

NORTHWEST NATURAL GAS COMPANY  
AFFILIATED INTEREST REPORT  
FOR THE YEAR 2008

**WAC 480-90-264 (1)**

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

See the organizational chart attached as Chart 1. In addition, see below the following information for affiliates with which Northwest Natural Gas Company (NW Natural or NWN) has had financial transactions in 2008:

**WAC 480-90-264 (2)(a)**

See separate Exhibit A for affiliate financial statements.

**WAC 480-90-264 (2)(b)**

**A description of the products or services provided to or from the utility and each such affiliated interest or subsidiary:**

**NNG Financial Corporation**

NNG Financial Corporation (NNGFC) owns 100% of the stock of KB Pipeline Company.

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%.

NNGFC has a management agreement with NWN pursuant to which NNGFC managed NWN's investment in a Boeing 737 jet leased to Continental Airlines. NWN sold this aircraft in April 2008.

The affiliations between NWN and NNGFC result from the following:

- NNGFC's use of NWN's administrative and operating staff;
- Payments between NWN and NNGFC for NNGFC's current tax expense or benefit;
- Payments from NWN to NNGFC for KBPC demand and commodity transportation charges (as applicable); and
- Collected funds in the bank account of NNGFC count toward total collected funds of the parent, NWN.

**KB Pipeline Company**

KB Pipeline Company (KBPC) is a wholly owned subsidiary of NNGFC. KBPC owns a 10 percent 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 (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 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 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 November 17, 2006, the United States Court of Appeals for the District of Columbia issued a decision vacating and remanding FERC Order No. 2004 (and the other orders in that rulemaking series) as they apply to natural gas pipelines. *National Fuel Gas Supply Corp. v. FERC*, 468 F.3d 831 (D.C. Cir. 2006). Subsequently, on January 9, 2007, FERC issued Order No. 690, the "Interim Rule" as an immediate response to the D.C. Circuit's decision pending the development of new standards that would cure the defects identified by that decision and Order No. 690 continued the waivers previously granted under Order No. 2004. 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 this new final rule, FERC has concluded that the Standards of Conduct no longer apply to interstate pipelines that are certificated only under Part 157 of FERC's regulations, which includes pipelines such as KBPC. 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, FERC no longer requires KBPC to comply with any standard of conduct rules with respect to its relationship with its affiliate, NW Natural, and thus KBPC and NW Natural may continue to share employees as necessary to conduct the business of KBPC.

Effective 12-1-2004, KBPC resigned as operator of the Kelso-Beaver Pipeline. Since that date, certain operator responsibilities are handled under contract by Cascade Natural Gas Corporation, which is not affiliated with any of the co-owners. Cascade Natural Gas incurs the operating costs, and then bills the three co-owners on a monthly basis for those operating costs, based on each owner's percentage share of ownership.

#### **Northwest Energy Corporation**

NW Energy was formed in 2001 to serve as the holding company for NW Natural and Portland General Electric (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. As explained in the Cost Allocation Manual, D&O insurance is purchased for NW Energy, and is charged to a non-utility account on NWN books. (See also II-B).

#### **Northwest Energy Sub Corporation**

Northwest Energy Sub Corporation 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 Portland General Electric Company had been completed. The corporation has remained dormant. As explained in the Cost Allocation Manual, D&O insurance is purchased for NW Energy Sub, and is charged to a non-utility account on NWN books. (See also II-B)

#### **Gill Ranch Storage, LLC**

In September 2007, NW Natural announced a joint project with Pacific Gas & Electric Company (PG&E) to develop a new underground natural gas storage facility at Gill Ranch near Fresno, California. Gill Ranch Storage, LLC, (Gill Ranch) was formed to develop and operate the facility. Gill Ranch will initially own 75 percent of the project and PG&E will own 25 percent. The initial development of this new storage facility is expected to provide approximately 20 Bcf of underground gas storage capacity and will include approximately 27 miles of transmission pipeline when the initial phase is completed. Gill Ranch estimates its 75 percent share of the total project cost for the initial phase of development, which began in 2008 and is expected to continue through 2010, to be between \$160 million and \$180 million. In July 2008, Gill Ranch filed an application with the California Public Utilities Commission (CPUC), for a Certificate of

Public Convenience and Necessity. In December 2008, the CPUC indicated that Gill Ranch's application qualified for a Mitigated Negative Declaration, which allows an expedited review process.

Gill Ranch will be subject to CPUC regulation with respect to rates and will require regulatory approvals for certain activities, including but not limited to securities issuance, terms of services, systems of accounts, lien grants and sales of property.

The affiliations between NW Natural and Gill Ranch result from the following:

- Gill Ranch's use of NW Natural's administrative and operating staff, charged to an intercompany account;
- Payments by NW Natural to outside vendors on Gill Ranch's behalf, charged to an intercompany account;
- Reimbursements by Gill Ranch to NW Natural for use of NW Natural's administrative and operating staff and the outside vendor payments.

#### **Palomar Gas Transmission, LLC**

NW Natural and Gas Transmission Northwest Corporation (GTN) indirectly equally own an interest in Palomar Gas Transmission, LLC (Palomar) which is developing a proposed interstate gas pipeline, known as the Palomar Pipeline.

The affiliations between NW Natural and Palomar result from the following:

- Palomar's use of NW Natural's administrative and operating staff; (426)
- Payments by NW Natural for outside consultants and directors and officers (D&O) insurance premiums, (426)
- Recognition of AFUDC income, (426).
- Because accounting activity is de minimus, Palomar has no separate set of books. Dedicated nominal accounts exist in non-utility section of NWN Income Statement. Investment is tracked as "Other Investments" (124059).

**WAC 480-90-264 (2)(c)**

**A description of the pricing basis or costing method, and procedures for allocating costs for such products or services, and the amount and accounts charged during the year.**

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

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
Aircraft management fee (921)..... (NNGFC)	\$3,599	\$0
Pipeline demand charges (804) ..... (KB Pipeline Company)	\$224,258	\$211,799

The Oregon allocation is based on the state's pro rata share of the pipeline demand charges paid by NWN to KBPC.

Cost of service:

N/A – Cost of our subsidiary, KBPC, does not exceed 0.1% of utility total Oregon annual operating revenues.

Description of basis of pricing:

Services rendered by NNGFC and KBPC to NWN were at cost or pursuant to a FERC-approved rate schedule. The payment to NNGFC for the aircraft management fee is at the rate of \$250 per month, based on a "Revised Management Agreement" dated 10-10-96. In 2007, additional management time was billed based on hours time-tracked.

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

Commission Order(s) approving transactions where such approval is required by law:

N/A - no approval required.

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

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
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Portion of NWN salaries and related overhead Allocated to NNGFC (922) .....	\$8,194	\$0
(NNGFC & KB Pipeline Company)		
Portion of NWN salaries and related overhead Allocated to Gill Ranch (922).....	\$744,477	\$0
Portion of NWN salaries and related overhead Allocated to Palomar (922).....	\$51,000	\$0
Insurance (924) .....	\$18,794	\$17,750
(KB Pipeline Company)		
Insurance (924) .....	\$25,613	\$0
(NNGFC)		
Insurance (924) .....	\$37,588	\$0
(NW Energy & NW Energy Sub)		
The insurance allocation is based on actual insurance premiums. The allocation amount is determined by the insurance broker.		
Legal Expense (921) .....	\$8,975	\$0
(NNGFC)		
Other Administrative Expenses (146).....	\$591	\$0
(NNGFC & KB Pipeline Company)		
Other Administrative Expenses (146).....	\$1,160,231	\$0
(Gill Ranch)		
Property taxes .....	\$8,940	\$0
(KB Pipeline Company)		

Cost of service:

N/A - does not exceed 0.1 percent of utility total Oregon annual operating revenues.

Description of basis of pricing:

Services rendered by NWN to the affiliates are through documented allocations of time by NWN employees on affiliate business. Individual time records are the basis for this allocation. Charges include utility salary, payroll overhead, and an administrative support overhead allocation of 27.5% of the direct labor. The administrative support allocation is intended to cover use of office space, furniture, equipment, and similar support services.

Actual time spent by non-exempt employees is charged directly to the affiliate with similar overhead factors applied. (See Cost Allocation Manual).

Commission Order(s) approving transactions where such approval is required by law:

N/A - no approval required.

**WAC 480-90-264 (2)(d)**

**A description of the terms of any loans between the utility and each such affiliated interest or subsidiary and a listing of the year-end loan amounts and maximum loan amounts outstanding during the year.**

- (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:

N/A - no approval required.

- 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.

Entities involved, nature of and original amount of debt:

NNGFC terminated its lines of credit on September 30, 2005.

No notes issued under the commercial paper program or advances under the lines of credit, to which the respective guaranties apply, are payable for periods of more than 270 days after the date of issue (see ORS 757.440).

Maximum amounts during the year:

The maximum amount outstanding under the commercial paper program during 2006 was zero. There were no borrowings on NNGFC's lines of credit in 2006.

Balance as of the end of the year:

The amount of commercial paper outstanding at December 31, 2006 was zero.

Commission Order(s) approving transaction where such approval is required by law:

Order No. 04-104, approved in Docket UI 224 on February 26, 2005.

- 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 Washington</u>
Tax benefits paid by NWN to NNGFC (146)	\$41,521	\$0

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

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
Tax expense paid by NNGFC to NWN (146)	\$20,622	0
Dividend to NWN (238) (NNGFC)	\$100,243	\$0

Description of basis of pricing:

NWN files and pays taxes on a consolidated basis with its subsidiaries. For any taxable year, NNGFC has items including income, which cause NWN's consolidated tax liability to increase or decrease. Monthly payments are made to NWN to the extent NNGFC operations increase the consolidated tax liability. Payments are similarly made from NWN to NNGFC when NNGFC operations decrease the consolidated tax liability.

The dividend of \$1.43 per share on 70,100 shares of stock outstanding, was based on a written consent of the NNGFC Board of directors dated 4-14-08. The actual payment was also made on 4-14-08.

Commission Order(s) approving transactions where such approval is required by law:

N/A - no approval required.

- 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 "Cost Allocation Manual", included as an appendix to this report.

**WAC 480-90-264 (2)(g)**

***A list of all common officers and directors between the gas utility and each such affiliated interest or subsidiary, along with their titles in each organization.***

**NNG FINANCIAL CORPORATION**

Type of operations: Financial  
% owned: 100%  
Year Created: 1984

**BOARD OF DIRECTORS**

Mark S. Dodson, Chairman\*\*  
Gregg S. Kantor\*  
David H. Anderson\*  
Lea Anne Doolittle\*

(\*Officer of NWN, \*\*Director of NWN Board)

**CHANGES IN MEMBERS OF THE BOARD**

Lea Anne Doolittle replaced the retiring C.J. Rue.

**OFFICERS OF THE CORPORATION**

David H. Anderson*	President and CEO
Stephen P. Feltz*	Senior Vice President and Treasurer
Elisa M. Larson	Vice President and General Counsel & Assistant Secretary
Margaret D. Kirkpatrick*	Secretary
David W. Aimone	Assistant Treasurer

(\*Officer of NWN)

**CHANGES IN OFFICERS OF NNGFC**

Margaret D. Kirkpatrick replaced the retiring C.J. Rue in the position of Secretary. Richelle T. Luther resigned from the position of Assistant Secretary. That position was added to the responsibility of Elisa M. Larson, reducing the number of officers to five.

**KB PIPELINE COMPANY**

(Subsidiary of NNG Financial Corporation)

Type of Operations: Gas Pipeline, Owner & Operator  
% owned: 100%  
Year Created: 1991

BOARD OF DIRECTORS

Gregg S. Kantor, Chairman\*  
Mark S. Dodson\*  
David H. Anderson\*

(\*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Charles E. Stinson	President
J. Keith White*	Vice President
David W. Aimone	Treasurer
Margaret D. Kirkpatrick*	Secretary
Elisa M. Larson	Assistant Secretary & General Counsel, and Chief Compliance Officer

(\*Officer of NWN)

CHANGES IN OFFICERS OF KB PIPELINE COMPANY

Richelle T. Luther resigned from the position of Secretary, and was replaced by Margaret D. Kirkpatrick

**NORTHWEST ENERGY CORPORATION**

(Subsidiary of NW Natural)

Type of Operations: Holding Company

% owned: 100%

Year Created: 2001

BOARD OF DIRECTORS

Mark S. Dodson, Chairman\*\*  
Gregg S. Kantor\*  
David H. Anderson\*

(\*Officer of NWN, \*\*Director of NWN Board)

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Mark S. Dodson**	CEO
Gregg S. Kantor*	President
David H. Anderson*	Sr. Vice President & CFO
Stephen P. Feltz*	Treasurer, Controller, and Asst Secretary
Margaret D. Kirkpatrick*	Secretary

(\*Officer of NWN, \*\*Director of NWN Board)

CHANGES IN OFFICERS OF NORTHWEST ENERGY CORPORATION

Margaret D. Kirkpatrick replaced the retiring C.J. Rue in the position of Secretary. Richelle T. Luther resigned from the position of Assistant Secretary. That position was added to the responsibilities of Stephen P. Feltz, reducing the number of officers to five.

**NORTHWEST ENERGY SUB CORPORATION**  
(Subsidiary of Northwest Energy Corporation)

Type of Operations: Merger Sub Corporation

% owned: 100%

Year Created: 2001

BOARD OF DIRECTORS

Mark S. Dodson, Chairman\*\*  
Gregg S. Kantor\*  
David H. Anderson\*

(\*Officer of NWN, \*\*Director of NWN Board)

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Mark S. Dodson**	CEO
Gregg S. Kantor*	President
David H. Anderson*	Sr. Vice President & CFO
Stephen P. Feltz*	Treasurer, Controller, and Asst Secretary
Margaret D. Kirkpatrick*	Secretary

(\*Officer of NWN, \*\*Director of NWN Board)

**CHANGES IN OFFICERS OF NORTHWEST ENERGY SUB CORPORATION**

Margaret D. Kirkpatrick replaced the retiring C.J. Rue in the position of Secretary. Richelle T. Luther resigned from the position of Assistant Secretary. That position was added to the responsibilities of Stephen P. Feltz, reducing the number of officers to five.

**GILL RANCH STORAGE, LLC**

(Subsidiary of Northwest Natural Gas Company)

Type of Operations: Natural Gas Storage

% owned: 100%

Year Created: 2007

**MANAGER MANAGED**

Manager: Northwest Natural Gas Company

**OFFICERS OF THE CORPORATION**

J. Keith White*	President
C. Alex Miller	Managing Director, Rates & Finance
Elisa M. Larson	Secretary
Margaret D. Kirkpatrick*	Assistant Secretary
Denny Henderson	Director of Business Development
Charlie Stinson	Director of Project Development

(\*Officer of NWN)

**CHANGES IN OFFICERS OF GILL RANCH STORAGE, LLC**

Margaret D. Kirkpatrick replaced the resigning Richelle T. Luther in the position of Assistant Secretary.

**PALOMAR GAS HOLDINGS, LLC**

(50% Subsidiary of Northwest Natural Gas Company)

Type of Operations: Gas Pipeline Owner and Operator

% owned: 50%

Effective Date: August 3, 2007

**MEMBERS**

Northwest Natural Gas Company	50%
Gas Transmission Northwest Corporation	50%

Management Committee consisting of a representative of each member

**PALOMAR GAS TRANSMISSION, LLC**

(Subsidiary of Palomar Gas Holdings, LLC)

Type of Operations: Gas Pipeline Owner and Operator  
% owned: 100%  
Year Created: 2007

MANAGEMENT

Management Committee of Palomar Gas Holdings, LLC

**NORTHWEST BIOGAS, LLC**

(50% owned by Bonneville Environmental Foundation)

Type of Operations: Biodigester  
% owned: 50%  
Year Created: 2008

OFFICERS

William Eddie*	President
Barbara Cronise	Vice President
Brad Lawliss	Treasurer
Alice Bray*	Secretary

(\*Employees of Bonneville Environmental Foundation)

# CHART 1

## Organization Chart

at 12-31-08

