award, non-employee directors who elected to receive their awards in stock were awarded an additional $20,000 worth of restricted stock, which vested in monthly installments in the fifth year following the award (after the previous award had fully vested). We hold the certificates for the restricted shares until the non-employee director ceases to be a director. Participants receive all dividends and have full voting rights on both vested and unvested shares. All awards vest immediately upon the death of a director or upon a change in control of the Company. Any unvested shares are considered to be unearned compensation, and thus are forfeited if the recipient ceases to be a director. The shares were purchased in the open market by us at the time of the award. During 2006, 7,848 shares vested under the plan and no forfeitures occurred. At December 31, 2006, 11,071 shares remain unvested, all of which are scheduled to vest by December 31, 2008. The weighted-average grant-date fair value of unvested shares at December 31, 2006 and 2005 was $28.92 and $29.02, respectively.

Changes in unearned stock compensation in 2006 resulted from purchases of restricted stock related to the restricted stock grant under the LTIP for $0.2 million, offset by restricted stock amortizations of $0.3 million. In 2005, the change in unearned stock compensation consisted of $0.2 million of restricted stock amortizations.

Under a separate plan, prior to January 1, 2005, non-employee directors could elect to invest their cash fees and retainers for board service in shares of common stock. Under a new deferral plan effective January 1, 2005, such fees and retainers will be deferred to a cash account. Cash account balances may be transferred to and invested in a stock account at the election of the director up to four times per year.

5. LONG-TERM DEBT:

The issuance of first mortgage debt, including secured medium-term notes, under the Mortgage and Deed of Trust (Mortgage), is limited by property additions, adjusted net earnings and other provisions of the Mortgage. The Mortgage constitutes a first mortgage lien on substantially all of our utility property.

The maturities on the long-term debt outstanding, for each of the 12-month periods through December 31, 2011 amount to: $29.5 million in 2007; $5 million in 2008; none in 2009; $35 million in 2010; and $10 million in 2011. Holders of certain long-term debt have put options that, if exercised, would accelerate the maturities by $20 million in each of 2007, 2008 and 2009.

In December 2006, we issued and sold $25 million of 5.15% Series B secured Medium Term Notes (MTNs) due 2016. Proceeds from this sale were used, in part, to repay short-term debt and fund our ongoing utility construction program.

In June 2005, we issued and sold $50 million in principal amount of secured MTNs, consisting of $40 million of the 4.70% Series B due 2015 and $10 million of the 5.25% Series B due 2035. Proceeds from these sales were used, in part, to redeem $15 million of maturing MTNs in July 2005, and the balance was applied to our ongoing utility construction program and the repayment of short-term debt.

In July 2005, we redeemed three series of maturing MTNs aggregating $15 million in principal amount. The series redeemed were the 6.34% Series B, the 6.38% Series B and the 6.45% Series B, each with a principal balance outstanding of $5 million due in July 2005.

6. NOTES PAYABLE AND LINES OF CREDIT:

Our primary source of short-term funds is from the sale of commercial paper notes payable. In addition to issuing commercial paper to meet seasonal working capital requirements, including the financing of gas purchases, gas inventories and accounts receivable, short-term debt is used temporarily to fund capital requirements. Commercial paper is periodically refinanced through the sale of long-term debt or equity securities. Our commercial paper program is supported by committed bank lines of credit (see below). At December 31, 2006 and 2005, the amounts and average interest rates of commercial paper debt outstanding were $100.1 million and 5.3 percent and $126.7 million and 4.3 percent, respectively. We have not issued commercial paper in an aggregate amount outstanding in excess of our committed lines of credit.

In September 2005, we entered into an agreement for unsecured lines of credit totaling $200 million with five commercial banks, replacing the existing $150 million credit facilities. The bank lines of credit (bank lines) are available and committed for a term of five years, beginning October 1, 2005 and expiring on September 30, 2010. Our bank lines are used primarily as back-up support for the notes payable under our commercial paper borrowing program. Commercial paper borrowing provides the liquidity to meet our working capital and external financing requirements. Under the terms of these bank lines, we pay upfront fees and annual commitment fees but are not required to maintain compensating bank balances. The interest rates on outstanding loans, if any, under these bank lines are based on then-current market interest rates. All principal and unpaid interest under the bank lines is due and payable on September 30, 2010.

The bank lines require that we maintain credit ratings with Standard & Poor's and Moody's Investors Service and notify the banks of any change in our senior unsecured debt ratings by such rating agencies. A change in our credit rating is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition of drawing upon the bank lines. However, interest rates on any loans outstanding under these bank lines are tied to credit ratings, which would increase or decrease the cost of any loans under the bank lines when ratings are changed.

The bank lines also require us to maintain an indebtedness to total capitalization ratio of 65 percent or less. Failure to comply with this covenant would entitle the banks to terminate their lending commitments and to accelerate the maturity of all amounts outstanding. We were in compliance with this covenant at December 31, 2006, with an indebtedness to total capitalization ratio of 51.9 percent.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS:

We maintain two qualified non-contributory defined benefit pension plans covering all regular employees with more than one year of service, several non-qualified supplemental pension plans for eligible executive officers and certain key employees and other postretirement benefit plans for employees. Only the two qualified defined benefit pension plans have plan assets,

which are held in a qualified trust to fund retirement benefits. Effective January 1, 2007, the Retirement Plan for Non-Bargaining Unit Employees and the Welfare Benefits Plan for Non-Bargaining Unit Employees was closed to anyone hired or rehired after December 31, 2006. Instead, newly hired or rehired non-bargaining unit employees will be provided an enhanced Retirement K Savings Plan (401k) benefit. Benefits provided to bargaining unit employees are not affected by these changes.

The following table provides a reconciliation of the changes in benefit obligations and fair value of plan assets, as applicable, for the pension and other postretirement benefit plans over the three-year period ended December 31, 2006, and a summary of the funded status and amounts recognized in the consolidated balance sheets using measurement dates of December 31, 2006, 2005 and 2004:

	Postretirement Benefits					
	Pension Benefits			Other Benefits		
Thousands	2006	2005	2004	2006	2005	2004
Reconciliation of change in benefit obligation:						
Obligation at January 1	$267,854	$222,948	$205,352	$ 20,398	$ 22,729	$ 23,379
Service cost	7,745	6,322	5,428	555	767	457
Interest cost	14,901	13,203	12,690	1,184	1,248	1,232
Special termination benefits	-	-	237	-	-	-
Expected benefits paid	(13,183)	(12,866)	(10,682)	(1,015)	(1,173)	(1,040)
Plan amendments	-	1,408	-	15	2,384	-
Change in assumptions	(9,208)	31,642	-	133	2,215	-
Net actuarial (gain) or loss	1,301	5,197	9,923	1,166	(7,772)	(1,299)
Obligation at December 31	$269,410	$267,854	$222,948	$ 22,436	$ 20,398	$ 22,729
Reconciliation of change in plan assets:						
Fair value of plan assets at January 1	$218,555	$186,787	$168,324	$ -	$ -	$ -
Actual return on plan assets	30,088	12,558	19,835	-	-	-
Employer contributions	1,058	32,076	9,310	1,015	1,173	1,040
Benefits paid	(13,183)	(12,866)	(10,682)	(1,015)	(1,173)	(1,040)
Fair value of plan assets at December 31	$236,518	$218,555	$186,787	$ -	$ -	$ -
Funded status:						
Funded status at December 31	$ (32,892)	$ (49,299)	$ (36,162)	$(22,436)	$(20,397)	$(22,728)
Unrecognized transition obligation	-	-	-	2,469	2,880	3,292
Unrecognized prior-service cost	5,512	6,492	5,146	2,063	2,243	-
Unrecognized net actuarial loss	45,862	69,766	33,897	2,288	988	6,717
Net amount recognized	$ 18,482	$ 26,959	$ 2,881	$(15,616)	$(14,286)	$(12,719)

In September 2006, the FASB issued SFAS No. 158 (see Note 1, "New Accounting Standards—Adopted Standards"). SFAS No. 158 requires balance sheet recognition of the overfunded or underfunded status of pension and other postretirement benefit plans. For pension plans, the liability is based on the projected benefit obligation. Under SFAS No. 158, any actuarial gains and losses, prior service costs and transition assets or obligations that were not recognized under previous accounting standards must be recognized in AOCI under common stock equity, net of tax, until they are amortized as a component of net periodic benefit cost. We consider the recognition of the underfunded status of the qualified defined

benefit plans and postretirement benefit plans to be subject to regulatory deferral under SFAS No. 71. The unrecognized net gains and losses, prior service costs and transition obligations relating to our qualified defined benefit pension and postretirement benefit plans were recognized as regulatory assets at December 31, 2006. An estimated $3.5 million consisting of actuarial gains of $1.9 million, prior service costs of $1.2 million and transition obligations of $0.4 million for the qualified plans will be amortized from the regulatory asset to net periodic benefit cost in 2007. The gains and losses, prior service costs and transition obligations related to our non-qualified supplemental pension plans are recognized in AOCI, net of tax, under common stock equity because these expenses are not the basis for regulatory recovery; however, these amounts are not material. In 2007, an estimated $0.2 million consisting of actuarial gains of $0.2 million and negligible prior service costs for the non-qualified plans will be amortized from AOCI to net periodic benefit cost.

The adoption of SFAS No. 158 did not have a material impact on our results of operations, cash flows or our ability to meet our financial debt covenants. The following table provides a summary of the changes in the statement of financial position at December 31, 2006 due to the application of SFAS No. 158:

		Adjustments		
Thousands	Before Application of SFAS No. 158	Adoption of SFAS No. 158	Regulatory Deferral	After Application of SFAS No. 158
Minimum pension liability [1]	$ 3,173	$ (3,173)	$ -	$ -
Pension benefit liabilities - current	-	1,134	-	1,134
Pension benefit liabilities - non-current	10,174	21,583	-	31,757
Postretirement benefit liability - current	-	1,503	-	1,503
Postretirement benefit liability - non-current	15,616	5,317	-	20,933
Deferred income taxes and investment tax credits	210,316	(21,442)	21,210	210,084
Regulatory asset	-	-	54,425	54,425
Prepaid pension asset	28,657	(28,657)	-	-
Accumulated other comprehensive income	(1,992)	(33,579)	33,215	(2,356)
Total assets	1,931,088	(28,657)	54,425	1,956,856
Total liabilities	814,179	4,922	21,210	840,311
Total capitalization	1,116,909	(33,579)	33,215	1,116,545

[1] The minimum pension liability before the adoption of SFAS No. 158 includes a current year adjustment of $0.1 million, net of tax.

Our qualified defined benefit pension plans had a projected benefit obligation in excess of plan assets at December 31, 2006. The plans' aggregate projected benefit obligations were $255 million, $254 million and $209 million at December 31, 2006, 2005 and 2004, respectively, and the fair value of plan assets was $236.5 million, $218.6 million and $186.8 million, respectively. The projected benefit obligations at December 31, 2006 decreased by $9.3 million, reflecting the increase in the discount rate assumptions and increased by $0.3 million, reflecting retirement and withdrawal rates updated for actual experience. The projected benefit obligations at December 31, 2005 increased $26.6 million from December 31, 2004 due to the use of updated mortality rates and increased $8.1 million due to a decrease in the discount rate. The combination of investment returns and future cash contributions is expected to provide sufficient funds to cover all future benefit obligations of the plans.

The assumed discount rates were determined independently for each pension and other postretirement benefit plan based on the Citigroup Above Median Curve (Citigroup curve) using high quality bonds (rated AA- or higher by Standard & Poors or Aa3 or higher by Moody's Investor Service). The Citigroup curve was applied to match the estimated cash flows to reflect the timing and amount of future benefit payments for these plans.

The expected long-term rate of return on plan assets was developed as a weighted average of the expected earnings for the target asset portfolio. In developing the expected long-term rate of return assumption, consideration was given to the historical performance of each asset class in which the plans' assets are invested and the target asset allocation for plan assets.

Our Investment Policy and Performance Objectives for the qualified pension plan assets held in the Retirement Trust Fund were approved by the retirement committee which is composed of senior management employees. The policy sets forth the guidelines and objectives governing the investment of plan assets. Plan assets are invested for total return with appropriate consideration for liquidity and portfolio risk. All investments are expected to satisfy the requirements of the rule of prudent investments as set forth under the Employee Retirement Income Security Act of 1974. The approved asset classes are cash and short-term investments, fixed income, common stock and convertible securities, absolute and real return strategies, real estate and investments in our common stock. Plan assets may be invested in separately managed accounts or in commingled or mutual funds. Re-balancing will take place periodically as needed, or when significant cash flows occur, in order to maintain the allocation of assets within the stated target ranges. Our expected long-term rate of return is based upon historical index returns by asset class, adjusted by a factor based on our historical return experience. The Retirement Trust Fund is not currently invested in any NW Natural securities.

Our pension plan asset allocation at December 31, 2006 and 2005, and the target allocation and expected long-term rate of return by asset category, are as follows:

Asset Category	Percentage of Plan Assets Dec. 31, 2006	2005	Target Allocation	Expected Long-term Rate of Return
US Large Cap Equity	19.2%	19.8%	20%	8.50%
US Small/Mid Cap Equity	13.9%	14.2%	15%	9.50%
Non-US Equity	23.5%	19.7%	20%	8.75%
Fixed Income	15.6%	19.3%	15%	5.50%
Real Estate	7.7%	6.2%	8%	7.75%
Absolute Return Strategies	14.3%	14.2%	15%	9.00%
Real Return	5.8%	6.6%	7%	7.75%
Weighted Average				8.25%

Our non-qualified supplemental pension plans' benefit obligations were $13.9 million, $13.5 million and $13.6 million at December 31, 2006, 2005 and 2004, respectively. These plans are not subject to regulatory deferral and the changes in actuarial gains and losses, prior service costs and transition assets or obligations for these plans were recognized in AOCI under common stock equity, net of tax, until they are amortized as a component of net periodic benefit cost. Although the plans are unfunded plans with no plan assets due to their nature as non-qualified plans, we indirectly fund our obligations with trust-owned life insurance.

Our plans for providing postretirement benefits other than pensions also are unfunded plans, but are subject to regulatory deferral. The gains and losses, prior service costs and transition assets or obligations for these plans were recognized as a regulatory asset. The accumulated postretirement benefit obligation for those plans was $22.4 million, $20.4 million and $22.7 million at December 31, 2006, 2005 and 2004, respectively.

Net periodic benefit costs consist of service costs, interest costs, the amortization of actuarial gains and losses, the expected returns on plan assets and, in part, on a market-related valuation of assets. The market-related valuation reflects differences between expected returns and actual investment returns, which are recognized over a three-year period from the year in which they occur, thereby reducing year-to-year net periodic benefit cost volatility.

The following tables provide the components of net periodic benefit cost for the qualified and non-qualified pension and other postretirement benefit plans for the years ended December 31, 2006, 2005 and 2004 and the assumptions used in measuring these costs and benefit obligations:

	Pension Benefits			Other Postretirement Benefits		
Thousands	2006	2005	2004	2006	2005	2004
Service cost	$ 7,745	$ 6,322	$ 5,428	$ 556	$ 767	$ 457
Interest cost	14,901	13,203	12,689	1,184	1,248	1,232
Expected return on plan assets	(17,611)	(14,449)	(13,284)	-	-	-
Amortization of transition obligations	-	-	-	411	411	411
Amortization of prior service costs	979	1,077	1,094	195	142	-
Amortization of net loss	3,520	2,082	1,631	1	173	288
Net periodic benefit cost	$ 9,534	$ 8,235	$ 7,558	$ 2,347	$ 2,741	$ 2,388
Assumptions for net periodic benefit cost:						
Discount rate	5.75%	6.00%	6.25%	5.75%	6.00%	6.25%
Rate of increase in compensation	4.0%-5.0%	4.0%-5.0%	4.0%-5.0%	n/a	n/a	n/a
Expected long-term rate of return	8.25%	8.25%	8.25%	n/a	n/a	n/a
Assumptions for funded status:						
Discount rate	6.0%-6.05%	5.75%	6.00%	5.91%	5.75%	6.00%
Rate of increase in compensation	4.0%-5.0%	4.0%-5.0%	4.0%-5.0%	n/a	n/a	n/a
Expected long-term rate of return	8.25%	8.25%	8.25%	n/a	n/a	n/a

The assumed annual increase in trend rates used in measuring postretirement benefits as of December 31, 2006 were 9 percent for medical and 12 percent for prescription drugs. Medical costs were assumed to decrease gradually each year to a rate of 4.5 percent by 2013, while prescription drug costs were assumed to decrease gradually each year to a rate of 4.5 percent by 2014.

Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

Thousands	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 23	$ (21)
Effect on health care cost component of the accumulated postretirement benefit obligation	$613	$(628)

The following table provides information regarding employer contributions and benefit payments for the two qualified pension plans, the non-qualified pension plans and the other postretirement benefit plans for the years ended December 31, 2006 and 2005, and estimated future payments:

Thousands		
Employer Contributions by Plan Year	Pension Benefits	Other Benefits
For 2005	$ 12,497	$ 1,173
For 2006	1,527	1,015
For 2007 (estimated)	1,655	1,571
Benefit Payments		
2004	$ 10,682	$ 1,040
2005	12,866	1,173
2006	13,183	1,015
Estimated Future Payments		
2007	$ 13,139	$ 1,571
2008	13,818	1,596
2009	14,513	1,626
2010	15,615	1,685
2011	16,221	1,753
2012-2016	93,212	9,002

Our Retirement K Savings Plan (RKSP) is a qualified defined contribution plan under Internal Revenue Code Section 401(k). We also have non-qualified deferred compensation plans for eligible officers and senior managers. These plans are designed to enhance the retirement program of employees and to assist them in strengthening their financial security by providing an incentive to save and invest regularly. Our matching contributions to these plans totaled $1.8 million in 2006 and $1.7 million in both 2005 and 2004. The RKSP includes an Employee Stock Ownership Plan.

In addition, in 2005 we began making contributions on behalf of each union employee to the Western States Office and Professional Employees Pension Fund, a multi-employer plan. In both 2006 and 2005, these contributions amounted to $0.5 million.

8. INCOME TAXES:

A reconciliation between income taxes calculated at the statutory federal tax rate and the tax provision reflected in the consolidated financial statements is as follows:

Thousands, except percentages	2006	2005	2004
Income taxes at federal statutory rate	$ 34,877	$31,804	$ 26,986
Increase (decrease):			
Current state income tax, net of federal tax benefit	3,655	2,913	2,554
Federal income tax credits	-	(210)	(210)
Amortization of investment and energy tax credits	(994)	(956)	(920)
Differences required to be flowed-through by regulatory commissions	(704)	(704)	(704)
Gains on Company and trust-owned life insurance	(913)	(650)	(955)
Other - net	155	187	172
Reversal of amounts provided in prior years	158	336	(392)
Total provision for income taxes	$ 36,234	$32,720	$ 26,531
Federal statutory tax rate	35.0%	35.0%	35.0%
Increase (decrease):			
Current state income tax, net of federal tax benefit	3.7%	3.2%	3.3%
Federal income tax credits	0.0%	-0.2%	-0.3%
Amortization of investment and energy tax credits	-1.0%	-1.1%	-1.2%
Differences required to be flowed-through by regulatory commissions	-0.7%	-0.8%	-0.9%
Gains on Company and trust-owned life insurance	-0.9%	-0.7%	-1.2%
Other - net	0.2%	0.2%	0.2%
Reversal of amounts provided in prior years	0.1%	0.4%	-0.5%
Effective tax rate	36.4%	36.0%	34.4%

The provision for income taxes consists of the following:

Thousands	2006	2005	2004
Current tax expense (benefit)	$ 52,621	$23,034	$(10,718)
Deferred tax expense (benefit)	(15,393)	10,642	38,170
Deferred investment and energy tax credits	(994)	(956)	(920)
Total provision for income taxes	$ 36,234	$32,720	$ 26,531
Total income taxes paid	$ 31,270	$28,479	$ 2,500

The amount of income taxes paid in 2006 and 2005 increased significantly as compared to the total income taxes paid in 2004. This was primarily due to the effects of the accelerated bonus depreciation provisions of the Job Creation and Worker Assistance Act of 2002 (Assistance Act) and of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Reconciliation Act). The Assistance Act provided for an additional depreciation deduction equal to 30 percent of an asset's adjusted basis. The Reconciliation Act increased this first-year additional depreciation deduction to 50 percent of an asset's adjusted basis. The accelerated depreciation provisions provided by the Acts expired December 31, 2004. We realized current tax benefits totaling an estimated $57 million during the effective period, based on plant investments made between September 11, 2001 and December 31, 2004. The accelerated depreciation provisions in 2004 were the primary factors resulting in net operating losses (NOL) for tax purposes.

The following table summarizes the total provision for income taxes for the regulated utility and other non-regulated business segments for the three years ended December 31:

Thousands	2006	2005	2004
Regulated utility:			
Federal			
Current	$ 40,979	$17,848	$(10,794)
Deferred	(12,472)	8,690	35,213
Deferred investment and energy tax credits	(756)	(784)	(800)
	27,750	25,755	23,618
State			
Current	7,490	1,650	(1,094)
Deferred	(2,338)	2,855	5,027
	5,152	4,504	3,933
Total charged to regulated utility	32,902	30,259	27,551
Non-regulated business segments:			
Federal			
Current	3,807	3,581	1,187
Deferred	(714)	(1,189)	(1,610)
Deferred investment and energy tax credits	(238)	(172)	(120)
	2,855	2,220	(543)
State			
Current	346	(44)	(17)
Deferred	131	285	(460)
	477	241	(478)
Total charged to non-regulated business segments	3,331	2,461	(1,020)
Total provision for income taxes	$ 36,234	$32,720	$ 26,531

The following table summarizes the tax effect of significant items comprising our deferred income tax accounts for the two years ended December 31:

Thousands	2006	2005
Deferred tax liabilities (assets)		
Utility plant and equipment	$150,648	$146,681
Utility regulatory balances	-	3,045
Utility other deferred tax differences	-	1,769
Non-regulated deferred tax differences	3,893	6,121
Deferred tax liabilities	154,540	157,616
Utility regulatory balances	(10,039)	-
Utility other deferred tax differences	(4,053)	-
Deferred tax assets	(14,092)	-
	140,448	157,616
Regulatory income tax assets	67,141	65,843
Minimum pension liability	(1,413)	(1,128)
Deferred income taxes	206,177	222,331
Deferred investment tax credits	3,907	5,069
Deferred income taxes and investment tax credits	$210,084	$227,400

We have determined that the utility is more likely than not to realize all recorded deferred tax assets as of December 31, 2006.

The following is a reconciliation of the change in our deferred tax balance for the year ended December 31:

Thousands	2006
Deferred tax expense (benefit), above	$(15,393)
Increase in differences required to be flowed-through	1,298
Decrease in minimum pension liability included in OCI	(285)
Decrease in deferred taxes associated with asset held for sale	(1,942)
Decrease in deferred investment tax credits	(994)
Change in deferred income tax accounts	$(17,316)

We calculate our deferred tax assets and liabilities under SFAS No. 109, which requires recording deferred tax balances, at the currently enacted tax rate, on assets and liabilities that are reported differently for income tax purposes than for financial reporting purposes. Deferred tax provisions are not recorded in the income statement for certain temporary differences where regulators require that we flow through deferred income tax benefits or expenses in the ratemaking process of the regulated utility.

A deferred income tax charge associated with accruals of minimum pension liability was included in AOCI.

The Internal Revenue Service (IRS) completed its audit of our consolidated income tax returns for the years 2002-2004 in the second quarter of 2006. The focus of the examination was the $35.8 million NOL generated in 2004 and carried back to 2002. This loss was primarily due to the deductions claimed for a pension contribution and accelerated depreciation provided by both the Assistance Act and the Reconciliation Act discussed above. A federal refund of $8.3 million was received in October 2005. In conjunction with recording the refund, we recorded additional federal and state income tax credits of $4.2 million. In addition to the NOL, the IRS examined income tax positions taken with respect to various other ordinary business transactions. We reached agreement with the IRS for certain income tax positions such that a notice of proposed adjustment was issued. As a result of this agreement, we recorded an immaterial income tax benefit of $0.1 million.

9. PROPERTY AND INVESTMENTS:

The following table sets forth the major classifications of our utility plant and accumulated depreciation at December 31:

	2006		2005	
Thousands, except percentages	Amount	Weighted Average Depreciation Rate	Amount	Weighted Average Depreciation Rate
Transmission and distribution	$1,657,466	3.3%	$1,575,545	3.2%
Utility storage	110,721	2.6%	109,908	2.6%
General	92,946	2.6%	90,780	3.1%
Intangible and other	68,088	8.6%	66,354	8.4%
Gas stored long-term	12,850	0.0%	13,078	0.0%
Utility plant in service	1,942,071	3.4%	1,855,665	3.4%
Assets held for future use	-		1,833	
Construction work in progress	21,427		17,946	
Total utility plant	1,963,498		1,875,444	
Accumulated depreciation	(574,093)		(536,867)	
Utility plant – net	$1,389,405		$1,338,577	

Accumulated depreciation does not include $187.4 million and $169.9 million at December 31, 2006 and 2005, respectively, which represent accrued asset removal costs reflected on the balance sheets as regulatory liabilities (see Note 1., "Plant and Property and Accrued Asset Removal Costs").

The following table summarizes our investments in non-utility plant at December 31:

	2006		2005	
Thousands, except percentages	Amount	Weighted Average Depreciation Rate	Amount	Weighted Average Depreciation Rate
Non-utility storage	$34,652		$34,486	
Other	4,820		4,953	
Non-utility plant in service	39,472	2.5%	39,439	2.6%
Construction work in progress	3,180		1,397	
Total non-utility plant	42,652		40,836	
Less accumulated depreciation	(6,916)		(5,990)	
Non-utility plant – net	$35,736		$34,846	

The following table summarizes our other long-term investments, including financial investments in life insurance policies accounted for at fair value based on cash surrender values, equity investments in certain partnerships and joint ventures accounted for under the equity or cost methods, and a leveraged lease investment in an aircraft, at December 31:

Thousands	2006	2005
Life insurance cash surrender value	$45,234	$46,555
Aircraft leveraged lease	-	6,884
Real estate partnership	-	1,502
Note receivable	526	1,237
Gas pipeline and other	1,369	1,434
Electric generation	856	839
Total other investments	$47,985	$58,451

Aircraft Leveraged Lease. In 1987, we invested in a Boeing 737-300 aircraft, which is leased to Continental Airlines for 20 years under a leveraged lease agreement, which expires in March 2007. We have reclassified these amounts into current assets due to our expectation of selling the asset in 2007.

Real Estate Partnership. In 2006, we sold our investment in a real estate partnership and received $1.8 million in cash, realizing a gain of $0.3 million on the sale.

Gas Pipeline. A wholly-owned subsidiary of Financial Corporation, KB Pipeline Company, owns a 10 percent interest in an 18-mile interstate natural gas pipeline.

Electric Generation. At December 31, 2006, Financial Corporation held ownership interests ranging from 25 to 41 percent in wind power electric generation projects located in California. The wind-generated power is sold to Pacific Gas and Electric Company and Southern California Edison Company under long-term contracts. In January 2005, Financial Corporation sold its limited partnership interests in three electric generating systems (see Note 2).

FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities," provides guidance for determining whether consolidation is required for entities over which control is achieved through means other than voting rights, know as "variable interest entities." We do not have any significant interests in variable interest entities. See Note 1, "New Accounting Standards—Adopted Standards—Variable Interest Entities."

10. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value of NW Natural's financial instruments has been determined using available market information and appropriate valuation methodologies. The following are financial instruments whose carrying values are sensitive to market conditions:

	Dec. 31, 2006		Dec. 31, 2005	
Thousands	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt including amount due within one year	$546,500	$595,564	$529,500	$579,382

Fair value of the long-term debt was estimated using market prices in effect on the valuation date. Interest rates for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt issues.

11. USE OF FINANCIAL DERIVATIVES:

We enter into forward contracts and other related financial transactions for the purchase of natural gas that qualify as derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 and SFAS No. 149 (collectively referred to as SFAS No. 133). We primarily utilize derivative financial instruments to manage commodity prices related to natural gas supply requirements.

In the normal course of business, we generally enter into index-price physical forward natural gas commodity purchase (gas supply) contracts to meet the requirements of core utility customers. We also enter into financial derivatives, up to prescribed limits, to hedge price variability related to the physical contracts. Derivatives entered into prudently for future gas years prior to the PGA filing receive SFAS No. 71 regulatory deferral treatment. Derivatives contracts entered into for core utility customer requirements after the annual PGA rate has been set are subject to the PGA incentive sharing mechanism, whereby 67 percent of the changes in fair value are deferred as regulatory assets or liabilities and the remaining 33 percent is recorded to the income statement. During the fourth quarter of 2006, we entered into a number of financial derivatives after our PGA filing. The unrealized mark-to-market losses on these hedges totaled $9.5 million, of which $2.9 million was subject to sharing and was recorded as a loss, with the remainder deferred.

The mark-to-market adjustment at December 31, 2006 for all derivatives was a total unrealized loss of $43.2 million consisting of the following: unrealized losses of $40.3 million on swap contracts, $0.7 million on option contracts, $2.1 million on indexed-price physical supply contracts and $0.1 million on foreign exchange forwards.

Certain natural gas purchases from Canadian suppliers are payable in Canadian dollars, including both commodity and demand charges, which exposes us to adverse changes in foreign currency rates. Foreign currency forward contracts are used to hedge the fluctuation in foreign currency exchange rates for our commodity and commodity-related demand charges paid in Canadian dollars. Foreign currency contracts for commodity costs are purchased on a month-to-month basis because the Canadian cost is priced at the average noon-day exchange rate for each month. Foreign currency contracts for demand costs have terms ranging up to 12 months. The gains and losses on the shorter-term currency contracts for commodity costs are recognized immediately in cost of gas. The gains and losses on the currency contracts for demand charges are not recognized in current income but are subject to a regulatory deferral tariff and, as such, are recorded as a derivative asset or liability. These forward contracts qualify for cash flow hedge accounting treatment under SFAS No. 133. The mark-to-market adjustment at December 31, 2006 was an unrealized loss of $0.1 million. These unrealized gains and losses were subject to regulatory deferral and, as such, were recorded as a derivative asset or liability which is offset by recording a corresponding amount to a regulatory asset or regulatory liability account resulting in a nominal loss which was deferred to a regulatory account.

We did not use any derivative instruments to hedge oil or propane prices or interest rates during 2006, 2005 or 2004.

At December 31, 2006 and 2005, unrealized gains or losses from mark-to-market valuations of our derivative instruments were primarily reported as regulatory liabilities or regulatory assets because the realized gains or losses at settlement are included in utility gas costs, pursuant to regulatory deferral mechanisms. The estimated fair values of unrealized gains and losses on derivative instruments outstanding, determined using a discounted cash flow model for swaps and indexed-price contracts and a Black-Scholes model for options, were as follows:

	Fair Value Gains (Losses)			
Thousands	Dec. 31, 2006		Dec. 31, 2005	
	Current	Non-Current	Current	Non-Current
Natural gas commodity-based derivative instruments:				
Fixed-price financial swaps	$(33,965)	$(6,313)	$159,373	$14,417
Fixed-price financial options	(678)	-	1,871	-
Indexed-price physical supply	1,115	(3,271)	846	(6,300)
Fixed-price physical supply	-	-	820	-
Physical options	-	-	567	-
Foreign currency forwards	(135)	-	183	-
Total	$(33,663)	$(9,584)	$163,660	$ 8,117

In 2006, we realized a net loss of $20.0 million from the settlement of fixed-price financial swap contracts which were recorded as increases to the cost of gas. Net realized gains from the settlement of such contracts in 2005 and 2004 were $88.9 million and $42.4 million, respectively, and were recorded as decreases to the cost of gas. Realized losses in 2006 were offset by lower gas purchase costs from the underlying hedged floating rate physical supply contracts. The currency exchange rate in all foreign currency forward purchase contracts is included in our cost of gas at settlement; therefore, no gain or loss was recorded from the settlement of those contracts. Any change in value of cash flow hedge contracts that is not included in regulatory recovery is included in other comprehensive income.

As of December 31, 2006, all of the natural gas commodity price swap contracts mature by October 31, 2008 and all of the natural gas commodity call option contracts mature by April 30, 2007.

12. COMMITMENTS AND CONTINGENCIES:

Lease Commitments

We lease land, buildings and equipment under agreements that expire in various years through 2045. Rental expense under operating leases was $4.4 million, $4.1 million and $4.5 million for the years ended December 31, 2006, 2005 and 2004, respectively. The table below reflects the future minimum lease payments due under non-cancelable leases at December 31, 2006. Such payments total $55.9 million for operating leases. The net present value of payments on capital leases less imputed interest was $0.6 million. These commitments relate principally to the lease of our office headquarters, underground gas storage facilities, vehicles and computer equipment.

Millions	2007	2008	2009	2010	2011	Later years
Operating leases	$4.2	$4.1	$4.1	$4.1	$4.1	$35.3
Capital leases	0.3	0.2	0.1	-	-	-
Minimum lease payments	$4.5	$4.3	$4.2	$4.1	$4.1	$35.3

Gas Purchase and Pipeline Capacity Purchase and Release Commitments

We have signed agreements providing for the reservation of firm pipeline capacity under which we are required to make fixed monthly payments for contracted capacity. The pricing component of the monthly payment is established, subject to change, by U.S. or Canadian regulatory bodies. In addition, we have entered into long-term sale agreements to release firm pipeline capacity. We also enter into gas purchase agreements. The aggregate amounts of these agreements were as follows at December 31, 2006:

Thousands	Gas Purchase Agreements	Pipeline Capacity Purchase Agreements	Pipeline Capacity Release Agreements
2007	$283,180	$ 86,129	$ 5,105
2008	177,943	75,953	5,105
2009	98,807	70,093	5,105
2010	47,263	70,339	4,254
2011	25,828	70,059	-
2012 through 2026	73,179	198,863	-
Total	706,200	571,436	19,569
Less: Amount representing interest	59,737	100,411	1,663
Total at present value	$646,463	$471,025	$17,906

Our total payments of fixed charges under capacity purchase agreements in 2006, 2005 and 2004 were $69.2 million, $83.1 million and $89.3 million, respectively. Included in the amounts for 2006, 2005 and 2004 were reductions for capacity release sales of $3.7 million in each year. In addition, per-unit charges are required to be paid based on the actual quantities shipped under the agreements. In certain take-or-pay purchase commitments, annual deficiencies may be offset by prepayments subject to recovery over a longer term if future purchases exceed the minimum annual requirements.

Environmental Matters

We own, or have previously owned, properties that may require environmental remediation or action. We accrue all material loss contingencies relating to these properties that we believe to be probable of assertion and reasonably estimable. We continue to study the extent of our potential environmental liabilities, but due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several environmental site investigations, the range of potential loss beyond the amounts currently accrued, and the probabilities thereof, cannot be reasonably estimated. We regularly review our remediation liability for each site where we may be exposed to remediation responsibilities. The costs of environmental remediation are difficult to estimate. A number of steps are involved in each environmental remediation effort, including site investigations, remediation, operations and maintenance, monitoring and site closure. Each of these steps may, over time, involve a number of alternative actions, each of which can change the course of the effort. In certain cases, in addition to ourselves, there are a number of other potentially responsible parties, each of which, in proceedings and negotiations with other potentially responsible parties and regulators, may influence the course of the remediation effort. The allocation of liabilities among the potentially

responsible parties is often subject to dispute and can be highly uncertain. The events giving rise to environmental liabilities often occurred many decades ago, which complicates the determination of allocating liabilities among potentially responsible parties. Site investigations and remediation efforts often develop slowly over many years. To the extent reasonably estimable, we estimate the costs of environmental liabilities using current technology, enacted laws and regulations, industry experience gained at similar sites and an assessment of the probable level of involvement and financial condition of other potentially responsible parties. Unless there is a better estimate within this range of probable cost, we record the liability at the lower end of this range. It is likely that changes in these estimates will occur throughout the remediation process for each of these sites due to uncertainty concerning our responsibility, the complexity of environmental laws and regulations and the selection of compliance alternatives. The status of each of the sites currently under investigation is provided below.

Gasco site. We own property in Multnomah County, Oregon that is the site of a former gas manufacturing plant that was closed in 1956 (the Gasco site). The Gasco site has been under investigation by us for environmental contamination under the Oregon Department of Environmental Quality's (ODEQ) Voluntary Clean-Up Program. In June 2003, we filed a Feasibility Scoping Plan and an Ecological and Human Health Risk Assessment with the ODEQ, which outlined a range of remedial alternatives for the most contaminated portion of the Gasco site. In 2006, the estimated liability for this site increased $7.2 million due to updated estimates for the completion of the Feasibility Study and Work Plan, the design and treatment system for pilot wells and the construction of a containment wall for source control. We have accrued a liability of $6.4 million for the Gasco site, which is at the low end of the range because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

Siltronic (formerly Wacker) site. We previously owned property adjacent to the Gasco site that now is the location of a manufacturing plant owned by Siltronic Corporation (formerly Wacker Siltronic Corporation) (the Siltronic site). We are currently working with the ODEQ to develop a study of manufactured gas plant wastes on the uplands at this site. The amount of the additional accrual was deferred to a regulatory asset account pursuant to an order of the OPUC (see "Regulatory and Insurance Recovery for Environmental Matters," below).

Portland Harbor site. In 1998, the ODEQ and the U.S. Environmental Protection Agency (EPA) completed a study of sediments in a 5.5-mile segment of the Willamette River (Portland Harbor) that includes the area adjacent to the Gasco site and the Siltronic site. The Portland Harbor was listed by the EPA as a Superfund site in 2000 and we were notified that we are a potentially responsible party. Subsequently, the EPA approved a Programmatic Work Plan, Field Sampling Plan and Quality Assurance Project Plan for the Portland Harbor Remedial Investigation/Feasibility Study (RI/FS). As a result of the EPA's requests for additional data after reviewing the data collected to date at the site, an additional accrual of $1.3 million was recorded in 2006 for the additional studies, regulatory oversight and related legal costs. Current information is not sufficient to reasonably estimate additional liabilities, if any, or the range of potential liabilities, for environmental remediation and monitoring after the RI/FS work plan is completed, except for the early action removal of a tar deposit in the river sediments discussed below.

In April 2004, we entered into an Administrative Order on Consent providing for early action removal of a deposit of tar in the river sediments adjacent to the Gasco site. We completed the

removal of the tar deposit in the Portland Harbor in October 2005 and on November 5, 2005, the EPA approved the completed project. The estimated cost for the removal, including technical work, oversight, consultants, legal fees and ongoing monitoring, is $10.3 million. To date we have spent $9.8 million on work related to the removal of the tar deposit with a remaining liability of $0.5 million.

Central Gas Storage Tanks. On September 22, 2006, we received notice from the ODEQ that our Central Service Center has been assigned a high priority for further environmental investigation. Previously there were three manufactured gas storage tanks on the premises. The ODEQ believes there could be site contamination associated with releases of condensate from stored manufactured gas, or through historic gas handling practices. In the early 1990s, we excavated waste piles and much of the contaminated surface soils and removed accessible waste from some of the abandoned piping. A negligible accrual was recorded in September 2006 for the ODEQ site assessment and legal and technical costs to investigate and determine the appropriate action, if any. In February 2007, we received notice that the site has been added to the ODEQ's list of sites where releases of hazardous substances have been confirmed and its list where it has been determined that additional investigation or cleanup is necessary. Possible costs are not currently estimable; however, we intend to seek regulatory authorization for the deferral of environmental costs related to this site (see "Regulatory and Insurance Recovery for Environmental Matters," below).

Oregon Steel Mills site. See "Legal Proceedings," below.

Regulatory and Insurance Recovery for Environmental Matters. In May 2003, the OPUC approved our request for deferral of environmental costs associated with specific sites, including the Gasco, Siltronic and Portland Harbor sites. The authorization, which was extended through January 2007 and expanded to include the Oregon Steel Mills site, allows us to defer and seek recovery of unreimbursed environmental costs in a future general rate case. In April 2006, the OPUC authorized us to accrue interest on deferred balances effective January 27, 2006, subject to an annual demonstration that we have maximized our insurance recovery or made substantial progress in securing insurance recovery for unrecovered environmental expenses. An application for extension of the regulatory approval to defer environmental costs and accrued interest is pending. As of December 31, 2006, we have paid a cumulative total of $19.1 million relating to the named sites since the effective date of the deferral authorization.

On a cumulative basis, we have recognized a total of $32.7 million for environmental costs, including legal, investigation, monitoring and remediation costs. Of this total, $24.0 million has been spent to-date and $8.7 million is reported as an outstanding liability. At December 31, 2006, we had a regulatory asset of $27.8 million which includes $19.1 million of total expenditures to date and accruals for an additional estimated cost of $8.7 million. We believe the recovery of these costs is probable through the regulatory process. We also have an insurance receivable of $1.1 million, which is not included in the regulatory asset amount. We intend to pursue recovery of these environmental costs from our general liability insurance policies, and the regulatory asset will be reduced by the amount of any corresponding insurance recoveries. We consider insurance recovery of some portion of our environmental costs probable based on a combination of factors, including a review of the terms of our insurance policies, the financial condition of the insurance companies providing coverage, a review of

successful claims filed by other utilities with similar gas manufacturing facilities, and Oregon legislation that allows an insured party to seek recovery of "all sums" from one insurance company. As of January 2007, we have entered into settlement discussions with six of our major insurers, and expect to add another four insurers within the next several months. We anticipate that our overall insurance recovery effort will extend over several years.

The following table summarizes the regulatory assets and accrued liabilities relating to environmental matters at December 31, 2006 and 2005:

	Regulatory Asset		Accrued Liability	
Millions	2006	2005	2006	2005
Gasco site	$ 10.3	$ 3.2	$ 6.4	$ 1.4
Siltronic site	0.5	0.3	-	-
Portland Harbor site	16.8	15.1	2.1	4.9
Oregon Steel Mills site	0.2	0.2	0.2	0.1
Total	$ 27.8	$ 18.8	$ 8.7	$ 6.4

Legal Proceedings

We are subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings, including the matters described below, cannot be predicted with certainty, we do not expect that the ultimate disposition of these matters will have a material adverse effect on our financial condition, results of operations or cash flows.

Georgia-Pacific Corporation vs. Northwest Natural Gas Company. On February 3, 2006, Georgia-Pacific Corporation (Georgia-Pacific) filed suit against NW Natural (Georgia-Pacific Corporation v. Northwest Natural Gas Company, Case No. CV06-151-PK, United States District Court, District of Oregon), alleging that we offered to sell natural gas to Georgia-Pacific under the interruptible sales service provisions of Rate Schedule 32 at a commodity rate set at our Weighted Average Cost of Gas. Georgia-Pacific further alleged that it accepted this offer and that we failed to perform as promised when, in October 2005, we notified Georgia-Pacific that we would have to charge Georgia-Pacific the incremental costs of acquiring gas on the open market. Georgia-Pacific also alleged breach of contract, promissory estoppel, fraudulent misrepresentation and breach of the duty of good faith and fair dealing.

On February 23, 2006, we filed a motion for summary judgment on all claims. On June 30, 2006, an order was issued by the U.S. District Court for the District of Oregon dismissing the lawsuit with prejudice and denying all pending motions, if any, as moot. On July 27, 2006, Georgia-Pacific appealed this ruling to the Ninth Circuit Court of Appeals. We have reached agreement with Georgia-Pacific on settlement terms and the lawsuit has been dismissed.

Independent Backhoe Operator Action. Since May 2004, five lawsuits have been filed against NW Natural by independent backhoe operators who performed backhoe services for NW Natural under contract. These five lawsuits have been consolidated into one case, in which 10 plaintiffs remain (*Law and Zuehlke, et. al. v. Northwest Natural Gas Co.*, CV-04-728-KI, United States District Court, District of Oregon). Plaintiffs allege violation of the Fair Labor Standards Act for failure to pay overtime and also assert state wage and hour claims. Plaintiffs claim that they should have been considered "employees," and seek overtime wages and

interest in amounts to be determined, liquidated damages equal to the overtime award, civil penalties and attorneys' fees and costs. Additionally, plaintiffs allege that the failure to classify them as employees constituted a breach of contract under and with respect to certain employee benefits plans, programs and agreements. Plaintiffs seek an unspecified amount of damages for the value of what they would have received under these employee benefit plans if they had been classified as employees. There is insufficient information at this time to reasonably estimate the range of liability, if any, from these claims. We will vigorously contest these claims and do not expect the outcome of this litigation to have a material adverse effect on our results of operations or financial condition.

Oregon Steel Mills site. In 2004, NW Natural was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, *Oregon Steel Mills, Inc. v. The Port of Portland.* The Port alleges that in the 1940s and 1950s petroleum wastes generated by our predecessor, Portland Gas & Coke Company, and 10 other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The Port's complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. In March 2005, motions to dismiss by ourselves and other third-party defendants were denied on the basis that the failure of the Port to plead and prove that we were in violation of law was an affirmative defense that may be asserted at trial, but did not provide a sufficient basis for dismissal of the Port's claim. No date has been set for trial and discovery is ongoing. We do not expect that the ultimate disposition of this matter will have a material adverse effect on our financial condition, results of operations or cash flows.

EXHIBIT H

Consolidated Statement of Shareholders' Equity as of Dec. 31, 2006 showing an analysis of surplus for that period. (See Exhibit E for financial notes)

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Thousands	Common Stock and Premium	Earnings Invested in the Business	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income
Balance at Dec. 31, 2003	$338,008	$170,053	$(729)	$(1,016)	$506,316	
Net Income	-	50,572	-	-	50,572	$50,572
Minimum pension liability adjustment - net of tax	-	-	-	(802)	(802)	(802)
Purchases of restricted stock	(55)	(51)	(431)	-	(537)	
Restricted stock amortizations	-	-	298	-	298	
Dividends paid on common stock	-	(35,105)	-	-	(35,105)	
Tax benefits from employee stock option plan	872	-	-	-	872	
Issuance of common stock	47,148	-	-	-	47,148	
Convertible debentures	1,292	-	-	-	1,292	
Common stock expense	-	(1,537)	-	-	(1,537)	
Balance at Dec. 31, 2004	387,265	183,932	(862)	(1,818)	568,517	$49,770
Net Income	-	58,149	-	-	58,149	$58,149
Minimum pension liability adjustment - net of tax	-	-	-	(93)	(93)	(93)
Restricted stock amortizations	-	-	212	-	212	
Dividends paid on common stock	-	(36,376)	-	-	(36,376)	
Tax benefits from employee stock option plan	220	-	-	-	220	
Issuance of common stock	7,266	-	-	-	7,266	
Common stock repurchased	(14,945)	-	-	-	(14,945)	
Convertible debentures	3,999	-	-	-	3,999	
Common stock expense	-	(18)	-	-	(18)	
Balance at Dec. 31, 2005	383,805	205,687	(650)	(1,911)	586,931	$58,056
Net Income	-	63,415	-	-	63,415	$63,415
Minimum pension liability adjustment - net of tax	-	-	-	(81)	(81)	(81)
Recognition of non-qualified employee benefit plan liability, net of tax				(364)	(364)	
Restricted stock amortizations	298	-	-	-	298	
Dividends paid on common stock	-	(38,298)	-	-	(38,298)	
Tax benefits from employee stock option plan	317	-	-	-	317	
Stock-based compensation	555	-	-	-	555	
Restricted stock reclassification	(650)	-	650	-	-	
Issuance of common stock	2,773	-	-	-	2,773	
Common stock repurchased	(15,971)	-	-	-	(15,971)	
Common stock expense	-	(30)	-	-	(30)	
Balance at Dec. 31, 2006	$371,127	$230,774	$ -	$(2,356)	$599,545	$63,334

See Notes to Consolidated Financial Statements.

EXHIBIT I

A copy of registration statement and financial exhibits filed with the Securities and Exchange Commission.

No Registration Statement for the Notes is required to be filed with the Securities and Exchange Commission.

EXHIBIT J

See Exhibit D for a copy of the draft Term Sheet for the Facility. Copies of the final Credit Agreement for the Facility, along with documents ancillary thereto, will be sent under separate cover.

EXHIBIT K

See Exhibit D for a copy of the draft Term Sheet for the Facility. Copies of the final Credit Agreement for the Facility, along with documents ancillary thereto, will be sent under separate cover.

EXHIBIT AA

Map of the Company's Service Territories.

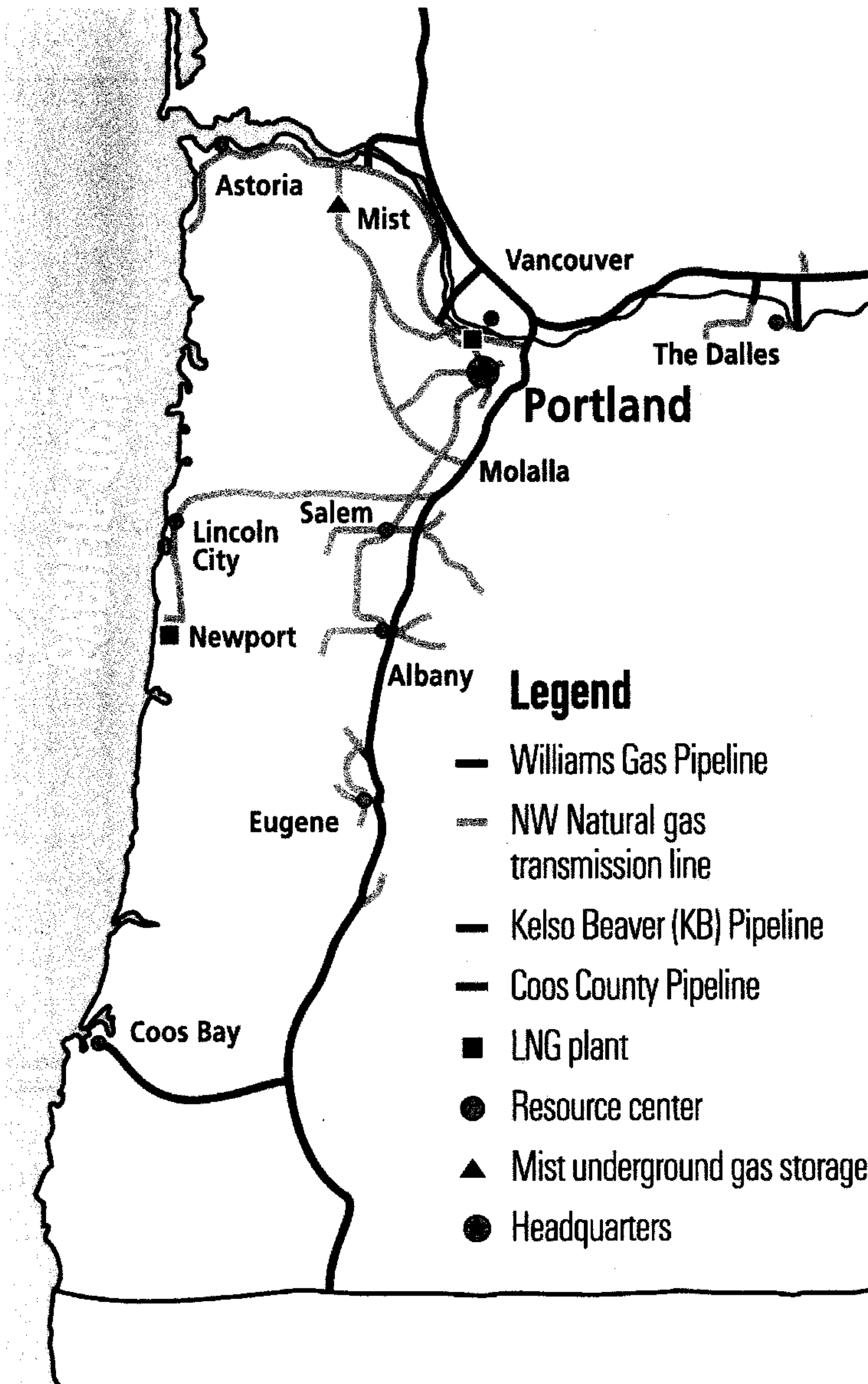
Astoria
Mist
Vancouver
The Dalles
Portland
Molalla
Salem
Lincoln City
Newport
Albany
Eugene
Coos Bay
Legend
Williams Gas Pipeline
NW Natural gas transmission line
Kelso Beaver (KB) Pipeline
Coos County Pipeline
LNG plant
Resource center
Mist underground gas storage
Headquarters

EXHIBIT BB

JPMorgan table of recent transactions in the utility sector.

EXHIBIT BB

Finance Committee – April 26, 2007

Market Comparisons to NW Natural Recommended Syndicated Credit Facility

Comparison of Bank Proposals

	New Facility NW Natural	IDACORP	Atmos Energy	South Jersey	UGI Utilities	AGL Capital
Ratings at Close	A+/A3	BBB/Baa1 BBB/Baa2	BBB/Baa3/BBB+	BBB/Baa2	A-/A3	BBB+/Baa1
Proposed Facilities:						
Unsecured Committed Line of Credit	$ 250,000,000	$ 400,000,000	$ 900,000,000	$ 250,000,000	$ 250,000,000	$ 1,000,000,000
Accordion Feature	$ 150,000,000			$ 50,000,000	$ 100,000,000	
Swing Line Loan	$ 25,000,000					$ 75,000,000
Standby Letter of Credit	$ 250,000,000					$ 250,000,000.00
Tenor	5yr	5yr	5yr	5yr	5yr	5yr
Closing Date	Apr-07	In Market	Nov-06	Aug-06	Aug-06	Aug-06
Facility Fees						
Upfront Fee	2 bps (existing) 3 bps (new)	2.5 bps (existing) 5 bps (new)	2 bps (existing) 5 bps (new)	7.5 bps	5 bps	
Covenants:						
Maximum Tot. Debt to Cap.	70%	65%	70%	65%	65%	70%
Additional Covenant	No	No	No	No	No	No

Pricing Grid

	NW Natural Fac	NW Natural Util	NW Natural Libor	NW Natural AID	IDACORP Fac	IDACORP Util	IDACORP Libor	IDACORP AID	Atmos Energy Fac	Atmos Energy Util	Atmos Energy Libor	Atmos Energy AID
≥AA-/Aa3	3.0	5.0	12.0	20.0								
A+/A1	4.0	5.0	13.5	22.5								
A/A2	5.0	5.0	15.0	25.0	5.0	5.0	20.0	25.0				
A-/A3	6.0	5.0	19.0	30.0	6.0	5.0	25.0	30.0	5.5	5.0	30.0	35.0
BBB+/Baa1	7.0	5.0	23.0	35.0	7.0	5.0	35.0	40.0	6.0	5.0	35.0	40.0
BBB/Baa2	9.0	5.0	31.0	45.0	9.0	5.0	45.0	50.0	8.0	5.0	45.0	50.0
≤BBB-/Baa3	10.0	5.0	40.0	55.0	12.5	5.0	52.5	62.5	10.0	10.0	60.0	70.0

	South Jersey Fac	South Jersey Util	South Jersey Libor	South Jersey AID	UGI Utilities Fac	UGI Utilities Util	UGI Utilities Libor	UGI Utilities AID	AGL Capital Fac	AGL Capital Util	AGL Capital Libor	AGL Capital AID
≥AA-/Aa3												
A+/A1												
A/A2					6.0	5.0	20.0	25.0	5.5	5.0	19.5	24.5
A-/A3	8.0	5.0	30.0	35.0	7.0	5.0	25.0	30.0	6.0	5.0	24.0	29.0
BBB+/Baa1	9.0	5.0	35.0	40.0	8.0	5.0	35.0	40.0	7.0	5.0	28.0	33.0
BBB/Baa2	10.0	5.0	45.0	50.0	10.0	5.0	45.0	50.0	9.0	5.0	36.0	41.0
≤BBB-/Baa3	12.5	5.0	62.5	67.5	12.5	12.5	60.0	72.5	11.0	10.0	49.0	59.0

EXHIBIT CC

Authorized capitalization in most recent rate case

The table below represents the authorized capital stock and long-term debt of the Company from the most recent Oregon Jurisdictional Rate Case:

Cost of Capital	% of Capital	Cost	Weighted Cost
Debt	49.820%	7.066%	3.520%
Preferred Equity	0.680%	7.161%	0.049%
Common Equity	49.500%	10.200%	5.049%
	100.000%		8.618%

DRAFT ORDER

DRAFT

ORDER NO.

ENTERED

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF _________

In the Matter of the Application of	)	
	)	
NORTHWEST NATURAL GAS COMPANY	)	
	)	ORDER
for an Order Authorizing a Revolving Line of Credit with a Syndication of Banks and the Issuance of up to $400,000,000 of Notes in Connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program	)	

DISPOSITION: APPLICATION APPROVED; WITH CONDITIONS AND REPORTING REQUIREMENTS

On May __, 2007, Northwest Natural Gas Company (NWN or Company) submitted an application to the Public Utility Commission of Oregon (Commission), requesting authorization for a revolving line of credit with a syndication of banks and the issuance of up to $400 million of notes that back up the Company's commercial paper program. The Commission previously authorized up to $200 million of five-year notes in its back-up line of credit in Order No. 05-1080. The $400 million in notes for which NWN is currently seeking regulatory approval will replace the existing five-year notes due to expire September 30, 2010. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on _______________, 2007, the Commission adopted Staff's recommendation and approved NWN's current request.

ORDER

IT IS ORDERED that the application of Northwest Natural Gas Company for authority to issue and sell not more than $400 million of notes under its syndicated revolving line of credit, is granted, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective ________________.

BY THE COMMISSION:

____

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order pursuant to applicable law.

ORDER NO.

ITEM NO.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: __________, 2007

REGULAR _____ CONSENT X_____ EFFECTIVE DATE _________________

DATE: ________________, 2007

TO: **Public Utility Commission**

FROM: Ming Peng

THROUGH:

SUBJECT: NORTHWEST NATURAL: (Docket No. UF-_________). Application for an Order Authorizing a Revolving Line of Credit with a Syndication of Banks and the Issuance of up to $400,000,000 of Notes in Connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve Northwest Natural Gas Company's (NWN or Company) application, subject to the following conditions and reporting requirements:

1) The Company shall file the final Credit Agreement as soon as practicable. In addition, the Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any borrowing under the revolving line of credit. This report also shall be used to notify the Commission as to any replacement, renewal or extension of such facility. The fees, interest rates and expenses shall be consistent with competitive market prices for the Notes when entered into and shall remain within the limits specified in this Memo.

2) The Company may enter into renewals or extensions of such Notes under the Facility. The Company must provide notice to the Commission of such renewals or extensions no later than 45 days from maturity or extension of credit.

3) For ratemaking purposes, the Commission shall reserve judgment on the reasonableness of the Company's capital costs, capital structure and any associated commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs, including embedded expenses and structure, are just and reasonable.

4) The authority for the Company's previous line of credit granted under Order No. 05-1080 is withdrawn.

DISCUSSION:

On May ______, 2007, NWN filed an application under Oregon Revised Statutes (ORS) 757.410 and 757.415 and Oregon Administrative Rule (OAR) 860-027-0030, for an order authorizing a revolving line of credit with a syndication of banks and the issuance of up to $400 million of notes in connection therewith, constituting a back-up line of credit for its commercial paper program. The administrative agent is JPMorgan Chase Bank, N.A. and Bank of America, N.A. is the syndication agent. Under the terms of the draft Term Sheet, NWN will pay upfront fees, administrative agent fees and annual commitment fees.

The debt securities covered by this Application are unsecured notes. The Notes are not convertible and have no voting privilieges. NWN requests an authorization period for five years from the date of issuance of the Original Note and subsequent one-year extension periods, as applicable.

The Commission previously authorized up to $200 million of five-year notes in its back-up line of credit in Order No. 05-1080. The $400 million in notes for which NWN is currently seeking regulatory approval will replace the existing five-year notes due to expire September 30, 2010. The Company represents that it is not opposed to the Commission withdrawing the remaining authority granted under Order No. 05-1080. This application also increases the maximum amount of the line of credit by $200 million.

Use of Proceeds

NWN represents that the purpose of the Facility is to provide a committed source of short-term liquidity in case NWN is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the Notes are proposed to be used, if and as required, are to arrange for the construction, completion, extension, or improvement of the Company's facilities; the potential repayment of maturing long-term obligations; the reimbursement of the treasury for expenditures against which long-term securities have not yet been issued; the discharging of current obligations; the issuance of letters of credit; and to provide working capital for the improvement or maintenance of utility service. These purposes are consistent with ORS 757.415(1).

Expenses

NWN represents that fees for the Facility, based on an initial $250 million committed under the line of credit, total $912,000, including $625,000 in commitments fees (paid quarterly), an agent fee of $75,000, upfront fees of $55,000 and an arrangement fee of $100,000. The Company will also pay out-of-pocket legal and other costs to the administrative agent, which are estimated to total $50,000 and $7,000 in other legal and miscellaneous expenses. The average annual cost of the credit line is 7 basis points (0.07%), or $182,400, which is 1 basis point or 10 percent lower than the average cost of the Company's existing five-year bilateral credit facilities.

The interest rates that would be applicable to any loans under the Notes are specified as a spread over benchmark interest rates in effect from time to time, such as the prime rate or the Adjusted London Interbank Overnight Rate (LIBOR). The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies, as follows:

Debt Rating[1]	Facility Fee	Applicable Margin for LIBOR Loans / LC Fee Rate	All-in Drawn (including Facility and Utilization Fees)
≥ AA- / Aa3	3.0 bps	12.0 bps	20.0 bps
A+ / A1	4.0 bps	13.5 bps	22.5 bps
A / A2	5.0 bps	15.0 bps	25.0 bps
A- / A3	6.0 bps	19.0 bps	30.0 bps
BBB+ / Baa1	7.0 bps	23.0 bps	35.0 bps
BBB / Baa2	9.0 bps	31.0 bps	45.0 bps
≤ BBB- / Baa3	10.0 bps	40.0 bps	55.0 bps

(1) The Facility Fee and Applicable Margin for LIBOR Loans shall be the applicable rate per annum set forth in the table below opposite the Borrower's credit rating from Standard & Poor's ("S&P") or Moody's Investors Service Inc. ("Moody's"), changing when any applicable credit rating changes. In the case of a split rating, the higher rating will apply, unless, if ratings are available from S&P, Moody's and Fitch, Inc., doing business as Fitch Ratings, the rating given by two of them are equal, in which case such rating shall apply.

The fees, expenses and interest rate options appear reasonable.

Based on Staff's review, approval of NWN's application with the proposed conditions appears reasonable, meets the appropriate statutory requirements and provides an additional source of liquidity for the Company.

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to enter into a Revolving Line of Credit with a Syndication of Banks and the Issue up to $400 million of Notes in Connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program be approved with Staff's conditions.

UF-_____ -- NW Natural's Application for an Order Authorizing a Revolving Line of Credit with a Syndication of Banks and the Issuance of up to $400,000,000 of Notes in Connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program