

e-FILING REPORT COVER SHEET

REPORT NAME: 2011 Affiliated Interest Report and Cost Allocation Manual

COMPANY NAME: NW Natural

DOES REPORT CONTAIN CONFIDENTIAL INFORMATION? No Yes

If yes, please submit only the cover letter electronically. Submit confidential information as directed OAR 860-001-0070 or the terms of an applicable protective order.

If known, please select designation: RE (Electric) RG (Gas) RW (Water)
 RO (Other)

Report is required by: OAR OAR 860-027-0100 and 860-027-0048(6)
 Statute
 Order
 Other

Is this report associated with a specific docket/case? No Yes
If Yes, enter docket number: RG 8

Key words: Affiliated Interest Report, 2011, Cost Allocation Manual

If known, please select the PUC Section to which the report should be directed:

- Corporate Analysis and Water Regulation
- Economic and Policy Analysis
- Electric and Natural Gas Revenue Requirements
- Electric Rates and Planning
- Natural Gas Rates and Planning
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- Administrative Hearings Division
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- **Accident reports required by ORS 654.715.**

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June 1, 2012

Public Utility Commission of Oregon
550 Capitol Street, NE, Suite 215
Post Office Box 2148
Salem, Oregon 97308-2148

Attention: Filing Center

Re: **RG 8 - 2011 Affiliated Interest Report and Cost Allocation Manual**

Pursuant to OAR 860-027-0100 and OAR 860-027-0048(6), enclosed please find the 2011 Affiliated Interest Report and Cost Allocation Manual, for Northwest Natural Gas Company, dba NW Natural.

Please note that Exhibit A of the enclosed Affiliated Interest Report is to be treated as confidential. Pursuant to OAR 860-001-0070, Northwest Natural Gas Company designates Exhibit A as confidential in good faith on the basis that it contains trade secrets.

Exhibit A has been printed on yellow paper, is separately bound, and sealed in an envelope bearing the legend: "CONFIDENTIAL." No portion of these materials may be copied, reproduced, or disclosed in any manner without the express permission of Northwest Natural Gas Company.

If you have any questions or need further information, please let me know.

Very truly yours,

/s/ Onita King

Onita R. King

enclosure

cc: Alex Miller
Shawn Filippi
Jennifer Toepke

NORTHWEST NATURAL GAS COMPANY
AFFILIATED INTEREST REPORT
FOR THE CALENDAR YEAR ENDING DECEMBER 31, 2011

I. An organization chart showing the parent company, all subsidiaries, and the percentage ownership for each.

See the Organizational Chart (“Chart 1”) of Northwest Natural Gas Company (“NWN”) attached to this Affiliated Interest Report. See also the information provided under (A) below.

(A) 2011 changes in the list of directors and/or officers common to the regulated utility and to the affiliated interest.

NORTHWEST NATURAL GAS COMPANY

DIRECTORS

Russell F. Tromley, Chair
Timothy P. Boyle
Martha L. (“Stormy”) Byorum
John D. Carter
Mark S. Dodson

C. Scott Gibson
Tod R. Hamachek
Gregg S. Kantor
Jane L. Peverett
George J. Puentes
Kenneth Thrasher

OFFICERS

Gregg S. Kantor
David H. Anderson
J. Keith White

Stephen P. Feltz
Lea Anne Doolittle
Margaret D. Kirkpatrick
MardiLyn Saathoff

C. Alex Miller

President and Chief Executive Officer
Senior Vice President & Chief Financial Officer
Vice President, Business Development and
Energy Supply/Chief Strategic Officer
Treasurer, Controller, and Assistant Secretary
Senior Vice President
Vice President and General Counsel
Chief Governance Officer, Deputy General
Counsel, and Corporate Secretary
Vice President, Finance & Regulation, and
Assistant Treasurer

NNG FINANCIAL CORPORATION

Wholly-owned subsidiary of Northwest Natural Gas Company
Type of operations: Financial
Year Created: 1984

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Lea Anne Doolittle*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE CORPORATION

David H. Anderson*	President and Chief Executive Officer
Stephen P. Feltz*	Senior Vice President and Treasurer
Shawn M. Filippi **	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary
David W. Aimone	Assistant Treasurer

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

KB PIPELINE COMPANY

Wholly-owned subsidiary of NNG Financial Corporation
Type of Operations: Gas Pipeline, Owner
Year Created: 1991

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Lea Anne Doolittle*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE COMPANY

J. Keith White*	President
Randolph S. Friedman	Vice President
C. Alex Miller*	Treasurer
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

NORTHWEST ENERGY CORPORATION

Wholly-owned subsidiary of Northwest Natural Gas Company
Type of Operations: Non-Operating Holding Company
Year Created: 2001

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Margaret D. Kirkpatrick*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE CORPORATION

Gregg S. Kantor*	President and Chief Executive Officer
David H. Anderson*	Senior Vice President and Chief Financial Officer
Stephen P. Feltz*	Treasurer and Controller
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

NORTHWEST ENERGY SUB CORPORATION

Wholly-owned subsidiary of Northwest Energy Corporation
Type of Operations: Non-Operating Merger Sub Corporation
Year Created: 2001

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Margaret D. Kirkpatrick*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE CORPORATION

Gregg S. Kantor*	President and Chief Executive Officer
David H. Anderson*	Sr. Vice President and Chief Financial Officer
Stephen P. Feltz*	Treasurer and Controller
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

PALOMAR GAS HOLDINGS, LLC

50% membership interest owned by NW Natural Energy, LLC
50% membership interest owned by TransCanada American Investment Ltd.
Type of Operations: Gas Pipeline Owner and Operator
Year created: 2006

MANAGEMENT

Management is by Management Committee consisting of: Dean Ferguson, TransCanada and J. Keith White, NWN.

PALOMAR GAS TRANSMISSION, LLC

Wholly-owned subsidiary of Palomar Gas Holdings, LLC
Type of Operations: Gas Pipeline Owner and Operator
Year Created: 2006

MANAGEMENT

Management is by Management Committee of Palomar Gas Holdings, LLC

BL CREDIT HOLDINGS, LLC

Wholly-owned subsidiary of Palomar Gas Transmission, LLC
Type of Operations: Gas Transportation
Year Created: 2009

MANAGEMENT

B.L. Credit Holdings, LLC is member-managed.

OFFICERS OF THE LIMITED LIABILITY COMPANY

No officers of NWN are officers of the limited liability company.

GILL RANCH STORAGE, LLC

Wholly-owned subsidiary of NW Natural Gas Storage, LLC¹
Type of Operations: Natural Gas Storage
Year Created: 2007

MANAGEMENT

Gill Ranch Storage, LLC is Manager-managed
Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor*
David H. Anderson*
Lea Anne Doolittle*
Margaret D. Kirkpatrick*
J. Keith White*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

On July 27, 2011, Mr. White became Director of Gill Ranch Storage, LLC.

¹ Effective March 7, 2011, Northwest Natural Gas Company assigned all of its membership interest in Gill Ranch Storage, LLC to NW Natural Energy, LLC. NW Natural Energy, LLC subsequently assigned all of its membership interest in Gill Ranch Storage, LLC to NW Natural Gas Storage, LLC.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David A. Weber	President and Chief Operating Officer ²
C. Alex Miller*	Vice President, Treasurer, and Director of Regulatory Affairs
Charles E. Stinson	Vice President, Engineering and Operations ³
Dennis L. Henderson	Vice President, Marketing
Shawn M. Filippi**	Secretary
MardiLyn Saathoff*	Assistant Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

Mr. Stinson retired on April 1, 2011. Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer as of January 1, 2012.

NORTHWEST BIOGAS, LLC

50% membership interest owned by Northwest Natural Gas Company
50% membership interest owned by BEF Renewable Incorporated
Type of Operations: Biodigester Owner
Year Created: 2008

MANAGEMENT

Northwest Biogas, LLC is member-managed
Managing Member: Northwest Natural Gas Company

OFFICERS OF THE LIMITED LIABILITY COMPANY

Angus Duncan	President
Barbara Cronise	Vice President
Margi Gardner	Secretary

CHANGES IN OFFICERS

Margi Gardner replaced David Wang as Secretary.

2 Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer as of January 1, 2012. David A. Weber is a non-Bylaws officer of Northwest Natural Gas Company.

3 Charles E. Stinson retired on April 1, 2011.

NW NATURAL ENERGY, LLC

Wholly-owned subsidiary of Northwest Natural Gas Company
Type of Operations: Holding Company
Year Created: 2009

MANAGEMENT

NW Natural Energy, LLC is manager-managed
Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor*
David H. Anderson*
Lea Anne Doolittle*
Margaret D. Kirkpatrick*
J. Keith White*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David H. Anderson*	President and Chief Executive Officer
J. Keith White*	Chief Operating Officer
C. Alex Miller*	Treasurer
Shawn M. Filippi**	Secretary
MardiLyn Saathoff*	Assistant Secretary

(*Officer of NWN)

**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

NW NATURAL GAS STORAGE, LLC

Wholly-owned subsidiary of NW Natural Energy, LLC
Type of Operations: Natural Gas Storage Development and Holding Company
Year Created: 2009

MANAGEMENT

NW Natural Gas Storage, LLC is manager-managed
Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor*
David H. Anderson*
Lea Anne Doolittle*
Margaret D. Kirkpatrick*
J. Keith White *

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

On July 27, 2011, Mr. White became a director of NW Natural Gas Storage, LLC.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David A. Weber	President and Chief Executive Officer ⁴
C. Alex Miller*	Vice President and Treasurer
Charles E. Stinson	Vice President, Engineering and Operations ⁵
Dennis L. Henderson	Vice President, Marketing
Shawn M. Filippi**	Secretary
MardiLyn Saathoff*	Assistant Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

Mr. Stinson retired on April 1, 2011. Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer as of January 1, 2012.

(B) *Changes in successive ownership between the regulated utility and affiliated interest.*

None.

(C) *A narrative description of each affiliated entity with which the regulated utility does business. State the factor(s) giving rise to the affiliation.*

In addition to the information provided below, see the Cost Allocation Manual ("Appendix A") included as an appendix to this Affiliated Interest Report for further descriptions of the activities of each affiliated interest or subsidiary with which NWN has transactions.

⁴ Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer effective January 1, 2012.

⁵ Charles E. Stinson retired on April 1, 2011.

NNG Financial Corporation

NNG Financial Corporation (“NNGFC”) owns 100% of the stock of KB Pipeline Company (“KBPC”). See KBPC activities described below.

NNGFC is a limited partner in a low-income housing project located in Portland, Oregon. NNGFC's ownership interest in this project is 49.5%.⁶

The affiliated transactions between NWN and NNGFC were:

- Allocations of NWN's administrative expense for NNGFC's use of NWN staff;
- D&O insurance is purchased for NNGFC, and is charged to a non-regulated account on NWN books;
- Payments between NWN and NNGFC for NNGFC's current tax expense or benefit; and
- Payments from NWN to NNGFC for KBPC demand and commodity transportation charges (as applicable).

KB Pipeline Company

KB Pipeline Company (“KBPC”) is a wholly owned subsidiary of NNG Financial Corporation (“NNGFC”). KBPC owns a 10% interest in, and is the former operator of, an interstate natural gas pipeline known as the Kelso-Beaver Pipeline. The pipeline runs between Kelso, Washington and Clatskanie, Oregon, and is regulated by the Federal Energy Regulatory Commission (“FERC”). The other owners of the Kelso-Beaver Pipeline are Portland General Electric Company (“PGE”) (79.5%) and B-R Pipeline Company (10.5%). Each of the co-owners has a separate FERC certificate regarding the flow of gas on its share of the pipeline. Pursuant to a memorandum from the Public Utility Commission of Oregon, dated October 15, 1992, KBPC is not required to file a separate affiliated interest report to the OPUC under OAR 860-27-040.

In 1991, FERC issued KBPC a certificate of public convenience and necessity under Part 157 of its regulations to construct, own, and transport gas for NWN using its 10% share of the capacity of the Kelso-Beaver Pipeline at FERC-approved rates. See, *Portland General Electric Co.*, 57 FERC ¶ 61,095 (1991), amended, 57 FERC ¶ 61,312 (1991). Currently, KBPC's share of the pipeline is not open access so it may only provide transportation service to NWN.

KBPC has no separate employees of its own. It uses employees shared with NWN to accomplish its *de minimus* business functions. In July 2004, FERC indicated its approval of KBPC's use of such shared employees in FERC Order No. 2004 in which it granted KBPC a waiver from its then-effective Standards of Conduct governing relationships between transmission providers and their marketing and energy affiliates. Specifically, based on its small size, lack of staff and limited operations, FERC granted KBPC an exemption from the independent

⁶ NNGFC sold its interest in this low-income housing project in 2012.

functioning and information disclosure prohibitions of the new rules so that KBPC is not required to function independently from NWN. See, *Bear Creek Storage et al.*, Order on Requests for Waivers from the Standards of Conduct, 108 FERC ¶ 61,011 (July 7, 2005) at P27.

On October 16, 2008, FERC issued Order No. 717, a new final rule regarding Standards of Conduct for Transmission providers. *Standards of Conduct for Transmission Providers* (Order No. 717), 125 FERC ¶ 61,064 (2008). In Order No. 717, FERC concluded that the Standards of Conduct no longer apply to interstate pipelines that are certificated only under Part 157 of FERC's regulations, such as KBPC's share of the Kelso-Beaver Pipeline. As of the November 26, 2008 effective date of Order No. 717, the requirements of the prior partial exemption that KBPC received under the Order No. 2004 regulations no longer apply to KBPC, and FERC no longer requires KBPC to comply with the Order No. 717 Standards of Conduct with respect to its relationship with its affiliate, NWN. Thus, KBPC and NWN may continue to share employees as necessary to conduct the business of KBPC.

Effective December 1, 2004, KBPC resigned as operator of the Kelso-Beaver Pipeline. Since that date, certain operator responsibilities were handled under contract by Cascade Natural Gas Corporation ("Cascade"), which is not affiliated with any of the co-owners. Cascade resigned as the operator effective December 31, 2010, and since that time, co-owner Portland General Electric has assumed the operator responsibilities for the pipeline.

Northwest Energy Corporation

Northwest Energy Corporation ("NW Energy Corp") was formed in 2001 to serve as the holding company for NWN and PGE in the event that the proposed acquisition of PGE had been completed. However, the acquisition effort was eventually terminated in May 2002, and the corporation has remained dormant.

There were no affiliated transactions between NWN and NW Energy Corp in 2011.

Northwest Energy Sub Corporation

Northwest Energy Sub Corporation ("NW Energy Sub") is a subsidiary of Northwest Energy Corporation, and was formed in 2001 to effect the corporate reorganization to a holding company in the event that the acquisition of PGE had been completed. The corporation has remained dormant.

There were no affiliated transactions between NWN and NW Energy Sub in 2011.

Northwest Biogas, LLC

NWN owns a 50% membership interest in NW Biogas. NWN also serves as the Managing Member. The other 50% membership interest is owned by BEF

Renewable Incorporated. NW Biogas developed and operates a demonstration biodigester located at Three Mile Canyon Farms in Boardman, Oregon.

The affiliated transactions between NWN and NW Biogas in 2011 were:

- NWN made a research and development grant to the project in 2010 in the amount of \$50,000 for the purpose of developing this new technology. In 2011, NW Biogas refunded the grant back to NWN;
- NW Biogas' use of NWN's administrative staff; and
- Equity investments in NW Biogas from NWN.

NW Natural Energy, LLC

NWN wholly owns NW Natural Energy, LLC ("NWN Energy") which was formed in 2009 to own NW Natural Gas Storage, LLC ("NWN Gas Storage") and other non-utility businesses.

The affiliated transactions between NWN and NWN Energy were:

- NWN Energy's use of NWN's administrative and operating staff;
- D&O insurance is purchased for NW Energy, and is charged to a non-regulated account on NWN books;
- Payments by NWN to limited outside vendors on NWN Energy's behalf and reimbursed by NWN Energy; and
- Equity investments in NWN Energy from NWN.

NW Natural Gas Storage, LLC

NWN Energy wholly owns NWN Gas Storage which was formed in 2009. The entity is expected to own and manage non-utility gas storage interests.

The affiliated transactions between NWN and NWN Gas Storage were:

- NWN Gas Storage's use of NWN's administrative and operating staff;
- Payments by NWN to limited outside vendors on Gas Storage's behalf and reimbursed by GRS;
- Primarily D&O fiduciary and workers' compensation insurance is purchased for NW Gas Storage, and is charged to a non-regulated account on NWN books; and
- Equity investments in NWN Gas Storage from NWN Energy.

Gill Ranch Storage, LLC

GRS was formed in 2007. In 2007, GRS entered into a Joint Project Agreement with Pacific Gas & Electric Company ("PG&E") to develop and own the Gill Ranch underground natural gas storage facility near Fresno, California.

Currently, GRS owns 75 percent undivided ownership interest in this facility and is the sole operator of the facility. PG&E owns 25% undivided ownership interest. Ownership in the facility is structured as tenants in common.

GRS owns rights of 75 percent of the available storage capacity at the facility.

GRS's share is designed to provide 15 Bcf of working gas capacity. The facility began operations in the fourth quarter of 2010.

GRS is subject to CPUC regulation with respect to the gas storage services it provides, but it has market-based rate authority with respect to the rates for its services offered in the California market. In addition, GRS is subject to regulation by the CPUC for certain activities, including but not limited to the issuance of securities, operation of the facility, certain terms of customer services, systems of accounts, the nature of investments we may make, safety standards, and transactions with affiliated interests. Accounting records and practices of our regulated business conform to the requirements and uniform system of accounts prescribed by our regulatory authority in accordance with U.S. GAAP.

The affiliated transactions between NWN and GRS in 2011 were:

- GRS's use of NWN's administrative and operating staff;
- Payments by NWN to limited outside vendors on GRS's behalf and reimbursed by GRS;
- Primarily general liability and D&O insurance is purchased for GRS, and is charged to a non-regulated account on NWN books;
- Equity investments in GRS from NWN Gas Storage; and
- Distributions from GRS to NWN Gas Storage.

Palomar Gas Holdings, LLC

NW Natural Energy, LLC ("NWN Energy") and TransCanada American Ltd. ("TCA") each own a fifty percent (50%) membership interest in PGH. PGH wholly owns Palomar Gas Transmission, LLC ("PGT"), which is developing the Palomar Pipeline. (See below for description of PGT).

The affiliated transactions between NWN/NWN Energy and PGH were:

- Recognition of member's share of income and expense (426),
- Because accounting is based on the equity method, PGH has no separate set of accounts except for dedicated nominal accounts in other income and expense on NWN Energy's Income Statement, which includes non-billable expenses to PGH. The investment is tracked as "Other Investments" (124059);
- PGH's use of NWN administrative and operating staff;
- Payments by NWN to limited outside vendors on PGH's behalf and reimbursed by PGH;
- Equity investments in PGH from NWN Energy and;
- Distributions from PGH to NWN Energy.

Palomar Gas Transmission, LLC

PGT is a wholly-owned subsidiary of PGH, and has been pursuing the development of a proposed FERC-regulated gas pipeline, known as the Palomar Pipeline. On March 23, 2011, PGT filed a notice of withdrawal at FERC to withdraw its pending certificate application to construct and operate the Palomar Pipeline. PGT informed FERC that it intended to re-file an application to reflect changes in the project scope, which was expected to eliminate the western portion of the proposed pipeline and align the revised project with the region's

current and future gas infrastructure needs. PGT is working with customers in the Pacific Northwest to further understand their gas transportation needs and determine the commercial support for a revised pipeline proposal. We expect to file a new FERC certificate application to reflect a revised scope based on the regional needs.

As previously reported to the Commission, on August 4, 2007, NWN and PGT originally entered into a Precedent Agreement for Firm Natural Gas Transportation Service for the Eastern Zone (the "Eastern Zone Precedent Agreement"), and a Precedent Agreement for Firm Natural Gas Transportation Service for the Western Zone (the "Western Zone Precedent Agreement") (collectively, the agreements are referred to as the "Precedent Agreements").

The Western Zone Precedent Agreement is being reviewed and may be either amended or terminated. NWN evaluated its portion of the Western Zone assets and determined the cumulative value of these assets was minimal. Therefore, NWN recorded a pre-tax impairment of \$0.3 million for its share of the Western Zone project in 2011. An evaluation of the Eastern Zone project was also performed during 2011, and a charge of \$1.0 million was recorded. The Eastern Zone charge related to costs that would potentially be outdated and, if so, would need to be redone for the re-filed application. NWN is working with PGT to create a new or amend the remaining Precedent Agreement to address changes in the project scope, cost and schedule.

NWN made no payments under the Eastern Zone Precedent Agreement during the 2011 reporting period. Furthermore, NWN does not expect to make any future payments to PGT under the current, Eastern Zone Precedent Agreement unless certain possible, but unlikely, events occur which cause a termination of the Precedent Agreement, resulting in NWN owing a termination payment to PGT. If such a termination event occurs, NWN will report the required information at that time.

Core Customer Costs

Pursuant to the Eastern Zone Precedent Agreement, NWN is a prospective anchor shipper on the Eastern Zone of the proposed Palomar Pipeline. The Precedent Agreements for each zone have been executed and approved by the OPUC pursuant to Order No. 08-107, as referenced above. Any out-of-pocket costs incurred on behalf of representing core customers (e.g. legal) are being allocated to the utility.

There were no affiliated transactions between NWN Energy and PGT in 2011.

BL Credit Holdings, LLC

B.L Credit Holdings, LLC is a wholly-owned subsidiary of PGT.

There were no affiliated transactions between this subsidiary and NWN Energy in 2011.

(D) A balance sheet and income statement for each affiliated interest for the 12-month reporting period.

See NWN’s affiliated interest financial statements (“Confidential Exhibit A”) attached to this Affiliated Interest Report.

II. Report of service transactions.

Unless services are provided under tariff as specified in OAR 860-027-0040(3), provide cost of service and related information if total Oregon payments/receipts exceed 0.1% of utility total Oregon annual operating revenues.

Notwithstanding the requirement to report cost of service and related information if payments exceed 0.1 percent of utility total Oregon annual operating revenues, all service payments are shown for each affiliate.

(A) Service payments by the utility to the affiliate.

There are no assets allocable to services.

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Oregon</u>
Pipeline demand charges (804)..... (KBPC)	\$224,258	\$12,359

The allocation is based on the state’s pro rata share of the pipeline demand charges paid by NWN to KB Pipeline Company (“KBPC”) based on miles of pipeline.

Description of basis of pricing:

Services rendered by NNG Financial Corporation (“NNGFC”) and KBPC to NWN were provided at cost or pursuant to a FERC-approved rate schedule, as applicable.

Demand charges paid by NWN to KBPC were based upon a transportation contract between the two parties which specifies the rates per KBPC’s Rate Schedule TF; such rates were approved by FERC as part of KBPC’s original certificate order.

(B) Service payments by the affiliate to the utility.

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Oregon</u>
<u>NNGFC and KBPC</u>		
Portion of NWN salaries and related overhead Allocated to NNGFC (922)..... (NNGFC & KBPC)	\$238	\$238
Insurance (924) (KBPC)	\$24,175	\$1,332
Insurance (924) (NNGFC)	\$20,775	\$20,775
The insurance allocation is based on actual insurance premiums. The allocation amount is determined by the insurance broker.		
Legal Expense (921) (NNGFC)	\$550	\$550
Property tax (408)..... (KBPC)	\$20,220	\$8,940
Total NNGFC & KBPC	\$65,958	\$31,835
<u>NW Biogas, LLC ("NW Biogas")</u>		
Portion of NWN salaries and related overhead Allocated to NW Biogas, LLC ("NW Biogas") (922)	\$233	\$233
Total NW Biogas	\$233	\$233
<u>NW Natural Energy, LLC ("NWN Energy")</u>		
Portion of NWN salaries and related overhead allocated to NWN Energy (922)	\$578,936	\$578,936
Insurance (924)	\$27,768	\$27,768
Legal Expenses (921)	\$29,669	\$29,669
Total NWN Energy	\$636,373	\$636,373
<u>NW Natural Gas Storage, LLC ("NWN Gas Storage")</u>		
Portion of NWN salaries and related overhead allocated to NWN Gas Storage (922)	\$452,696	\$452,696
Insurance (924)	\$38,856	\$38,856
Other administrative expense (921)	\$49,150	\$49,150
Total NWN Gas Storage	\$540,702	\$540,702

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Oregon</u>
<u>Gill Ranch Storage, LLC ("GRS")</u>		
Portion of NWN salaries and related overhead		
Allocated to GRS (922).....	\$589,154	\$0
Insurance (924)	\$150,798	\$0
Other Administrative Expense (921).....	\$10,865	\$0
Total GRS	\$750,817	\$0
 <u>Palomar Gas Holdings ("PGH")</u>		
Portion of NWN salaries and related overhead		
Allocated to PGH (922).....	\$72,268	\$72,268
Legal Expense (921)	\$23,578	\$23,578
Other Expense Non-Utility not reimbursed by PGH (426)	\$2,581	\$2,581
Total PGH.....	\$98,427	\$98,427

III. For intercompany loans to the utility from affiliates or loans from affiliates to the utility, provide:

- (A) The month-end amounts outstanding separately for short-term and long-term loans.**

Short-term loans:

None.

Long-term loans:

None.

- (B) The highest amount during the year separately for short-term and long-term loans.**

Short-term loans:

None.

Long-term loans:

None.

- (C) A description of the terms and conditions for loans including the basis for interest rates.**

Intercompany balances are paid off in cash each month, therefore no interest is charged.

- (D) **The total amount of interest charged or credited and the weighted average rate of interest separately for short-term and long-term loans.**

Short-term loans:
None.

Long-term loans:
None.

- (E) **Specify the Commission Order(s) approving the transactions where such approval is required by law.**

None.

- IV. **If the utility guarantees any debt of affiliates, identify the entities involved, the nature of the debt, the original amount of the debt, the maximum amounts during the year, the balance as of the end of the year, and the Commission Order(s) approving the transactions where such approval is required by law.**

None.

- V. **Report other transactions (utility leasing of affiliate property, affiliate leasing of utility property, utility purchase of affiliate property, material or supplies and affiliate purchase of utility property, material or supplies) as follows:**

- (A) **Other payments by the utility to the affiliate.**

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Oregon</u>
Tax benefits paid by NWN to NNGFC (146)	\$11,193	\$0
Tax benefits paid by NWN to NWN Energy (146)	\$390,791	\$390,791
Tax benefits paid by NWN to NWN Gas Storage (146)	\$74,495	\$74,495
Tax benefits paid by NWN to GRS (146)	\$2,114,465	\$2,114,465

Description of basis of pricing:

NWN files and pays taxes on a consolidated basis with its subsidiaries. For any taxable year, these subsidiaries have income and expenses, which cause NWN's consolidated tax liability to increase or decrease. Monthly payments are made to or from NWN to the extent the operations have income or losses.

(B) Other payments by the affiliate to the utility.

None.

VI. By affiliate and job title, provide the total number of executive, management, and professional/technical employees transferred to and from the utility. By affiliate, provide the total number of other employees transferred to and from the utility.

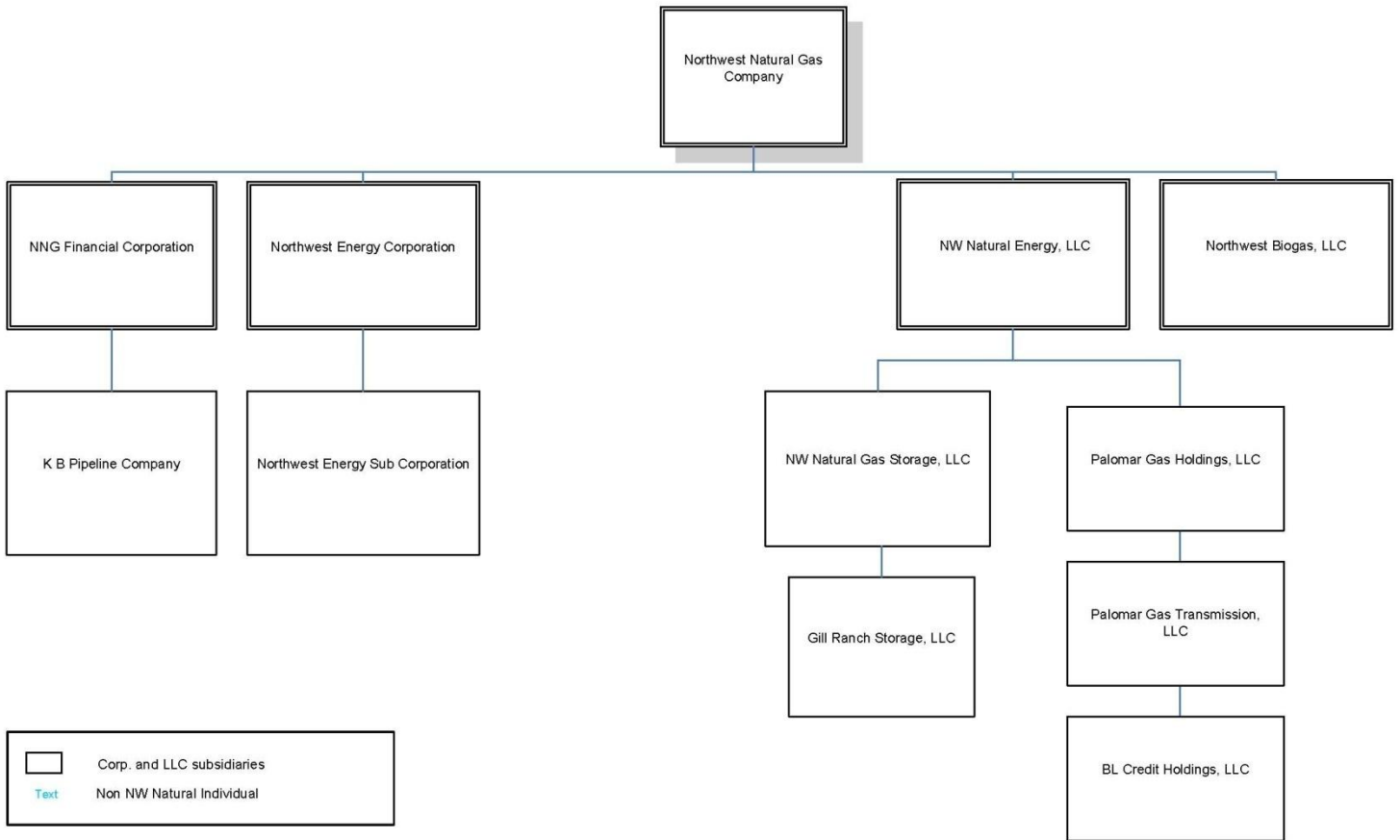
None.

VII. Description of each intra-company cost allocation procedure, and a schedule of cost amounts, by account, transferred between regulated and non-regulated segments of the company.

See Appendix A included as an appendix to this Affiliated Interest Report.

CHART 1

Organizational Chart of Northwest Natural Gas Company



----NWN Subsidiary Structure - May 25, 2011

CONFIDENTIAL NOT FOR PUBLIC VIEWING

EXHIBIT A

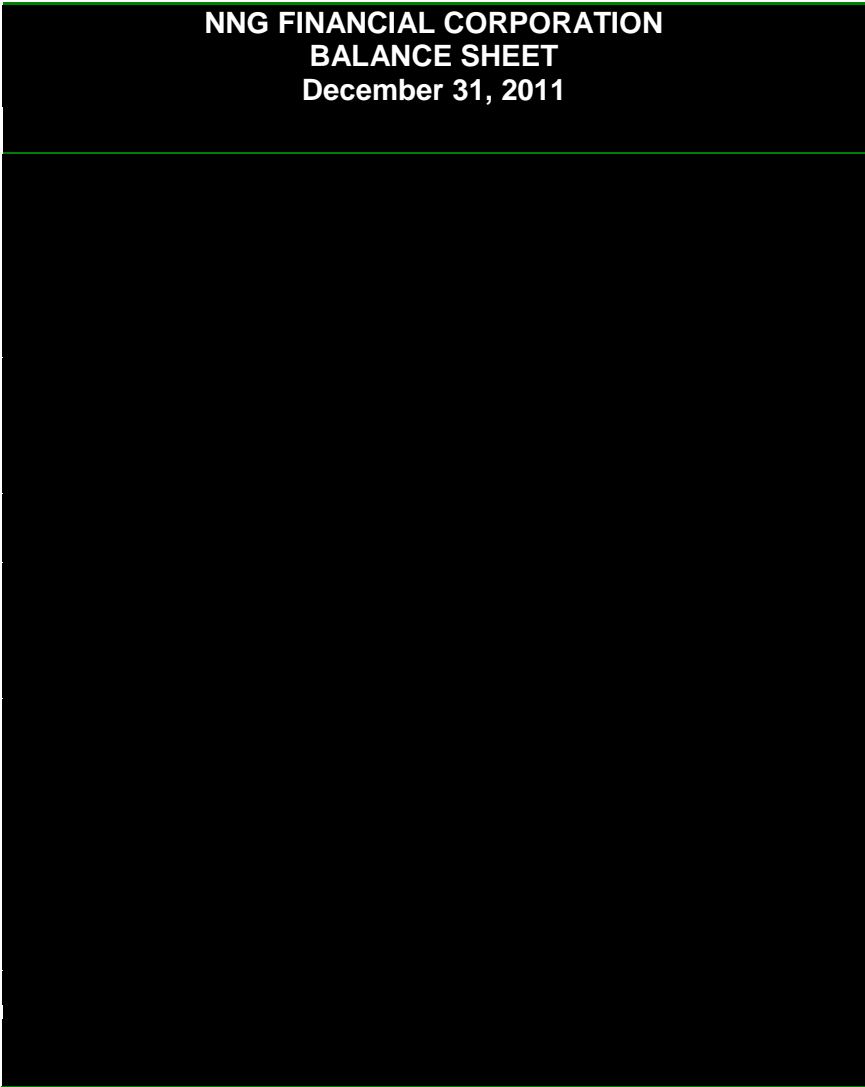
**NORTHWEST NATURAL GAS COMPANY
AFFILIATED INTEREST REPORT
FOR THE YEAR 2011**

- I.D. A balance sheet and income statement for each affiliated interest for the 12-month reporting period.**

NNG FINANCIAL CORPORATION INCOME STATEMENT FOR THE YEAR ENDED December 31, 2011	
[REDACTED]	

EXHIBIT A

**NNG FINANCIAL CORPORATION
BALANCE SHEET
December 31, 2011**



CONFIDENTIAL NOT FOR PUBLIC VIEWING

EXHIBIT A

The financial statements of NNGFC consolidate the financial statements of NNGFC and its wholly owned subsidiary, KB Pipeline Company. The financial statements for KB Pipeline Company before consolidation are as follows:

KB PIPELINE COMPANY INCOME STATEMENT FOR THE YEAR ENDED December 31, 2011	
[REDACTED]	

EXHIBIT A

**KB PIPELINE COMPANY
BALANCE SHEET
December 31, 2011**

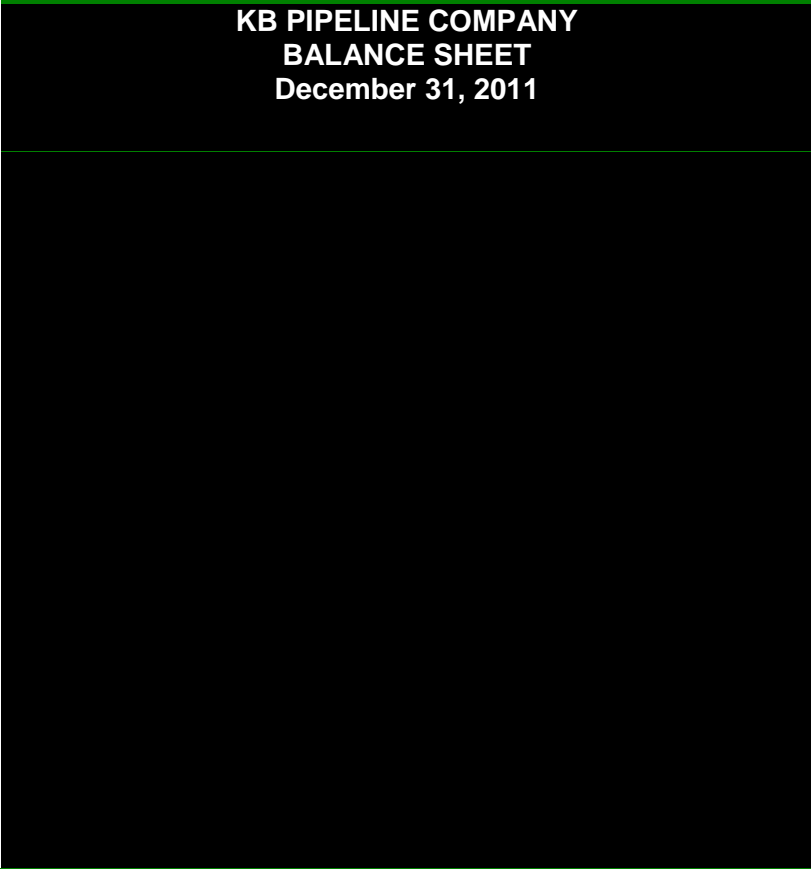


EXHIBIT A

**NORTHWEST BIOGAS, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2011**

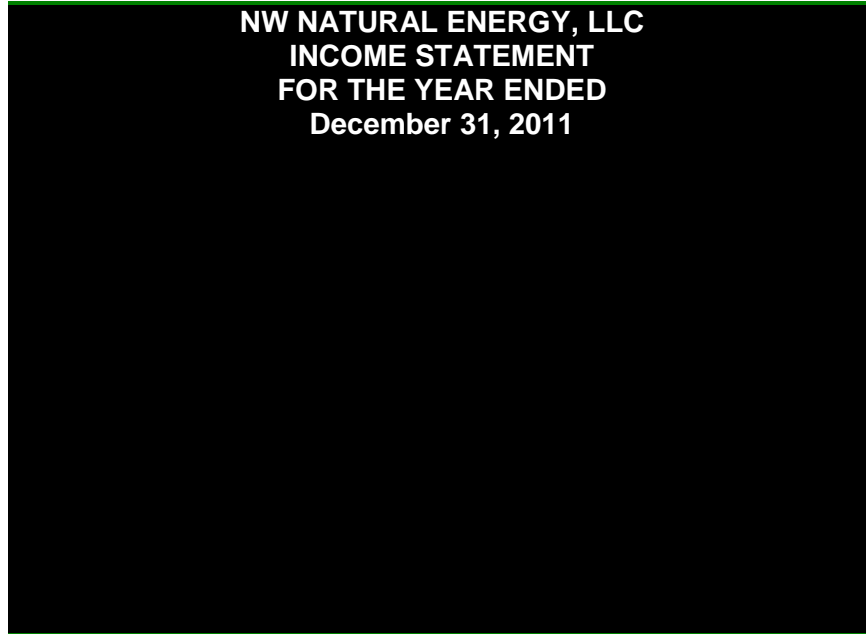
**NORTHWEST BIOGAS, LLC
BALANCE SHEET
December 31, 2011**

CONFIDENTIAL NOT FOR PUBLIC VIEWING

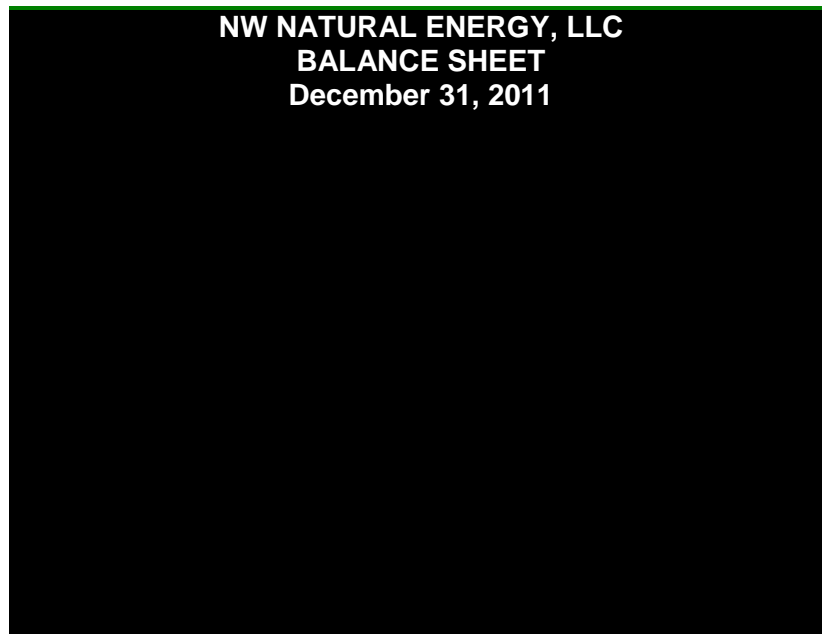
EXHIBIT A

The financial statements of NWN consolidate the financial statements of NWN and its wholly-owned subsidiary, NW Natural Energy, LLC. The financial statements for NW Natural Energy, LLC before consolidation are as follows:

**NW NATURAL ENERGY, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2011**



**NW NATURAL ENERGY, LLC
BALANCE SHEET
December 31, 2011**



The financial statements of NWN consolidate the financial statements of NWN and its indirect wholly-owned subsidiary, NW Natural Gas Storage, LLC. The financial statements for NW Natural Gas Storage, LLC before consolidation are as follows:

EXHIBIT A



EXHIBIT A

**NW NATURAL GAS STORAGE, LLC
BALANCE SHEET
December 31, 2011**



CONFIDENTIAL NOT FOR PUBLIC VIEWING

EXHIBIT A

The financial statements of NWN consolidate the financial statements of NWN and its indirect wholly-owned subsidiary, Gill Ranch. The financial statements for Gill Ranch before consolidation are as follows:

GILL RANCH STORAGE, LLC INCOME STATEMENT FOR THE YEAR ENDED December 31, 2011	
[REDACTED]	

EXHIBIT A

**GILL RANCH STORAGE, LLC
BALANCE SHEET
December 31, 2011**

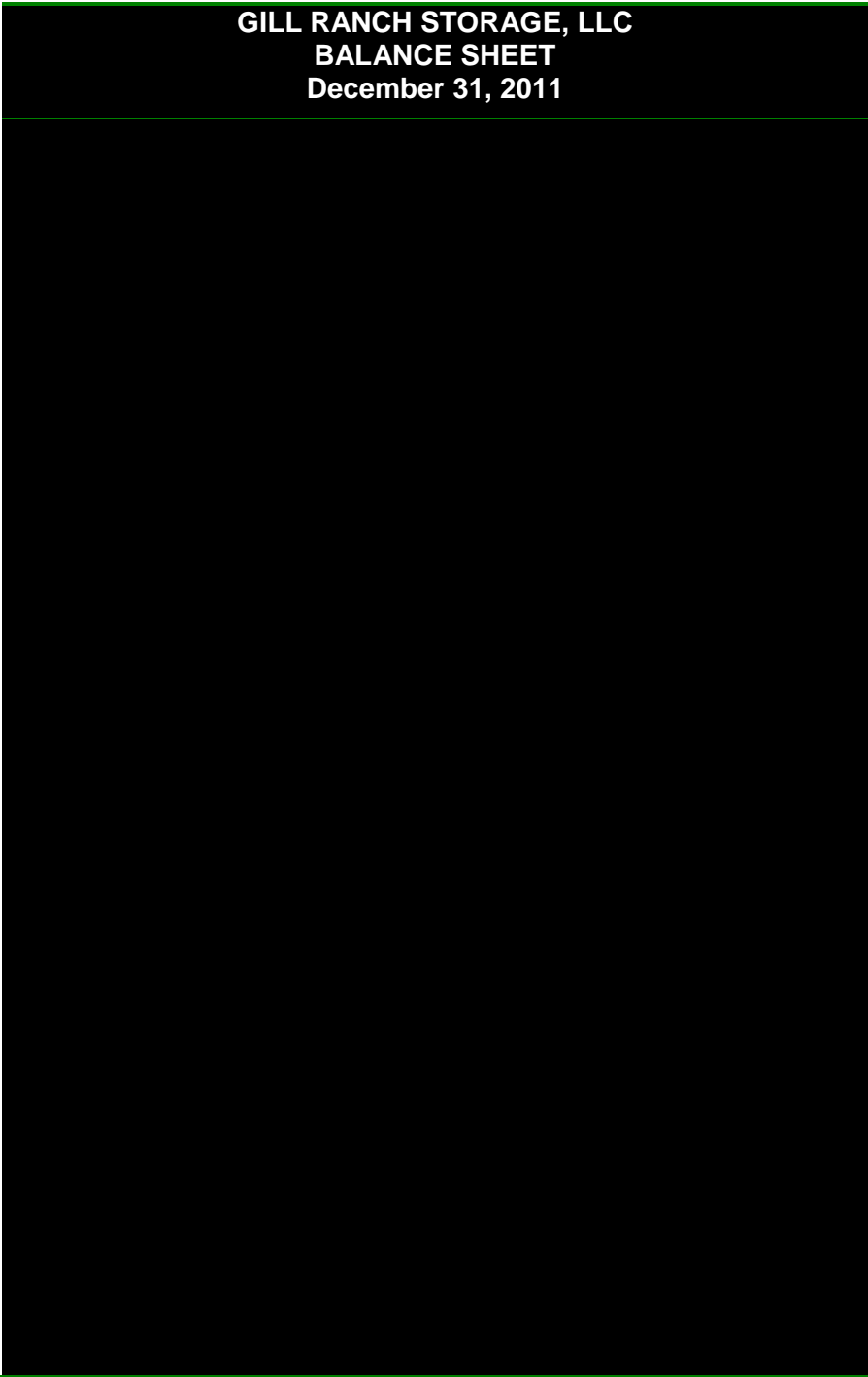
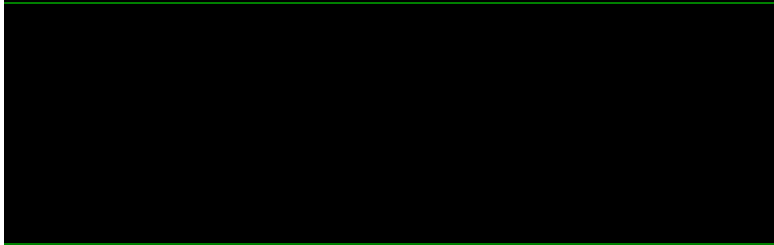
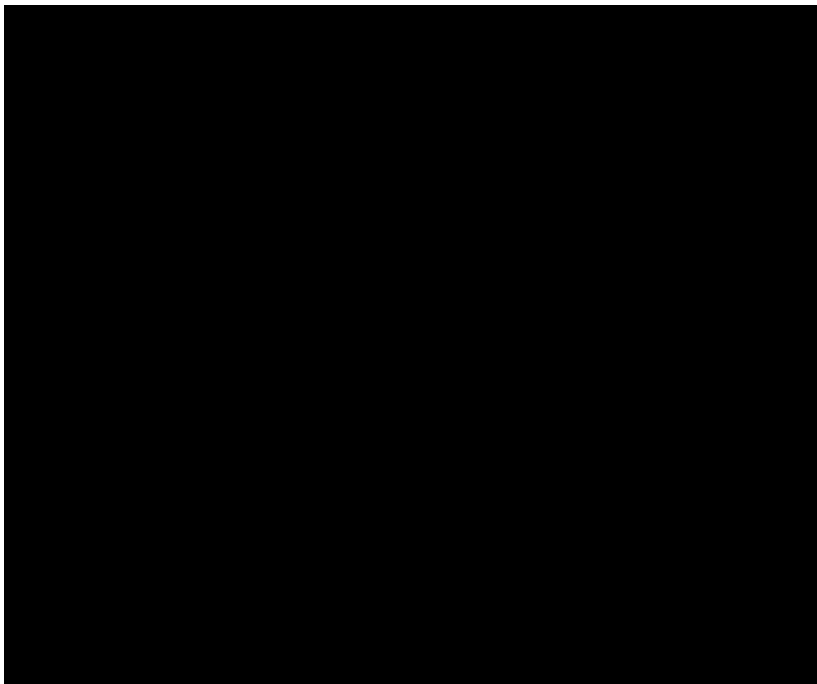


EXHIBIT A

**PALOMAR GAS HOLDINGS, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2011**



**PALOMAR GAS HOLDINGS, LLC
BALANCE SHEET
December 31, 2011**



NORTHWEST NATURAL GAS COMPANY

COST ALLOCATION MANUAL

Overview

The purpose of Northwest Natural Gas Company's ("NWN") Cost Allocation Manual is to describe the methodologies for allocating direct, indirect and shared services costs among its public utility activities, its other activities, and its affiliates.

General

NWN has limited assets invested in affiliates or non-public utility activities. At December 31, 2011, these assets accounted for 11.3% of total assets, and revenue from them was 3.1% of gross operating revenues. The vast majority of the Company's activities are related to utility operations, and it has maintained a utility parent non-regulated subsidiary organization structure.

Management oversight and other labor performed by NWN employees for the benefit of affiliates or non-public utility activities are recorded on the books of the utility in accordance with the labor allocation methods described below. *See* Labor Allocation Methods. Costs of insurance coverage purchased by NWN on behalf of its affiliates and non-public utility activities are allocated as described below. *See* Insurance Cost Allocation Methods. Income and property taxes attributable to affiliate and non-public utility activities are allocated as described below. *See* "Tax Allocation Methods." Any variation from the general allocation procedures described below is described in the specific description of the particular affiliate or non-public utility activity set forth below.

Affiliates or non-public utility activities are charged directly for materials, supplies and services (e.g., consulting services) purchased by NWN on behalf of the affiliate on the basis of the full cost of the items supplied.

Intercompany balances between NWN and its affiliates are paid on a monthly basis. However, NWN may elect to defer payment of any intercompany balance up to the amount of its net equity contributions to the affiliate. If NWN does defer payment, then it will pay monthly interest to the affiliate based on its avoided cost of short-term borrowing for as long as the intercompany balance remains outstanding.

Affiliates & Non-Public Utility Activities

The following is a list of NWN's affiliates that currently meet the requirements of ORS 757.015 and RCW 80.16.010, respectively.

1. NNG Financial Corporation
2. KB Pipeline Company
3. Northwest Energy Corporation
4. Northwest Energy Sub Corporation
5. Northwest Biogas, LLC
6. NW Natural Energy, LLC
7. NW Natural Gas Storage, LLC
8. Gill Ranch Storage, LLC
9. Palomar Gas Holdings, LLC
10. Palomar Gas Transmission, LLC
11. BL Credit Holdings, LLC

The following is a list of NWN's non-public-utility activities.

1. Appliance Center/Miscellaneous Merchandising
2. Business Development
3. Lan Su Chinese Garden (formerly Classical Chinese Garden) Block
4. Company-Owned Life Insurance
5. Coos County Pipeline
6. Corporate Philanthropy
7. Enerfin Contracts
8. Interstate Storage
9. Lobbying, Civic, and Political Contributions
10. Non-Operating Advertising
11. Oil Storage Tanks/Dock Lease
12. Other Deductions
13. Parking
14. Regulatory and Tax Penalties
15. Service Solutions
16. Sherwood House
17. Smart Energy

Labor Allocation Methods

Beginning in February 2009, NWN completed the second phase of its Integrated Information Initiative (“III Project”), which included a new time keeping system referred to as “CATS” (the Cross Application Time System). Wages and salaries of all NWN employees are charged to a default account within the employee’s home cost center. If an employee has any exception time to this default account, the employee must report and record the exception time in the CATS system. The CATS system then calculates the cost of the reported hours for each employee, adds the appropriate overhead load and generates an accounting entry in which the costs of the reported hours including overhead load are transferred from the employee’s cost center to the cost center for the reported activity.

Examples of exception time are:

- Vacation,
- Holidays,
- Capital projects,
- Work for other cost centers,
- Work for Non-utility activity within NWN, and
- Work for an affiliate of NWN.

Payroll Overhead Allocation Methods

Payroll overhead is comprised of two types of costs, as follows:

Vacation and Holiday Overhead Load

A vacation and holiday overhead load is added to the pay of all NWN employees to cover the estimated cost of vacations and official holidays. This cost is absorbed by the employee’s home cost center while they are at work. If exception time is reported by the employee (*see* “Labor Allocation Methods”), the vacation and holiday overhead load follows the payroll dollars.

The accumulated vacation and holiday load amounts are recorded as a liability in a balance sheet account (232). When employees report time for vacation or official holidays, the CATS system charges the direct labor, without vacation and holiday overhead load, to the balance sheet account (232). At year-end, any over- or under- accrual to the balance sheet account is charged or credited to corporate expense. The year-end balance reconciles to the subsidiary records by employee in the payroll system.

Benefits Overhead Load

All NWN employee benefit costs are charged into a clearing account (602). NWN allocates the costs of employee benefits and payroll taxes by adding a benefits overhead load to all labor charges that is in addition to the vacation and holiday overhead load described above. If exception time is reported (*see* “Labor Allocation Methods”), the benefits overhead load follows the payroll dollars. The benefits overhead load is set at a rate adequate to fully allocate by year-end all actual benefit costs. The rate is determined at the beginning of the year based on estimated costs.

Because benefit cost rates may differ depending on employee grade, employees are categorized into two classes, with different benefits overhead load rates for each class. The employee classes are: (1) Executives, and (2) Non-executives.

In 2011, the following costs were allocated as payroll overhead (company averages):

Executives	
Vacation & Holiday Overhead Load	15.0% of payroll
Benefits Overhead Load	95.1% of payroll
Total Executive Payroll Overhead ¹	110.1% of payroll
Non-Executives	
Vacation & Holiday Overhead Load	15.0% of payroll
Benefits Overhead Load	80.54% of payroll
Total Non-Executives Payroll Overhead	95.54% of payroll

The benefit overhead load includes the cost of health care, pension, post-retirement medical, workers' compensation, deferred compensation, payroll taxes, and bonuses. At year-end, any over- or under-allocation of costs recorded in clearing accounts (602) is charged or credited to corporate expense.

A separate entry is made to transfer the cost of payroll taxes embedded in the rates charged to O&M to Account 408, as required by FERC accounting.

For non-utility and affiliate labor charges, an additional administrative overhead load of 27.5% of labor cost is added to cover the cost of rented space, furniture and equipment.²

Insurance Allocation Methods

NWN's Risk Services Department obtains insurance for the consolidated NWN entities in the open market. The cost of all premiums is initially charged to NWN accounts. However, Gill Ranch Storage, LLC ("GRS") pays a portion of its premiums directly. An allocation for affiliated or non-utility activity related insurance coverage is subsequently made by journal entry to the affiliate or activity. Allocation is based on the underwriting principles for each type of policy. NWN's intent is to use an allocation methodology that does not result in the utility subsidizing the affiliate or non-public utility activity.

¹ The executive payroll overhead rates do not include expenses for various elements of our executive compensation program such as stock option expense, executive annual incentive plan or long-term incentive plan expenses.

² The administrative overhead load will not be charged if the employee providing the Services is located on affiliate premises for which all facilities related costs are borne by the Affiliate receiving the Services.

Tax Allocation Methods

Income Tax

NWN files federal and state income taxes on a consolidated basis. NWN allocates income tax expense or benefit monthly to each affiliate or activity based on the taxable income or loss of the activity. For all affiliates or activities, the current tax expense payable or current tax benefit receivable is recorded in an intercompany account (146).

Property Taxes

Property taxes are charged to the subsidiaries or affiliated interest based on the value of the property owned by the subsidiary or affiliated interest.

Individual Affiliate Activities

NNG Financial Corporation (“NNGFC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

Invoices applicable to NNGFC but billed through NWN are charged directly to the intercompany account 146.

KB Pipeline Company (“KBPC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

KBPC-related income taxes are offset through the intercompany account of NNGFC.

KBPC pays property taxes indirectly in the two states in which the pipeline operates. The portion of the pipeline located in the state of Washington is considered an asset of PGE (the majority owner), for property tax purposes. PGE pays 100% of property taxes assessed to Cowlitz County, Washington. PGE then bills KBPC for its pro-rata share of these property taxes. The portion of the pipeline located in the state of Oregon is shown on the property rolls of Columbia County, Oregon as property of NWN. See Tax Allocation Methods, above.

Under the Gas Transportation Agreement between KBPC and NWN dated September 26, 1991, NWN pays KBPC a monthly demand charge equal to 96.83 cents per MMBtu under the contract. Based on the contract MDQ of 19,300 MMBtus, this amounts to a total monthly charge of \$18,688.19. NWN charges Account 804 and credits the intercompany account 146016. See NWN’s Affiliated Interest Report for further information on this demand charge. Additionally, if KBPC actually transports gas for NWN, there is an additional volumetric/commodity charge payable by NWN to KBPC equal to 1.44 cents per MMBtu of gas transported. The rates charged by KBPC to NWN for gas transportation services on the Kelso-Beaver Pipeline were approved by FERC in KBPC’s 1991 certificate order.

All intercompany balances flow through the intercompany account of KBPC’s parent company, NNGFC.

Northwest Energy Corporation (“NEC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

There were no affiliated transactions between this subsidiary and NWN in 2011.

Northwest Energy Sub Corporation (“NESC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

There were no affiliated transactions between this subsidiary and NWN in 2011.

Northwest Biogas, LLC (“NW Biogas”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

NW Natural Energy, LLC (“Energy”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

NW Natural will also directly allocate costs to Energy for certain services provided by NWN employees to Energy with respect to special projects not included in the services contemplated under the Subsidiary Agreements

NW Natural Gas Storage, LLC (“NWNGS”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

For management oversight and other labor services provided by NWN to or for the benefit of Northwest Natural Gas Storage, LLC (“NWNGS”) or Gill Ranch Storage, LLC (“GRS”), NWN will bill NWNGS in accordance with the specifications of this allocation manual.

NW Natural will also directly allocate costs to NWNGS for certain services provided by NWN employees to NWNGS with respect to special projects not included in the services contemplated under the Subsidiary Agreements.

Gill Ranch Storage, LLC (“GRS”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

NWN will bill NWNGS in accordance with the specifications of this allocation manual for management oversight and other labor services provided to or for the benefit of NWNGS or GRS by NWN in accordance with the Subsidiary Agreements.

NW Natural will also directly allocate costs to GRS for certain services provided by NWN employees to GRS with respect to special projects not included in the services contemplated under the Subsidiary Agreements.

GRS as operator of the natural gas storage project co-owned by GRS with Pacific Gas & Electric Company (“PG&E”) is obligated to maintain certain insurance, including “All Risk” insurance,

workers compensation, automobile liability and umbrella/excess insurance. The policies are endorsed to provide that the insurer shall waive any right of recovery that the insurer may have or acquire against the owners and their affiliates. Each owner is named as an insured. The Builder's Risk and Well Control insurance was charged directly to GRS. GRS purchases a majority of their insurance directly. Other insurance costs are allocated as set forth above, under Insurance Allocation Methods.

Palomar Gas Holdings, LLC ("PGH")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate. Ownership of NWN's equity interest in PGH was transferred by NWN to Energy effective July 1, 2010.

Expenses for Palomar Gas Holdings, LLC ("PGH") and its subsidiaries are charged to account 426, and consist of allocations of NWN employee time as described above in Labor Allocation Methods. As an equity investor, Energy receives an allocated share of income from PGH, recorded in 426. PGH is included in NWN's consolidated financial statements as an equity investment.

Palomar Gas Transmission, LLC ("PGT")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

BL Credit Holdings, LLC

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

There were no affiliated transactions between this subsidiary and NWN in 2011.

Individual Non-Public-Utility Activities

Appliance Center

NWN's Appliance Center is a retail store that demonstrates and sells natural gas appliances to the general public. NWN has one store located in Portland. The accounting unit for the revenues and expenses for the Appliance Center is 11490.

The accounting for the product sales and cost of sales at the Appliance Center are in one of the following accounts:

Activity 415	Merchandise Revenue
Activity 416	Merchandise Expenses

NWN purchases liability insurance on behalf of the Appliance Center. See Insurance Allocation Methods, above. An additional charge for management oversight is made on a monthly basis by taking 1.5% of the selling expenses in Activity 911, Activity 912, and Activity 916 and charging Activity 416.

Certain NWN employees work exclusively on matters related to the operation of the Appliance Center. The cost of the exempt and hourly employees and all related payroll overheads are charged to Activity 416. In addition, expenses incurred in the operation of the Appliance Center are charged to Activity 416.

NWN owns the building in which the Appliance Center operates and rent is charged to Activity 416 based on the percentage of building square feet that is occupied by the Appliance Center. Revenue that NWN receives from this rent is recorded in activity 412, "Rent from Utility Property." NWN periodically adjusts rent based on market rates. Property taxes are included as a component of the rent. Market rental rates were last evaluated in 2008 and are adjusted annually based upon changes in the CPI Index. The rent cannot decrease despite any decreases in the CPI Index.

NWN has made Leasehold Improvements to the property and has capitalized these costs in account 186, Appliance Center Leasehold Improvements. NWN is amortizing the cost of these improvements over fourteen years, which is the estimated life of the improvements. Amortization expense is charged to Activity 416. The Accumulated Amortization of the Appliance Center Leasehold Improvements is in account 186.

Gas Storage

Beginning in 2006, several sites in the western U.S. have been and are being investigated for potential underground gas storage development. A percentage of three employees' salary is allocated to account 4261505. In addition, other employees who work in this area on an irregular basis time track their time, which is also allocated to account 426-01505. See Labor Allocation Methods, above.

Lan Su Chinese Garden (formerly Classical Chinese Garden) Block

NWN owns the land that is presently used for the Lan Su Chinese Garden (formerly Classical Chinese Garden). The land is held in Non-Utility Plant in account 121. It consists of one square block from Northwest Second Avenue to Northwest Third Avenue and from Northwest Everett Street to Northwest Flanders Street in Portland, Oregon. NWN has leased the property to the City of Portland under a long-term lease for 100 years for \$1 per year.

NWN provides no insurance coverage. Property taxes are the responsibility of the operator of the Garden.

Company-Owned and Trust Owned Life Insurance

NWN has a Corporate-Owned Life Insurance (“COLI”) Plan where it has purchased key-person life insurance contracts to provide informal funding for long-term, people-related liabilities including post-retirement medical benefits. The policies are owned by and payable to NWN and are increasing whole-life insurance. Similarly, NWN also has Trust-Owned Life Insurance Plans where the policies provide informal funding for non-qualified employee benefits and are owned by and payable to the Trust. Costs and benefits relating to these investments are recorded in account 124, including the build-up of cash surrender value.

Coos County Pipeline

An intrastate natural gas transmission pipeline to Coos County was built in 2004 and became operational in January 2005, for the purpose of providing natural gas service to the Southern Oregon Coast service area of NWN’s franchise. Coos County owns this pipeline and has contracted with NWN to operate it. NWN and Avista Utilities were the only shippers on the Coos County Pipeline as of the end of 2010.

NWN collects the costs of operation in a clearing account, activity 616. These costs include payroll costs of management and of operating employees who work on the pipeline. Each month these costs are cleared to Non-Utility Expense account 421. NWN bills Coos County monthly for the operating costs and records this as non-utility revenue in the same account 421. Coos County then bills NWN and Avista Utilities standard monthly amounts based on an annual budget, allocated by projected volumetric flows for each shipper. These costs are trued up at the end of each year, based on actual operating costs and actual volumes delivered for each shipper. NWN charges this payment to Cost of Gas.

NWN bills an additional monthly amount to Coos County as “compensation” to NWN, per the operations contract between the two parties. The contract allows this amount to increase each year for inflation. This revenue is recorded in account 421.

Corporate Philanthropy

NWN generally donates 1% of the average net income before tax for the three years immediately preceding the budget year. Donations are made to non-profit organizations, including those associated with education, arts, social welfare, and the environment.

The donations are directly charged to non-utility accounts 426 for Oregon and Washington. No accounting services are allocated.

Enerfin Contracts-Mist

NWN has a contract with Enerfin Corporation whereby the price of gas purchased from Enerfin for production at Mist is \$0.01 per therm less than what we collect in rates from our customers. This reduction is intended to offset general plant expenses for NWN's operation of Miller Station. This mutually beneficial agreement allows Enerfin to save money by not duplicating NWN plant and equipment at Miller Station.

The \$0.01 per therm gas savings is credited to income account 415. Labor provided by NWN employees for technical services such as meter calibration is charged directly to account 416 on daily time tickets. An overhead load is added at the same rate that is used by NWN.

Interstate Storage

NWN owns and operates the Mist underground natural gas storage facility in Columbia County near Mist, Oregon. In addition to the use of such storage facilities for its retail core customers, NWN has pre-built some storage facilities in advance of core need and uses the excess capacity of other existing facilities to provide storage services to customers in the interstate and intrastate market. NWN provides the interstate storage service under a limited jurisdiction blanket certificate issued to it by FERC under Section 284.224 of FERC's regulations. *See, Northwest Natural Gas Company*, 95 FERC ¶ 61,242 (2001). Under that certificate, NWN is authorized to provide FERC-jurisdictional bundled firm and interruptible storage and related transportation services to and from its Mist storage field in interstate commerce. In addition, NWN provides an intrastate firm storage service for eligible intrastate customers and sites in Oregon under Tariff Schedule 80 (experimental). The terms of Rate Schedule 80 mirror NWN's FERC-authorized interstate service. Since the provision of the storage services is accomplished by the use of some shared storage and transportation assets that are included in the core rate base, NWN has sharing agreements in place with its Oregon and Washington regulators. In Oregon, the sharing arrangement for both storage services and asset optimization assistance is set forth in NWN's Tariff Schedules 185 and 186. These sharing agreements are in lieu of specific allocations of costs.

Lobbying, Civic, and Political Contributions

NWN provides resources to participate in federal, state, and local government affairs, as well as in local civic organizations and initiatives. The Company also administers PAC funds that receive contributions from both employees and NWN.

Direct costs are charged to 426 accounts for the following activities:

- Contributions to political candidates,
- Contributions for ballot measures and opinion research on issues,
- Chamber of Commerce dues, and
- Social club dues.

A portion of two employee's salaries and expenses are charged to account 426.

Non Operating Advertising

NWN charges some advertising and consumer incentive or contest expense to account 416, a non-utility account. The charges are for advertising to promote the benefits of natural gas and high-efficiency natural gas equipment, and to incent customers to sign up for payment programs such as Paperless Billing, Equal Pay, and Auto Pay.

Oil Storage Tanks/Dock Lease

NWN leases oil storage tanks and a loading/unloading dock at its Linnton property to an outside party, which uses the facilities to store bunker oil for its ship refueling business.

The investment, accumulated depreciation, and deferred income taxes are accounted for in Non-Utility plant, accounts 121, and 283. Rental Income is credited to account 418 and depreciation is charged to account 418.

Income taxes are charged to non-utility taxes, accounts 409. See Tax Allocation Methods, above. Property taxes are billed to, and paid by, the lessee.

NWN purchases liability insurance coverage for the Dock facility. NWN's Risk Services Department obtains insurance for the consolidated corporate entity in the open market. The policies obtained include the Dock facility's replacement value. This insurance is charged to 426. See Insurance Allocation Methods, above.

Lessees provide their own insurance coverage.

No accounting or management costs are currently charged to this business segment.

Other Deductions

The Other Deductions account, 426, is used for miscellaneous write-offs or other non-utility expenses not readily classifiable in any other utility or non-utility accounts.

Parking

Non-utility parking costs are recorded as direct invoice charges from parking vendors or as payments to employees working on non-utility business.

Costs for employee parking are directly charged to non-utility account 426. Parking reimbursement is collected from employees for personal parking and credited to the same account.

Regulatory & Tax Penalties

Any regulatory or tax penalties are charged to account 426.

Revenue from Utility Property

See “Appliance Center”. Rent income received from the Appliance Center is credited to account 412, “Revenue from Utility Property”.

Service Solutions

NWN provides a repair and maintenance referral service to customers with equipment problems or who desire equipment servicing. Customers call the Service Solutions Center and a representative connects the customer with a NWN Certified Contractor. Participating dealers agree to complete the service call within one week unless otherwise requested by the customer, or within 24 hours on an emergency basis. Dealers must meet strict qualification standards and agree to pay annual fees that are used to fund the program.

Expenses are tracked in account 416 and offset by fees paid by the participating dealers. This revenue is recorded in account 415. The expenses include directly charged labor and overhead, depreciation on original CIS (Customer Information System) program development expenses, and an answering service vendor.

Sherwood House

The Sherwood House is a residential home located at 24540 SW Old Hwy 99, in Sherwood, Oregon. The home and the land it is on were acquired by NWN because the land was needed for the Sherwood valve site of Phase 4 of the South Mist Pipeline Extension. The home cannot be partitioned from the property; therefore it is being leased to a private party.

The land is classed as utility property since it is needed for the valve site. The house is not needed for utility operations and is carried in account 121. Rental income is recorded in account 418. Depreciation on the house is recorded in account 421.

Smart Energy

Smart Energy is an Oregon-tariffed utility program which provides Oregon customers an opportunity to offset the carbon dioxide emissions from their use of natural gas by purchasing carbon offsets. The program became effective on September 1, 2007. The ongoing costs of this program are paid for by program participants. The start-up costs for the first 3 years of the 5-year pilot program were paid for by NWN Shareholders and all Oregon customers. Any ongoing incidental costs not covered under the tariff are directly charged to account 426.