ORDER NO. 25-495

ENTERED Dec 09 2025

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 524, UI 525, UI 527, UI 529

In the Matters of LAKESHORE WATER COMPANY, LLC (UI 524), SALMON VALLEY WATER COMPANY, LLC (UI 525), SEAVEY LOOP WATER COMPANY, LLC (UI 527), and SOUTH COAST WATER COMPANY, LLC (UI 529), Request for Approval of Affiliated Interest Agreements with NW Natural Water Services, LLC.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on December 9, 2025, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Alison Lackey
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under 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 in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA17

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 9, 2025

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____N/A____

DATE: November 25, 2025

TO: Public Utility Commission

FROM: Steph Yamada

THROUGH: Bryan Conway and Russ Beitzel **SIGNED**

SUBJECT: LAKESHORE WATER COMPANY, LLC, SALMON VALLEY WATER COMPANY, SEAVEY LOOP WATER COMPANY, LLC, AND SOUTH COAST WATER COMPANY, LLC:
(Docket Nos. UI 524, UI 525, UI 527 and UI 529)
Requests approval of Affiliated Interest agreements with NW Natural Water Services, LLC.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve Lakeshore Water Company, LLC's (Lakeshore), Salmon Valley Water Company's (Salmon Valley), Seavey Loop Water Company, LLC's (Seavey Loop), and South Coast Water Company, LLC's (South Coast) (each a Company; collectively, Companies) applications for approval of Management and Operations Agreements (each an Agreement; collectively, Agreements) with affiliate NW Natural Water Services, LLC (NWNW Services), subject to Staff's recommended conditions, as follows:

1. The Companies will provide the Commission access to all books of account as well as all documents, data, and records that pertain to any transactions involving NWNW Services or its affiliates.

2. The Commission reserves the right to review, for reasonableness, all financial aspects of these transactions in any rate proceedings or alternative form of regulation.

3. The Companies will notify the Commission of any substantive changes to the Agreements in advance of the changes taking effect. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

4. The Companies will report to the Commission, as part of their annual affiliated interest reports, a summary of their transactions with NWNW Services and its affiliates. Any such reports currently outstanding will be filed prior to February 2026.

5. Staff's recommendation is limited to the nature of the proposed transactions between the Companies and NWNW Services and does not support the inclusion of any specific dollar amount in rates, which should be determined in future rate case proceedings.

6. Each Company must provide, in its next general rate proceeding, detailed information to demonstrate compliance with the "lower of cost or market" requirement of OAR 860-036-2230(2)(e), including 1) the affiliate's costs of providing services under the Agreements and 2) the market rates of those services in the utility's vicinity, unless a waiver of the rule is justified.

DISCUSSION:

Issue

Whether the Commission should approve the Companies' requests to transact with affiliate NWNW Services for goods and services, as set forth in the Agreements.

Applicable Law, Rule, and Commission Order

Pursuant to ORS 757.015(3), a corporation or person has an affiliated interest relationship with a public utility when it owns or holds, directly or indirectly, or is in any chain of successive ownership, of at least five percent of the voting securities of that public utility. Pursuant to ORS 757.015(3), every corporation that is owned by any corporation or person owning at least five percent of the voting securities of a public utility also has an affiliated interest relationship with the public utility. Pursuant to ORS 757.015(5), every corporation that has two or more officers or two or more directors in common with a public utility has an affiliated interest with the public utility.

ORS 757.495(1) and OAR 860-036-2210(2) require that when a public utility enters into a contract with an affiliated interest, it must seek Commission approval of the contract within 90 days of execution of the contract. ORS 757.495(6) requires the Commission to enter an order within 90 days after the matter has been submitted to the Commission for consideration.

Pursuant to ORS 757.495(3), the Commission will approve affiliated interest agreements if the terms are fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all financial aspects of the agreement for ratemaking purposes and may reserve that issue for subsequent proceedings.[1]

Pursuant to OAR 860-036-2230(2)(e), when services or supplies are sold to a water utility by an affiliate, sales must be recorded in the water utility's accounts at the lower of the affiliate's cost or the market rate. The affiliate's cost must be calculated using the water utility's most recently authorized rate of return.

OAR 860-036-2360 requires all rate-regulated water utilities to annually submit an affiliated interest report.

ORS 756.990(2) authorizes the Commission to assess penalties of up to $10,000 for each time a public utility violates a commission administered statute, requirement, or order.

Analysis

Background

The Companies are rate- and service-regulated water utilities serving residential and commercial customers in Oregon. Lakeshore serves approximately 50 residential customers in the vicinity of Veneta, Salmon Valley serves approximately 900 residential and 62 commercial customers in the vicinity of Welches, Seavey Loop serves approximately 36 residential customers in the vicinity of Eugene, and South Coast serves approximately 107 residential customers in the vicinity of Dunes City.

Lakeshore, Seavey Loop, and South Coast are wholly-owned subsidiaries of NW Natural Water of Oregon, LLC (NWNW OR). NW Natural Water Company, LLC (NWN Water) wholly owns NWNW OR, NWNW Services, and Salmon Valley, and is a wholly-owned subsidiary of Northwest Natural Holding Company. The sale of Lakeshore, Seavey Loop, and South Coast to NWN Water was approved with Order No. 24-295, entered August 28, 2024. Following the acquisition, NWN Water assigned its interest in those companies to NWNW OR, as described in Docket No. UP 430 Staff Report. The sale of Salmon Valley to NWN Water was approved with Order No. 18-358, entered September 26, 2018. Each of the Companies has an affiliated interest relationship with NWNW Services.

1 *See* Order No. 11-071 (Docket No. UI 306).

Pursuant to ORS 757.495 and OAR 860-036-2210, on September 22, 2025, the Companies each filed an affiliated interest application for Commission approval of an Agreement with NWNW Services. The applications were filed in the manner and form required by OAR 860-036-2200. The Agreements establish the terms and conditions under which services are provided to each Company by NWNW Services. The terms of all the Agreements are identical. Pursuant to ORS 757.495(6), the Commission must issue an order on this matter by December 21, 2025.

In response to Staff's Information Request (IR) 7, the Companies indicated that for Lakeshore, Seavey Loop and South Coast, the present Agreements are intended to supersede previously approved affiliate transactions from prior ownership. An affiliated interest agreement between Salmon Valley and NWN Water was previously approved with Order No. 20-111, issued April 8, 2020, in Docket No. UI 434; the present Agreement may supplement or supersede affiliate transactions covered in that docket, depending upon the nature of the particular type of transaction.

In response to Staff's IR 3, the Companies clarified that the Salmon Valley Agreement became effective on July 1, 2024, and the Agreements for the other companies became effective on November 1, 2024. While the Agreements were not filed within 90 days of execution as required by ORS 757.495(1) and OAR 860-036-2210(2), the Companies state that the delay in submitting the filings "has not impacted and will not impact customers." Staff has no evidence to suggest that the delay in filing caused harm to any party. Consequently, Staff does not recommend the Commission pursue penalties at this time.

Terms and Conditions of the Agreements
Each Company's Agreement with NWNW Services is substantially the same. Pursuant to the Agreements, services to be provided to the Companies by NWNW Services include, but are not limited to, the following:

1. Assist with responsibility to operate and maintain, including all aspects of management.
2. Assist with providing all services pertaining to customer service, billing, and collections.
3. Assist with completing all tasks required to preserve and maintain the integrity of the assets.
4. Assist with fulfilling all regulatory requirements.
5. Assist with routine maintenance, treatment and testing services, repairs, and meter reading.
6. Assist with the production and collection of monthly bills for utility customers.
7. Assist with customer service for utility customers.

8. Assist with regulatory reporting and compliance.
9. Provide an operator of record as required by the Oregon Department of Environmental Quality and a qualified certified water operator to act as Direct Responsible Charge for the Oregon Health Authority.

Pursuant to the Agreements, the Companies may incur direct or common costs for services provided by NWNW Services. Direct costs are those that are directly attributable, and directly assigned, to a subject Company. Common costs are not directly attributable to a specific Company and are therefore allocated amongst the benefiting entities. The Companies provided a copy of the Cost Allocation Manual (CAM) describing cost allocation methodologies in response to Staff's IR 2. [2]

Staff reviewed the Agreements between the Companies and NWNW Services. Except as discussed in the Transfer Pricing section below, Staff identified no issues or concerns with the general terms and conditions of the Agreements. Should the terms or conditions of the Agreements change, pursuant to Staff's recommended Condition 3, the Companies would be required to notify the Commission in advance of any substantive changes to the Agreements prior to the changes taking effect. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

Transfer Pricing
The estimated amount that each Company will pay annually for goods and services pursuant to the Agreements is summarized in the following table.

Docket No.	Subject Company	Annual Amount
UI 524	Lakeshore	$10,000-$15,000
UI 525	Salmon Valley	$100,000-$130,000
UI 527	Seavey Loop	$8,000-$12,000
UI 529	South Coast	$75,000-$85,000

The Companies provided the underlying calculations for these estimates in a confidential response to Staff's IR 1. Furthermore, the Companies provided information about actual transactions recorded under the Agreements in response to Staff's IR 3.

[2] Attachment A, Cost Allocation Manual.

In its IR 6, Staff asked the Companies to demonstrate compliance with the requirement to record affiliate transactions at the lower of the affiliate's cost or the market rate, as provided in OAR 860-036-2230(2)(e). In response, the Companies replied that they need "additional time to provide the level of detail being requested," stating that they would supplement the response "in the next several weeks." At the time this memo is being prepared, no supplemental response has been received.

The terms of the Agreements state that services "shall be rendered by the Provider for Purchaser at cost, without any profit markup." However, Staff notes that it is possible for the affiliate's cost to exceed market rates for comparable goods and services. Section (k) of the applications states that the "shared services pricing is based on actual wages and benefits paid to the employees of NWN Water Services…and these rates are market rates." However, Staff notes that the affiliate's cost should be compared to market rates in the vicinity of the utility, which may differ from those in the vicinity of the affiliate.

Currently, Staff does not have enough information to determine whether the proposed transactions will comply with the "lower of cost or market" requirement of OAR 860-036-2230(2)(e). However, Staff generally agrees that absent the affiliate relationship, the Companies would be required to either hire additional employees or contract with third parties to obtain certain necessary services. It is possible that contracting with affiliates for such services will result in overall cost savings due to the affiliates' ability to leverage economies of scale.

The reasonableness of the relevant costs, their appropriate ratemaking treatment, and the propriety of any potential waiver of the "lower of cost or market" rule will best be determined in each Company's next general rate proceeding. In future rate cases, Staff expects the Companies to provide detailed information regarding 1) the affiliate's costs of providing services under the Agreements and 2) the market rates of those services in the utility's vicinity. If a waiver of OAR 860-036-2230 is determined to be necessary and justified at that time, the Commission may grant it for good cause shown.

Given the safeguards provided by Staff's recommended conditions, Staff believes the Agreements are reasonable, without fully agreeing on the prudence of each component cost, the potential impact on rates, or compliance with the Commission's cost-versus-market rule. Specific transactions pursuant to the Agreements will have no impact on rates until and unless the Commission approves such inclusions in a general rate proceeding.

Public Interest Compliance
Section (i) of the applications state that the Companies' customers will benefit from the affiliate's "experience and expertise in planning for, building and maintaining safe and reliable pipeline infrastructure," and that the Agreements enable "the sharing of this expertise through a shared service framework." Staff agrees that customers may benefit from NWNW Services and its affiliates' experience and expertise. As discussed previously, the Agreements may also result in cost savings for the Companies. Staff generally believes the Agreements are fair and reasonable, and not contrary to the public interest.

Records Availability, Audit Provisions, and Reporting Requirements
Staff's recommended conditions allow Commission examination of the Companies' records concerning the Agreements. Furthermore, OAR 860-036-2360 provides that, "[b]y June 1 of each year, all rate-regulated water utilities having an affiliated interest transaction occurring during the period from January 1 through December 31 of the immediately preceding year must file an Affiliated Interest Report." The Companies are not current with such reporting and stated in response to Staff's IR 8 that this "was an oversight and should not have occurred." The companies plan to file any outstanding reports by the end of January 2026.

<u>Conclusion</u>

Based on the review of the applications, Staff concludes that the proposed Agreements are fair and reasonable and not contrary to the public interest, and should be approved. This recommendation does not support any specific dollar amount for transactions made pursuant to the Agreements, which should be determined in future rate cases.

Despite non-compliance with ORS 757.495, OAR 860-036-2210, and OAR 860-036-2360 Staff does not recommend the Commission pursue penalties at this time.

The Company has reviewed a draft of this memo and noted no concerns.

PROPOSED COMMISSION MOTION:

Approve the Companies' applications for approval of the Agreements with NWNW Services, subject to Staff's recommended conditions.

CA17 - UI 524, UI 525, UI 527 and UI 529 AI Agreements with NWNW Services

EXHIBIT B

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 between NWN, and any affiliates of NWN, and its non-regulated or non-utility affiliates and activities.

NWN is a natural gas local distribution company, which operates in Oregon and Washington, and is regulated by the Public Utility Commission of Oregon ("OPUC") and Washington Utilities and Transportation Commission ("WUTC"). NWN is owned by NWN Holdings. NWN Holdings also owns certain other businesses. NWN, NWN Holdings, and the other businesses owned by NWN and NWN Holdings are "affiliated interests" to NWN under ORS 757.015, and RWC 80.16.10. As such, the allocation of costs between these entities is subject to regulation by the OPUC and WUTC, and this manual sets out the methodologies, policies, and procedures for ensuring that the allocation of costs is done appropriately.

This document is intended to provide an overview of the different types of allocations and the processes employed to direct costs to the proper affiliate or activity.

This Cost Allocation Manual ("CAM") has been completed in accordance and conformance with the NARUC *Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines")* as follows:

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.
2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.
3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.
4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.
5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.
7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

Overall, the approach to allocating costs is to directly assign costs when applicable and to allocate costs based on the primary cost driver of the common cost, or relevant proxy, and to ensure that unauthorized subsidization of unregulated activities by regulated activities, and vice versa, does not occur. Except where otherwise approved, goods or services provided to the utility by an affiliate are provided at the lower of cost or prevailing market price. Goods or services provided by the utility to an affiliate are provided at the higher of cost or market price.

Costs allocated can take the form of: direct labor, direct purchased goods or services, and indirect labor and other indirect common costs. These costs are charged by the providing party to the receiving party at fully loaded costs. For the indirect labor and common costs that cannot be direct charged or allocated based on the primary cost driver of the common cost an indirect general allocator of the Massachusetts Formula will be used as a relevant proxy. The general allocator ("Massachusetts Formula") will be developed using an average of plant, revenues, and employee headcount for the preceding year ended December 31st. Refer to "Indirect Costs - Allocation of Common Costs" below.

Affiliates & Non-Regulated Activities

Refer to the corresponding Exhibit included in the Company's Affiliated Interest Report filed on or before May 1 annually with the Oregon and Washington Commissions for the organizational chart for the list of all affiliates and subsidiaries of NWN that currently meet the requirements of ORS 757.015 and RCW 80.16.010, respectively. Narrative descriptions are also included in the respective Affiliated Interest Report filed annually along with this document.

The following is a list of NWN's non-regulated activities with additional cost allocation considerations – narrative descriptions are included later in the document:

1. Appliance Center/Miscellaneous Merchandising
2. Interstate Storage

Labor Allocation Methods

Management oversight and other labor performed by NWN employees for the benefit of affiliates or non-public utility activities are recorded in accordance with the labor allocation methods described below.

Direct Labor - Shared Services

NWN has several departments that may provide services to affiliates that specifically benefit another entity. These departments direct-charge time incurred directly to the respective affiliate or affiliate group, or non-utility activity in which the time relates to in the SAP time reporting system to the extent possible. The costs are assigned directly to the entity for which the service is being provided through intercompany accounts. NWN charges labor rates for these shared services at cost per the payroll systems, grossed up for payroll overheads. Refer to 'Payroll Loadings and Overheads' below.

The departments that direct charge time incurred include:

- Accounting, including Shared Services Management
- Accounts Payable
- Business Controls Office
- Clerical Administrative Services
- Corporate Communications
- Engineering and Operations
- Environmental
- Executives – Management Oversight
- Facilities and Security
- Front Office – Gas Supply
- Gas Accounting
- HR and Payroll
- Information Technology & Services
- Legal
- Marketing
- Mid-Office – Financial Risk
- Public Policy and Government Affairs
- Purchasing and Stores
- Project Management Office
- Rates and Regulatory
- Risk and Land
- Safety
- Strategic Planning & Business Development
- Tax
- Treasury

Indirect Labor - General and Administrative Services

NWN has several departments that perform administrative and general functions for the benefit of NWN, NW Natural Holdings and its affiliates as well as public company related activities in service of NWN and other affiliates. These departments' labor costs are indirectly charged via a corporate allocation to the affiliates that benefit from their services. See 'Indirect Costs - Allocations of Common Costs' below. The below departments are determined to be indirect labor costs as they cannot be identified with a particular service or product to be charged and the labor benefits all affiliates. As such, the labor costs of these departments are allocated using allocation factors designed to equitably allocate costs between NWN and its affiliates. These allocation factors are designed with an emphasis on recognizing cost drivers, or a relevant proxy in the absence of a primary cost driver.

These departments include:

Corporate Governance and Compliance
Corporate Secretary
Financial Planning & Budgeting
Financial Reporting
Internal Audit
Investor Relations
Shareholder Services

Payroll Loadings and Overheads

NWN Employee payroll overhead (POH) is comprised of Vacation and Holiday Overhead Load and Benefits Overhead Load. The Company's payroll overheads loading rate is reviewed and updated annually by HR, Accounting, and Finance. Quarterly, any over or under allocation of costs recorded to the payroll overhead clearing accounts is reviewed and allocated to corporate expense and non-utility activities consistent with the underlying payroll charged.

Vacation and Holiday Overhead Load

A vacation and holiday overhead load is included in the payroll overheads which includes the estimated cost of all vacation, sick and company designated holiday days earned by an employee so that these costs appropriately follow where an employee charges their time.

Benefits Overhead Load

The benefit overhead load includes the cost of health care, pension, post-retirement medical, workers' compensation, 401K plans, payroll taxes, and annual incentive plan and key goal bonuses. 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.

An example of the company average benefits overhead load allocations from 2020 is below. The payroll overhead loadings are updated annually, and re-evaluated throughout the year as circumstances occur.

Executives	
Vacation & Holiday Overhead Load	3.25% of payroll
Benefits Overhead Load	54.19% of payroll
Total Executive Payroll Overhead[1]	57.44% of payroll
Non-Executives	
Vacation & Holiday Overhead Load	15.81% of payroll
Benefits Overhead Load	60.30% of payroll
Total Non-Executives Payroll Overhead	76.11% of payroll
Overtime and Doubletime Overhead[2]	16.21% of payroll

Service Provider and Administrative Allocations

For affiliate labor charges, both direct and indirect charged, an additional administrative overhead load of 24.8% (for 2024) of the labor cost is added to cover the cost of rented space, office supplies, IT costs, utilities, furniture and equipment and other administrative costs. [3] In like manner, an appropriate administrative overhead load is also charged from an affiliate to NWN when an affiliate provides services to NWN. The Company's administrative overhead is reviewed annually by Accounting and has been updated to 17.1% for 2025.

Other Goods or Services

Direct Costs

Affiliates or non-regulated utility activities are charged directly (through intercompany accounts for affiliates) for materials, supplies and services (e.g., consulting services, accounting software, office space and supplies, Kelso-Beaver Pipeline demand charge[4]) purchased by NWN on behalf of itself and the affiliate on the basis of the full cost of the items supplied.

Beginning in 2021, affiliated transactions between NWN and NWN RNG may include contracts between NWN affiliates of NWN RNG for the purchase of RNG or Renewable Thermal Credits under SB 98.

[1] The executive payroll overhead rates do not include expenses for various elements of our executive compensation program such as stock option expense, restricted stock unit expense or long-term incentive plan expenses, because these expenses are excluded from rate base and are therefore, not necessary to allocate out.
[2] The overtime overhead rates do not include a vacation and holiday component, and only include those benefit costs that are incurred when additional salary is incurred including payroll taxes and 401k match.
[3] 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.
[4] Under the Gas Transportation Agreement be between Kelso-Beaver Pipeline Company ("KBPC") and NWN dated September 26, 1991, NWN pays KBPC a monthly demand charge which is charged directly. Additionally, if KBPC actually transports gas for NWN, there is an additional volumetric/commodity charge payable by NWN to KBPC for 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.

Indirect Costs - Allocation of Common Costs Incurred

Common costs incurred by NWN that may benefit other affiliates that are not able to be directly assigned will be allocated to the affiliates using the general corporate allocation methodology through intercompany accounts. These common costs include the indirect labor of the General and Administrative departments listed above as well as indirect department costs. See summary below.

Additionally, common costs incurred by NWN Holdings that benefit NWN and other affiliates will be allocated using the general corporate allocation methodology and NWN will be charged its portion intercompany. NWN Holdings' structure as a publicly traded holding company provides substantial benefits to its regulated utilities and other affiliates. Indeed, the NWN Holdings' without any operations of its own, exists for the purpose of, and in service to, its subsidiaries. For these costs that benefit various functional areas and affiliates, it is not practical to charge the costs directly. Costs incurred by NWN Holdings directly related to the publicly traded company structure will be allocated to the affiliates using the general corporate allocator.

The following table shows the formulas that shall be used to allocate the cost of services and costs incurred which are not directly charged. These allocators shall be updated annually based on the preceding year ended December 31st data. However, if a significant or material event occurs during the year, the Company will update the allocators to reflect such an event on a pro-rata basis. The following table includes functions and costs that do not have a direct cost causation. The general corporate allocator is calculated via the Massachusetts Formula using an average of plant, operating revenues, and payroll expense (or headcount equivalent) for the preceding year ended December 31st.

NWN Indirect Costs Incurred[5]	Basis of Allocation
Corporate Governance and Compliance Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Corporate Secretary Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Financial Planning and Budgeting Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Financial Reporting Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Internal Audit Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense

[5] The departments include the departmental payroll and non-payroll costs incurred and additional administrative overhead charge on payroll costs.

Investor Relations Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Shareholder Services Department	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Insurance Premiums	Allocation to affiliates and non-regulated activities covered by the group insurance based on the underwriting principles for each type of policy.
Property Taxes	Allocation to affiliates and non-regulated activities based on the value of the property owned that the taxes relate to.

NW Natural Holdings Common Costs Incurred	**Basis of Allocation**
Costs related to publicly traded company structure	General corporate allocation: 33.3% plant, 33.3% operating revenues, 33.3% payroll expense
Income tax Expense or Benefit	Allocated based on the adjusted pre-tax income or loss of the affiliate or activity

Other Goods and Services Related to Individual NWN Non-Regulated Activities

Appliance Center

NWN's Appliance Center is a retail store that demonstrates and sells natural gas appliances to the general public. In addition to the allocations described within, an additional charge for management oversight of 1.5% of NWN's selling expenses is charged to the Appliance Center business. Certain NWN employees work exclusively on matters related to the operation of the Appliance Center. The cost of those employees and all related payroll overheads are charged to directly to the Appliance Center outside of NWN's regulated accounts. NWN Utility employees may provide warranty service benefitting the Appliance Center. The cost of those employees and all related payroll overheads and vehicle overhead costs are charged directly to the Appliance Center outside of NWN's regulated accounts. In addition, all expenses incurred in the operation of the Appliance Center are charged directly. The Appliance Center's retail store location is within a building owned by NWN, and a cost of rent related to the portion of the building occupied by the non-regulated activities is charged directly to those non-regulated accounts.

Interstate Storage

NWN owns and operates the Mist underground natural gas storage facility in Columbia County near Mist, Oregon. In addition to the various allocations described within 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.