

**AGREEMENT**

**between**

**NORTHWEST NATURAL GAS COMPANY**

**and**

**EXTERIOR WOOD, INC.**

**(2685 Index St., Washougal; Account No. 464788)**

**Regarding Gas Supply Costs for Sales Service During Interim Period**

This Agreement is entered into effective as of October 1, 2005, between Northwest Natural Gas Company ("NW Natural" or the "Company") and EXTERIOR WOOD, INC. ("Customer"). NW Natural and Customer may be referred to individually as a "Party" and collectively as "Parties."

**RECITALS**

A. Customer receives Transportation Service from NW Natural under the Company's Schedule 42, "Large Volume Non-Residential Sales and Transportation Service" or a special contract. Between August 1, 2005 and October 31, 2005, Customer exercised its "Service Election" option under the Company's Schedule T provisions to receive Sales Service from NW Natural, effective with first deliveries of sales service on or after October 1, 2005.

B. A dispute exists between NW Natural and Customer regarding the commodity rate to be charged for natural gas supplies (the "Commodity Rate") provided by NW Natural to Customer for Sales Service, pursuant to such Service Election.

C. NW Natural and Customer have reached agreement on proposed terms for determining billing rates for natural gas supplies provided by NW Natural to Customer for Sales Service during the period beginning October 1, 2005, and ending March 31, 2006 ("Interim Period"), pursuant to such Service Election.

D. NW Natural and Customer wish to submit this Agreement to the Washington Utilities and Transportation Commission ("the Commission") for approval as the basis for determining, *inter alia*, billing rates for natural gas supplies provided by NW Natural to Customer for Sales Service during the Interim Period.

## AGREEMENT

1. Incremental Cost Determination.

a. Petition for Declaratory Order. NW Natural intends to, and Customer acknowledges that NW Natural will, file a petition for declaratory order with the Commission pursuant to RCW 34.05.240 and WAC 480-07-930 seeking a determination ("Incremental Cost Determination") regarding the meaning of "incremental gas supply cost" as that term is used in the Service Election provisions of NW Natural's Schedule T. Customer's acknowledgment and this Agreement do not constitute agreement, understanding, waiver or stipulation by any of the Parties that such proceeding is relevant, necessary, applicable, or appropriate to the resolution of the dispute.

b. Schedule. NW Natural will request that the Commission adopt a schedule in the Incremental Cost Determination proceeding which provides for a final order by the Commission to be issued no later than March 31, 2006.

c. Participation by Customer. This Agreement does not bind Customer to participate in any proceeding filed by NW Natural, or to take any particular position in such proceeding. Customer reserves its right to argue that such proceeding is neither relevant, necessary, applicable or appropriate as the means of resolving the dispute.

2. Sales Service During Interim Period.

a. Subject to Section 2(d) below and the other applicable provisions of the Company's General Rules and Regulations with respect to terms of service, NW Natural will provide Sales Service to Customer during the Interim Period, provided such Customer does not de-select sales service on or before 5:00 p.m. November 10, 2005. (C)

b. Customer will continue to take Sales Service from NW Natural through the end of the Interim Period (March 31, 2006), unless such customer has either: (a) de-selected sales service effective November 1, 2005, or (b) de-selected sales service effective either November 15, 2005 or December 1, 2005.

c. On or before November 30, 2005, NW Natural will file proposed revisions to the Company's Schedule T with the Commission. Such proposed revisions will permit customers taking Sales Service to withdraw their Sales Service election effective after March 31, 2006 upon fifteen (15) days' written notice, notwithstanding any other provisions of NW Natural's Schedule T or its General Rules and Regulations. Upon approval of such tariff revision, Customer may cease taking Sales Service from NW Natural effective after March 31, 2006, in accordance with the notice requirements of such revised tariffs. It is a condition of this Agreement that the Commission approve that proposed revision.

d. Customer Creditworthiness. In accordance with the Company's General Rules and Regulations, Customer may be required to establish or re-establish credit in light of

the change in (1) conditions of service and (2) the basis upon which credit was originally established. Any additional deposit or other security required of Customer shall be in accordance with the Company's General Rules and Regulations.

3. Interim Billing Rate. During the Interim Period, NW Natural shall bill Customer for natural gas supplies provided to Customer for Sales Service at the rate of \$10.00 per decatherm as the "Commodity Rate" for delivery at Citygate ("Interim Billing Rate"); however, for deliveries during the month of November, 2005, the Interim Billing Rate, shall be \$9.00 per decatherm. (NW Natural's standard terms and conditions shall apply for delivery from Citygate to Customer's delivery point.) Customer shall pay such bills during the Interim Period, notwithstanding any Related Claims (as defined in Section 8) that Customer may have with respect to the amounts due under such bills.

4. Incurred Gas Cost.

a. Calculation of "Incurred Gas Cost". NW Natural shall calculate the actual costs it incurs on a monthly basis in accordance with the provisions of this Section 4 in providing natural gas supplies to Customer for Sales Service from October 1, 2005, through March 31, 2006 ("Incurred Gas Cost").

b. This Agreement is silent with regard to Incurred or actual Gas Costs for October 1 through October 31, 2005. For information purposes only, NW Natural will calculate the Incurred Gas Cost for October 2005 as set forth in Section 4(a) above, notwithstanding that the Parties other than NW Natural may not agree with this calculation.

c. November 1, 2005 – March 31, 2006. For the period after October 31 2005, NW Natural will use its reasonable best efforts to acquire natural gas supplies for Customer at the lowest reasonable cost (taking into account normal business exigencies and

practices, and competing constraints of reliability and cost). In calculating the Incurred Gas Cost for this period on a monthly basis, the Company shall include the impact of the actions taken by NW Natural set forth in the following paragraphs to reduce the Incurred Gas Cost ("Cost Reduction Measures"):

(i) To meet Customer's expected demand for natural gas supplies and the aggregate demand of other customers similarly situated, NW Natural has acquired 5,000 decatherms per day of commodity gas at a price equal to: (a) for gas deliveries at the Citygate during November 2005 - \$8.95/decatherm; (b) for gas deliveries at the Citygate for December through March 2006 - \$10.02/decatherm. The cost of these new gas supplies are not reflected in retail rates and have not been otherwise charged to the company's core customers.

(ii) NW Natural has available to it approximately five thousand (5,000) decatherms per day of interstate gas storage capacity. The cost of this gas storage capacity is not reflected in retail rates or otherwise charged to the Company's core customers.

(iii) During the Interim Period, NW Natural will in good faith deploy these new gas supplies and this additional gas storage capacity (at no charge for the storage service) on behalf of Customer to assist in securing natural gas supplies for Customer, at the lowest monthly reasonable cost.

5. Balancing Account. Each month during the Interim Period, the difference between the Interim Billing Rate and Incurred Gas Cost for natural gas supplied provided to Customer for Sales Service shall be recorded in an account ("Balancing Account"). Amounts in the Balancing Account shall bear a carrying charge at an annual rate of five percent (5%). NW Natural shall advise Customer no less often than once per month of the amount in Customer's Balancing Account.

6. Interim Bills.

a. April 30, 2006. If the Commission has not issued an Incremental Cost Determination on or before April 30, 2006, NW Natural shall issue an invoice or refund notice to Customer for one-third (1/3) of the amount in the Balancing Account as of March 31, 2006. Such invoice or refund notice shall be issued on or about April 30, 2006.

b. May 31, 2006. If the Commission has not issued an Incremental Cost Determination on or before May 31, 2006, NW Natural shall issue an invoice or refund notice to Customer for the remaining amount in the Balancing Account as of March 31, 2006. Such invoice or refund notice shall be issued on or about May 31, 2006.

c. Payment of Invoiced Amounts. Customer shall pay and NW Natural shall refund such amounts within ninety (90) days of the invoice or refund date, notwithstanding any Related Claims or appeals of the Incremental Cost Determination that Customer may have with respect to the amounts due under such invoices. Amounts not paid by either Party within thirty (30) days of the due date shall bear a carrying charge at an interest rate of one percent (1%) per payment period.

7. True-Up Rate.

a. Within ten (10) days of the Commission's issuance of a final order in the Incremental Cost Determination proceeding (without regard to whether judicial review is sought with respect to such order), NW Natural shall calculate the commodity rate as the "Commodity Rate" component for delivery at Citygate ("True-Up Rate") to be charged to Customer for natural gas supplies provided to Customer for Sales Service during the Interim Period. In calculating the True-Up Rate, the following shall apply:

(i) The True-Up Rate shall reflect the Commission's findings in such final order in the Incremental Cost Determination proceeding. Unless inconsistent with such findings, the True-Up Rate shall reflect the impact of Cost Reduction Measures.

(ii) The True-Up Rate for any service in any month shall not exceed the Maximum Rate as the "Commodity Rate" for delivery at Citygate as set forth below:

October 2005 - \$11.80

November 2005 - \$9.95

December 2005 through March 2006 - \$11.02

b. If the True-Up Rate is determined after the Customer has paid Interim Bills under Section 6 of this Agreement, NW Natural shall calculate a reconciliation of any amounts paid by Customer pursuant to Interim Bills issued under Section 6 of this Agreement with the amounts that should have been billed to Customer using the True-Up Rate.

c. In the event the Interim Billing Rate exceeds the True-Up Rate or the reconciliation under Section 7(b) shows an over-collection by NW Natural, the Company shall immediately credit Customer's current bill in the amount of any over-collection, and shall reimburse Customer for any over-collected amount not used after ninety (90) days. In the event the True-Up Rate exceeds the Interim Billing Rate or the reconciliation under Section 7(b) shows an under-collection by NW Natural, the Company shall issue an invoice to Customer in the amount of any under-collection. Customer shall pay such invoiced amount within ninety (90) days, notwithstanding any Related Claims that Customer may have with respect to such invoiced amounts. Amounts not paid by either Party within thirty (30) days of the due date shall bear a carrying charge at an interest rate of one percent (1%) per payment period.

d. Record-Keeping. NW Natural will maintain all records necessary for supporting the calculations of the Incurred Gas Costs and True-Up Rate by Customer regardless of whether NW Natural or Customer prevails in the Parties' disputes.

8. Related Claims.

a. Customer may have related claims ("Related Claims") against NW Natural regarding the charges for natural gas supplied by NW Natural to Customer for Sales Service during the Interim Period. Nothing in this Agreement affects Customer's rights to pursue such Related Claims and to seek refunds, whether by an administrative or judicial recourse.

b. "Related Claims" shall not include claims related to the prudence of the Company's actions in securing natural gas supplies for Customer during the Interim Period. Customer waives the right to make any claim with respect to the prudence of the Company's actions in incurring Incurred Gas Costs, excluding the period from October 1, 2005 through and including October 31, 2005, in accordance with Section 4 of this Agreement, so long as the Company has acted in good faith and reasonably.

9. The Parties agree that this Agreement is in the public interest and results in a billing rate for a natural gas supply costs for Sales Service to Customer during the Interim Period that is reasonable.

10. The Parties agree that this Agreement represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Agreement shall not be admissible as evidence in this or any other proceeding.

11. The Parties agree to support this Agreement in any proceeding before the Commission with respect to such Agreement and any appeal therefrom, provide witnesses to



This Agreement is entered into by each Party on the date entered below such Party's signature.

NORTHWEST NATURAL GAS COMPANY

EXTERIOR WOOD, INC.

By [Signature]  
Its Director of Bus. Dev.  
Date 11/14/05

By [Signature]  
Its FACILITIES MANAGER  
Date 11/14/05