

Rates and Regulatory Affairs
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June 1, 2006

Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive, S.W.
P. O. Box 47250
Olympia, Washington 98504-7250

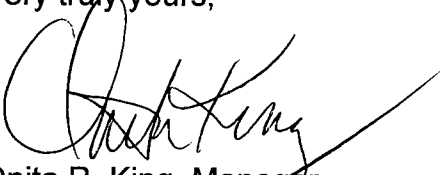
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 JUN 1 2006 8:06 AM
 WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Re: 2005 Affiliated Interest Report

Pursuant to WAC 480-90-264, enclosed please find two copies of the 2005 Affiliated Interest Report for Northwest Natural Gas Company, dba NW Natural.

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

Very truly yours,



Onita R. King, Manager
Tariffs & Regulatory Compliance

ORK/cmt
enclosure

cc: Bill Udy
File

NORTHWEST NATURAL GAS COMPANY
 AFFILIATED INTEREST REPORT
 FOR THE YEAR 2005

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

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

See organization chart on Chart 1.

WAC 480-90-264(2):

(a) A description of the products or services flowing between the public service company and any affiliated interest.

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),
- Collected funds in the bank account of NNGFC count toward total collected funds of the parent, NWN,

(b) A description of the pricing basis or costing method and procedures for allocating costs for such products or services rendered and the amount and accounts charged.

(i) 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)	\$3,000	\$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.		
Chinatown Investors (426) (Employee Parking)	\$97,200	\$0
Fish Building Appraisal (124) (Invoice to PGP Valuation, Inc)	\$2,215	\$0

Cost of service:

N/A – Cost of our subsidiary, KBPC, does not exceed 0.1% of utility total Oregon annual operating revenues.^[NWN1]

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.

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.

Payments to Chinatown Investors are monthly rent payments for employee parking in the Fish Building. NW Natural and Chinatown Investors are each 50% partners in Fish Block Associates, LLC, the owner of the land and building.

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

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
Portion of NWN salaries and related overhead Allocated to NNGFC (922)	\$22,017	\$0
KBPC operating expenses	\$54,753	\$0
Insurance (924 ^[WDU6])..... (NNGFC)	\$73,094	\$0
The insurance allocation is based on actual insurance premiums. The allocation amount is determined by the insurance broker.		
Legal Expense (921)	\$11,316	\$0
(KB Pipeline Co)		
Other Administrative Expenses	\$14,022	\$0
(NNGFC & KB Pipeline Co)		
Property taxes	\$12,638	\$0
(KB Pipeline Co)		
Interest Payments on installment contract	\$59,130	\$59,130

(Commercial property in Vancouver, WA)

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, and equipment.

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

(iii) 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)	\$1,074,877	\$0

(iv) 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)	\$2,393,068	\$0
Dividend to NWN (NNGFC)	\$2,900,037	\$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 paid to NWN was based on an NNGFC Board dividend declaration at its annual meeting held in January 2005, and paid in February 2005. The dividend was \$41.37 per share on the 70,100 shares of stock outstanding.

(c) A description of the terms of any loans between the public service company and its affiliates, and a listing of the year-end loan amounts and maximum loan amounts outstanding during the year.

(i) The month-end amounts outstanding separately for short-term and long-term loans:

Short-term loans:

None.

Long-term loans:

None.

(ii) The highest amount during the year separately for short-term and long-term loans:

Short-term loans:

None.

Long-term loans:

None.

(iii) 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.

(iv) 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.

(d) A description of the terms and maximum amount of any debt guarantees by the public service company for any affiliate and a listing of the year-end debt amounts and maximum debt amounts outstanding during the year.

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 2005 was zero. There were no borrowings on NNGFC's lines of credit in 2005.

Balance as of the end of the year:

The amount of commercial paper outstanding at December 31, 2005 was zero. There were no amounts outstanding on NNGFC's committed bank lines at December 31, 2005.

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

Order No. 04-104, approved in Docket UI 224 on February 26, 2004.

- (e) A detailed description of the activities of the affiliate with which the public service company has transactions.

NNG Financial Corporation

NNGFC has a management agreement with NWN pursuant to which NNGFC manages NWN's investment in a Boeing 737 jet leased to Continental Airlines.

NNGFC had investments in three solar electric generating plants located near Barstow, California, until they were sold in January, 2005.

NNGFC has investments in two wind power electric generating projects, with facilities located near Livermore, California, and in the San Geronio Pass area in southern California. The wind-generated power is sold to Pacific Gas & Electric Company and Southern California Edison under long-term contracts. NNGFC's ownership interests in these projects are 25 percent and 41 percent.

NNGFC has investments in two low-income housing projects located in Portland, Oregon. NNGFC's ownership interest interests in these projects are 33 percent and 49.5 percent.

NNGFC owns 100% of the stock of two companies: KB Pipeline Company and NNG Capacity Corp. Both of these companies are described below.

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 that runs between Kelso, Washington and Clatskanie, Oregon (known as the Kelso-Beaver Pipeline) that 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. FERC indicated its approval of KBPC's use of such shared employees in an order where it granted KBPC a waiver from its new standard of conduct rules 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, Order on Requests for Waivers from the Standards of Conduct, 108 FERC ¶ 61,011 (July 7, 2005) at P27.

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, 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.

NNG Capacity Corporation

A wholly owned subsidiary of NNGFC, NNG Capacity Corporation (Capacity) was created in 1994, for the principal purpose of taking advantage of the capacity release opportunities created under Federal Energy Regulatory Commission Order No. 636 and any other similar

pipeline-related opportunities that may not otherwise be accessible to NWN except through an affiliated organization. Capacity was approved in OPUC Order No. 94-665 dated April 28, 1994. NNGFC purchased all of Capacity's outstanding stock on July 28, 1994. Capacity was inactive during 2005. The corporation was dissolved in 2006.

Northwest Energy Corporation

NW Energy was formed in 2001 to serve as the holding company for NW Natural and Portland General Electric (PGE) if the proposed acquisition of PGE had been completed. However, the acquisition effort was eventually terminated in May 2002.

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 if the acquisition of Portland General Electric Company had been completed. There was no activity in 2005, and the company has no balance sheet.

Fish Block Associates, LLC

In 2000, NW Natural purchased a 50% interest in the Fish Block Associates partnership for \$1,500,000. The other investor is Chinatown Investors, LLC. The LLC owns the Fish Building which is located in Northwest Portland near NWN's headquarters.

Under the partnership agreement, NWN pays for insurance and Chinatown Investors, LLC pays for the property taxes. All other expenses are to be split 50-50.

Employee Parking

For employees in the downtown headquarters, NWN pays for employee parking spaces in the Fish Building, Old Town Parking Garage, and One Pacific Square. These costs are charged to 426-2463. In addition, employees may park on a company-owned block referred to as the "Truck Lot", and on a lot referred to as the "Summit Lot". In mid-2005, NWN began the practice of charging a monthly fee to employees who use the parking benefit.

NWN also buys Tri-Met passes to give to employees who agree to give up parking rights in any of these locations.

Classical Chinese Gardens Block

In 2000, NW Natural agreed with the City of Portland to grant the use of utility property consisting of one city block in NW Portland that was being used as a parking lot, to the proposed Classical Chinese Garden project. The company leased the property to the City of Portland under a long-

term lease for 100 years for \$1 per year. The land is classified as non-utility property in account 121044.

The Garden Block is exempt from property tax. NWN buys no insurance for the Chinese Gardens.

Oil Storage Tanks/Dock Lease

See explanation in Cost Allocation Manual

Calibration Expense-Mist

NW Natural employees perform routine technical services for Enerfin at Mist, in return for Enerfin reducing NWN purchases of gas by \$0.01 per therm.

Appliance Center

NW Natural operates a retail store in SE Portland, demonstrating and selling a variety of gas appliances to the retail market. The accounts used are non-utility accounts on the books of NW Natural. Revenues in 2005 were \$3,532,112, and expenses were \$3,473,896.

Installment Contract for Commercial Property sold in Vancouver, WA

In 2004, NW Natural sold land originally purchased for construction of a service center that later proved not suitable for utility needs.

Corporate Philanthropy

See explanation in Cost Allocation Manual

Lobbying, Civic and Political Contributions

See explanation in Cost Allocation Manual

Strategic Planning

See explanation in Cost Allocation Manual

Company Owned Life Insurance

See explanation in Cost Allocation Manual

Interstate Storage

See explanation in Cost Allocation Manual

Other Deductions

See explanation in Cost Allocation Manual

Non-Op Advertising

See explanation in Cost Allocation Manual

- (f) A list of common officers and directors of the affiliated interest company and the public service company along with their titles in each organization.

NNG FINANCIAL CORPORATION

Type of operations: Financial Investments

% owned: 100%

Year Created: 1984

BOARD OF DIRECTORS

Mark S. Dodson, Chairman*

Michael S. McCoy

David H. Anderson

C.J. Rue.

(*Member of NWN Board)

CHANGES IN MEMBERS OF THE BOARD

Beth A. Ugoretz resigned from the Board.

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

C.J. Rue*

Secretary

Richelle T. Luther*

Assistant Secretary

David W. Aimone

Assistant Treasurer

(*Officer of NWN)

CHANGES IN OFFICERS OF NNGFC

Beth A. Ugoretz resigned from the position of Senior Vice President. Pamela M. Almaguer resigned from the position of Vice President and General Counsel, and was replaced by Elisa M. Larson.

KB PIPELINE COMPANY

(Subsidiary of NNG Financial Corporation)

Type of Operations: Gas Pipeline, Part Owner

% owned: 100%

Year Created: 1991

BOARD OF DIRECTORS

Michael S. McCoy, Chairman
David H. Anderson
Mark S. Dodson

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Michael S. McCoy, President
Charles E. Stinson, Vice President
J. Keith White, Vice President
David W. Aimone, Treasurer
Richelle T. Luther, Secretary
Elisa M. Larson, Assistant Secretary & General Counsel, and Chief Compliance Officer

CHANGES IN OFFICERS OF KB PIPELINE

Pamela M. Almaguer resigned as Secretary/General Counsel and was replaced by Elisa M. Larson, who also was named Assistant Secretary and Chief Compliance Officer. Richelle T. Luther changed from Assistant Secretary to Secretary.

NNG CAPACITY

(Subsidiary of NNG Financial Corporation)

Type of Operations: Gas Transportation Related Services
% owned: 100%
Year Created: 1994

BOARD OF DIRECTORS

Michael S. McCoy, Chairman
David H. Anderson
Mark S. Dodson

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Michael S. McCoy, President
J. Keith White, Vice President

Stephen P. Feltz, Treasurer
Richelle T. Luther, Secretary
C.J. Rue, Assistant Secretary

CHANGES IN OFFICERS OF NNG CAPACITY

Pamela M. Almaguer resigned as Secretary/General Counsel.

NORTHWEST ENERGY CORPORATION
(Subsidiary of NW Natural)

Type of Operations: Holding Company
% owned: 100%
Year Created: 2001

BOARD OF DIRECTORS

Mark S. Dodson, Chairman
Michael S. McCoy
David H. Anderson

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Mark S. Dodson, CEO
Michael S. McCoy, President
David H. Anderson, Sr. Vice Pres. & CFO
Stephen P. Feltz, Treasurer & Controller
C.J. Rue, Secretary & Asst. Treasurer
Richelle T. Luther, Assistant Secretary

CHANGES IN OFFICERS OF NORTHWEST ENERGY CORPORATION

None.

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

Michael S. McCoy

David H. Anderson

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Mark S. Dodson, CEO

Michael S. McCoy, President

David H. Anderson, Sr. Vice Pres. & CFO

Stephen P. Feltz, Treasurer & Controller

C.J. Rue, Secretary & Asst. Treasurer

Richelle T. Luther, Assistant Secretary

CHANGES IN OFFICERS OF NORTHWEST ENERGY SUB CORPORATION

None.

Changes in successive ownership between the regulated utility and affiliated interest:

None.

- (g) Appropriate financial information for each affiliated interest company including, but not limited to, a balance sheet and income statement.

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

NNG FINANCIAL CORPORATION	
INCOME STATEMENT	
FOR THE YEAR ENDED	
December 31, 2005	
INTEREST INCOME	\$29,629
INVESTMENT INCOME (LOSS)	153,541
PIPELINE OPERATING REVENUE	224,258
SERVICE REVENUE	<u>8,785</u>
TOTAL OPERATING INCOME	416,214
DEPRECIATION	95,550
OPERATING EXPENSE	87,828
G&A EXPENSE	<u>140,692</u>
TOTAL EXPENSES	324,070
INCOME BEFORE TAXES	92,143
INCOME TAX EXPENSE (BENEFIT)	<u>(189,940)</u>
NET INCOME	<u>\$282,083</u>

NNG FINANCIAL CORPORATION	
BALANCE SHEET	
December 31, 2005	
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	\$1,038,771
Accounts Receivable-NWN	155,681
Total Current Assets	\$1,194,452
Non Utility Property-Net	
	1,433,248
Long Term Investments	
	840,377
TOTAL ASSETS	\$3,468,077
SHAREHOLDERS' EQUITY AND LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$4,040
Other current liabilities	17,176
Unearned Interest Income	3,532
Total Current Liabilities	\$24,748
LONG TERM LIABILITIES:	
Deferred Income Taxes	335,929
STOCKHOLDER EQUITY	
Common Stock	11,630,637
Retained Earnings	(8,523,237)
Total Stockholder Equity	3,107,400
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$3,468,077

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

KB PIPELINE COMPANY	
INCOME STATEMENT	
FOR THE YEAR ENDED	
December 31, 2005	
<hr/>	
PIPELINE REVENUES	\$224,258
SERVICE REVENUE	<u>8,785</u>
TOTAL REVENUES	233,043
DEPRECIATION	95,550
OPERATING EXPENSE	87,828
GENERAL & ADMIN EXPENSE	<u>34,358</u>
TOTAL EXPENSES	217,736
INCOME BEFORE TAXES	15,308
INCOME TAX EXPENSE	<u>5,917</u>
NET INCOME	<u>\$9,391</u>

KB PIPELINE COMPANY BALANCE SHEET December 31, 2005	
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	<u>\$16,556</u>
Total Current Assets	\$16,556
Plant & Equip. (Net)	<u>1,433,248</u>
TOTAL ASSETS	\$1,449,803
SHAREHOLDER EQUITY AND LIABILITIES:	
Current Liabilities:	
Other Current liabilities	<u>\$19,676</u>
Current Liabilities	19,676
LONG TERM LIABILITIES:	
Deferred Income Taxes	<u>359,220</u>
STOCKHOLDER EQUITY	
Common Stock	568,014
Retained Earnings	<u>502,893</u>
Total Stockholder Equity	<u>1,070,907</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$1,449,803

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

**NNG CAPACITY
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2005**

NO ACTIVITY IN 2005

NNG CAPACITY BALANCE SHEET December 31, 2005	
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	\$965
Total Current Assets	\$965
TOTAL ASSETS	\$965
SHAREHOLDER EQUITY AND LIABILITIES:	
Deferred Income Taxes	-\$2
STOCKHOLDER EQUITY	
Common Stock	13,675
Retained Earnings	(12,708)
Total Stockholder Equity	967
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$965

The financial statements of NWN consolidate the financial statements of NWN and its wholly owned subsidiary, Northwest Energy Corporation. The financial statements for Northwest Energy Corporation before consolidation are as follows:

**NORTHWEST ENERGY CORPORATION
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2005**

No Activity in 2005

NORTHWEST ENERGY CORPORATION BALANCE SHEET December 31, 2005	
ASSETS:	
Current Assets:	
Cash	\$500
Total Current Assets	\$500
TOTAL ASSETS	\$500
SHAREHOLDERS' EQUITY AND LIABILITIES:	
Current Liabilities:	
Accounts Payable-NWN	\$8,518,405
Total Current Liabilities	\$8,518,405
STOCKHOLDER EQUITY	
Common Stock	100
Retained Earnings	(8,518,005)
Total Stockholder Equity	(8,517,905)
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$500

CHART 1

Organization Chart

