UG-080985-SI

Rates and Regulatory Affairs
Facsimile: 503.721.2532

NW Natural

220 NW 2ND AVENUE
PORTLAND, OR 97209
TEL 503.226.4211
www.nwnatural.com

2008 JUN -4 AM 8: 25

RECEIVED
UTILITIES AND TRANSP. COMMISSION

June 2, 2008

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

Re: 2007 Affiliated Interest Report and Cost Allocation Manual

Pursuant to WAC 480-90-264, enclosed please find two copies of the 2007 Affiliated Interest Report and Cost Allocation Manual 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
Rates & Regulatory Affairs

enclosure

cc: Bill Udy
Alex Miller
Elisa Larson
Kevin McVay
File

NORTHWEST NATURAL GAS COMPANY
AFFILIATED INTEREST REPORT - WASHINGTON
FOR THE YEAR 2007

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.

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

A balance sheet and income statement for such affiliated interest:

NNG FINANCIAL CORPORATION
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2007

INTEREST INCOME	$32,551
INVESTMENT INCOME (LOSS)	227,357
GAIN ON SALE	1,544,382
PIPELINE OPERATING REVENUE	224,258
TOTAL OPERATING INCOME	**2,028,548**
DEPRECIATION	98,037
OPERATING EXPENSE	54,839
G&A EXPENSE	163,071
TOTAL EXPENSES	**315,947**
INCOME BEFORE TAXES	1,712,601
INCOME TAX EXPENSE (BENEFIT)	514,219
NET INCOME	**$1,198,382**

NNG FINANCIAL CORPORATION BALANCE SHEET December 31, 2007	
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	$101,410
Accounts Receivable Taxes-NWN	12,482
Total Current Assets	**$113,892**
Non Utility Property-Net	1,277,726
Long Term Investments	1
TOTAL ASSETS	**$1,391,619**
SHAREHOLDERS' EQUITY AND LIABILITIES:	
Current Liabilities:	
Accounts Payable	$44,103
Other current liabilities	13,956
Accounts Payable-NWN	3,731
Total Current Liabilities	**$61,790**
LONG TERM LIABILITIES:	
Deferred Income Taxes	**212,424**
STOCKHOLDER EQUITY	
Common Stock	11,630,637
Retained Earnings	(10,513,232)
Total Stockholder Equity	**1,117,405**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**$1,391,619**

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

KB PIPELINE COMPANY
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2007

PIPELINE REVENUES	$224,258
SERVICE REVENUE	0
TOTAL REVENUES	**224,258**
DEPRECIATION	98,037
OPERATING EXPENSE	54,839
GENERAL & ADMIN EXPENSE	32,155
TOTAL EXPENSES	**185,031**
INCOME BEFORE TAXES	39,227
INCOME TAX EXPENSE	15,275
NET INCOME	**$23,952**

KB PIPELINE COMPANY BALANCE SHEET December 31, 2007	
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	$3,252
Total Current Assets	**$3,252**
Plant & Equip. (Net)	1,277,726
TOTAL ASSETS	**$1,280,978**
SHAREHOLDER EQUITY AND LIABILITIES:	
Current Liabilities:	
Accounts Payable	$8,103
Other Current liabilities	13,956
Current Liabilities	**$22,059**
LONG TERM LIABILITIES:	
Deferred Income Taxes	**$380,679**
STOCKHOLDER EQUITY	
Common Stock	335,477
Retained Earnings	542,763
Total Stockholder Equity	**$878,240**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**$1,280,978**

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, 2007

No Activity in 2007

NORTHWEST ENERGY CORPORATION
BALANCE SHEET
December 31, 2007

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**

The Gill Ranch Storage, LLC, was legally set up in 2007, but in this early stage of feasibility studies, Gill Ranch activity was recorded on the books of NW Natural, and no affiliate financial statements were prepared.

GILL RANCH STORAGE, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2007

No Activity in 2007

GILL RANCH STORAGE, LLC BALANCE SHEET December 31, 2007	
None	

Currently, **Palomar Gas Holdings LLC** and **Palomar Gas Transmission LLC,** are carried as an investment under "Other Investments" (account 124) on the books of NW Natural. There are no affiliate transactions to report.

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

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,

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. See Appendix A, Cost Allocation Manual.

Account/description:	Total Company	Total WA
Aircraft management fee (921) (NNGFC)	$3,804	$0
Pipeline demand charges (804) (KB Pipeline Company)	$224,258	$211,799

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

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.

Service payments by the affiliate to the utility:

Account/description:	Total Company	Total WA
Portion of NWN salaries and related overhead Allocated to NNGFC (922)	$34,109	$0
KBPC administrative expenses	$1,319	$0
Insurance (924) (KB Pipeline Company)	$30,418	$0
Insurance (924) (NNGFC)	$31,249	$0
Insurance (924) (NW Energy & NW Energy Sub)	$45,628	$0

The insurance allocation is based on actual insurance premiums. The allocation amount is determined by the insurance broker.

Legal Expense (921) .... (NNGFC)	$33,759	$0
Other Administrative Expenses .... (NNGFC & KB Pipeline Company)	$2,520	$0
Property taxes .... (KB Pipeline Company)	$2,882	$0

<u>Description of basis of pricing</u>:

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).

<u>WAC 480-90-264 (2)(d)</u>

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:

<u>Short-term loans</u>:
None.

<u>Long-term loans</u>:
None.

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

<u>Short-term loans</u>:
None.

<u>Long-term loans:</u>
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.

WAC 480-90-264 (2)(e)

A description of the terms and total amount of any obligation or liability assumed by the utility for each such affiliated interest or subsidiary.

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.

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:

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:

Other payments by the utility to the affiliate:

Account/description:	Total Company	Total WA
Tax benefits paid by NWN to NNGFC (146)	$556,146	$0

Other payments by the affiliate to the utility:

Account/description:	Total Company	Total WA
Tax expense paid by NNGFC to NWN (146)	$1,126,702	$0
Dividend to NWN (NNGFC)	$2,400,224	$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 $34.24 per share on 70,100 shares of stock outstanding, was based on a written consent of the NNGFC Board of directors dated 11-20-07. The actual payment was made on 11-30-07.

WAC 480-90-264 (2)(f)

A description of the activities of each such affiliated interest or subsidiary with which the utility 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 two wind power electric generating projects, with facilities located near Livermore, California, and in the San Gorgonio 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 sold these investments in October 2007. NNGFC's ownership interest in these projects was 25 percent and 41 percent.

NNGFC had investments as a limited partner in two low-income housing projects located in Portland, Oregon. NNGFC's ownership interest in these projects was 33 percent and 49.5 percent. NNGFC withdrew from the 33 percent ownership project in December 2007, under the terms of the partnership agreement, assigning all legal and beneficial rights to the Assignee, pursuant to the agreement.

NNGFC owns 100% of the stock of KB Pipeline Company.

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.

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 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, including KBPC's pending the outcome of another rulemaking proceeding that would adopt permanent rules which is still pending.

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.

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. 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 if the acquisition of Portland General Electric Company had been completed. As explained in the Cost Allocation Manual, D&O insurance is purchased NW Energy Sub, and is charged to a non-utility account on NWN books.

Other than insurance, there was no activity in 2007, and the company has no balance sheet.

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 Investments
% owned: 100%
Year Created: 1984

BOARD OF DIRECTORS

Mark S. Dodson, Chairman*
Gregg S. Kantor
David H. Anderson
C.J. Rue
(*Member of NWN Board)

CHANGES IN MEMBERS OF THE BOARD

Gregg S. Kantor replaced the retiring Michael S. McCoy.

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

None.

KB PIPELINE COMPANY

(Subsidiary of NNG Financial Corporation)

Type of Operations: Interstate Natural Gas Pipeline, Part Owner
% owned: 100%
Year Created: 1991

BOARD OF DIRECTORS

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

CHANGES IN MEMBERS OF THE BOARD

None.

OFFICERS OF THE CORPORATION

Charles E. Stinson, 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 COMPANY

None.

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

CHANGES IN MEMBERS OF THE BOARD

Gregg S. Kantor replaced the retiring Michael S. McCoy.

OFFICERS OF THE CORPORATION

Mark S. Dodson, CEO
Gregg S. Kantor, 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

Gregg S. Kantor replaced the retiring Michael S. McCoy.

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

CHANGES IN MEMBERS OF THE BOARD

Gregg S. Kantor replaced the retiring Michael S. McCoy.

OFFICERS OF THE CORPORATION

Mark S. Dodson, CEO
Gregg S. Kantor, 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

Gregg S. Kantor replaced the retiring Michael S. McCoy.

GILL RANCH STORAGE, LLC

(Subsidiary of Northwest Natural Gas Company)

Type of Operations: California-Regulated Natural Gas Storage Facility
% owned: 100%
Year Created: 2007

MANAGEMENT

Manager: Northwest Natural Gas Company

OFFICERS OF THE CORPORATION

J. Keith White, President
C. Alex Miller, V.P., Treasurer and Director of Regulatory Affairs
Elisa M. Larson, Secretary
Richelle T. Luther, Assistant Secretary
Denny Henderson, Director of Business Development
Charlie Stinson, Director of Project Development

PALOMAR GAS HOLDINGS, LLC

(50% Subsidiary of Northwest Natural Gas Company)

Type of Operations: Interstate Natural Gas Pipeline Owner and Operator
% owned: 50%
Effective Date: August 3, 2007

MEMBERS

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

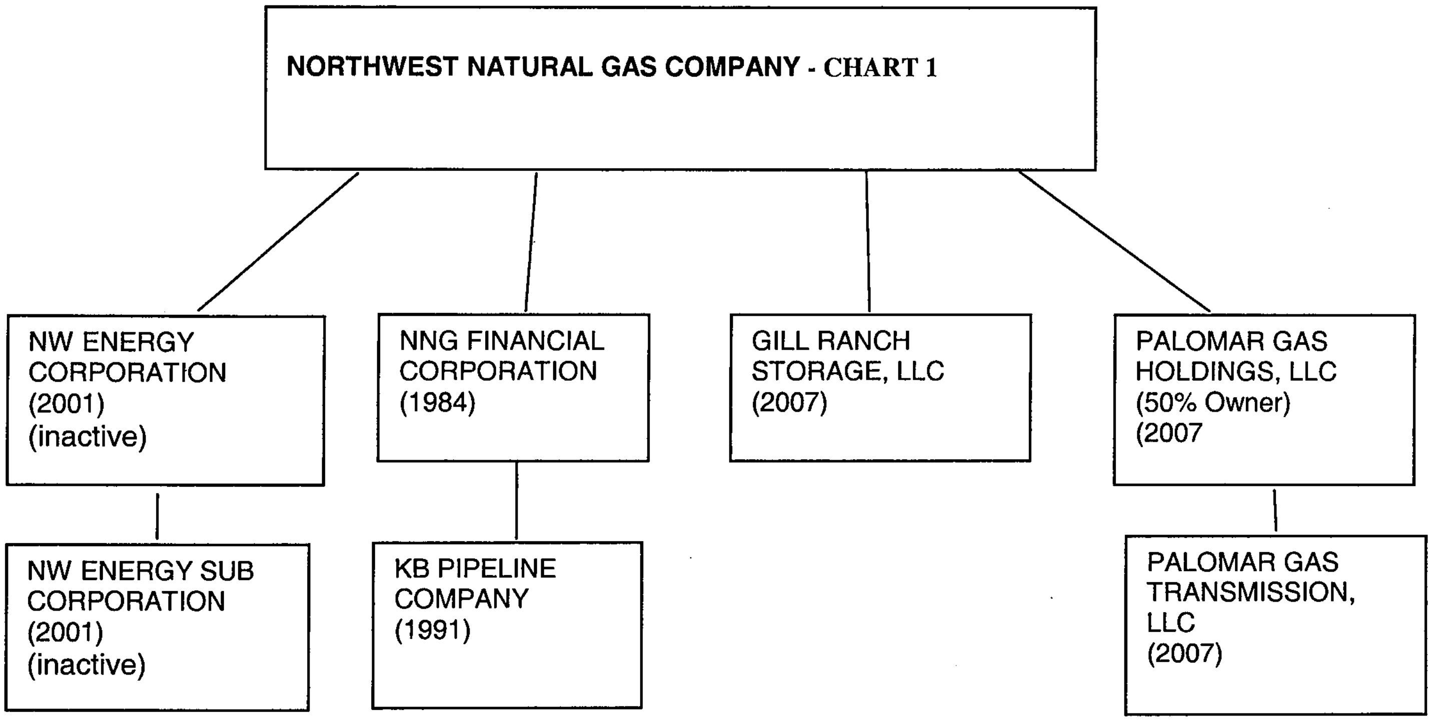
Management Committee consisting of a representative of each member

PALOMAR GAS TRANSMISSION, LLC
(Subsidiary of Palomar Gas Holdings, LLC)

Type of Operations: Interstate Natural Gas Pipeline
% owned: 100%
Year Created: 2007

MANAGEMENT

Management Committee of Palomar Gas Holdings, LLC


NORTHWEST NATURAL GAS COMPANY - CHART 1
NW ENERGY CORPORATION (2001) (inactive)
NW ENERGY SUB CORPORATION (2001) (inactive)
NNG FINANCIAL CORPORATION (1984)
KB PIPELINE COMPANY (1991)
GILL RANCH STORAGE, LLC (2007)
PALOMAR GAS HOLDINGS, LLC (50% Owner) (2007
PALOMAR GAS TRANSMISSION, LLC (2007)

NW NATURAL
COST ALLOCATION MANUAL-WASHINGTON
Appendix A - Affiliated Interest Report

OVERVIEW

The purpose of Northwest Natural Gas Company's ("NW Natural") Cost Allocation Manual is to describe the methodologies for allocating direct, indirect and shared services costs between the utility and non-utility activities, and affiliates.

NW NATURAL'S NON-UTILITY ACTIVITIES & AFFILIATES

The following is a list of NW Natural's non-utility activities and affiliates. Following the list, cost allocation methods for each non-utility activity or affiliate will be discussed:

1. Amortization of Business Energy Tax Credits
2. Appliance Center/Miscellaneous Merchandising
3. Business Development (Gill Ranch)
4. Classical Chinese Gardens Block
5. Company-Owned Life Insurance
6. Coos County Pipeline
7. Corporate Philanthropy
8. Development Revenue/Expense (Bradwood)
9. Enerfin Contracts-Mist
10. Corporate Structure
11. Interstate Storage
12. KB Pipeline Company
13. Leveraged Lease
14. Lobbying, Civic, and Political Contributions
15. NNG Financial Corporation
16. Non-Operating Advertising
17. Non Utility Tax Expense (Benefit)
18. Northwest Energy Corporation
19. Northwest Energy Sub Corporation
20. Note Receivable for Vancouver property
21. Oil Storage Tanks/Dock Lease
22. Other Deductions
23. Palomar Pipeline Project
24. Parking
25. Regulatory & Tax Penalties
26. Revenue from Utility Property
27. Service Solutions
28. Sesquicentennial
29. Sherwood House
30. Smart Energy
31. Strategic Planning

GENERAL

NW Natural has a limited amount of its assets invested in affiliates or non-utility activities. At December 31, 2007, these assets accounted for 5.3% of total assets, and revenue from them was 3.6% of gross operating revenues. (See Table 1). The vast majority of the Company's activities are related to utility operations, and it has maintained a utility parent-non-regulated subsidiary organization structure.

LABOR ALLOCATION METHODS

NW Natural has two methods by which labor can be allocated to non-utility accounts. Either method may be used for a particular non-utility activity.

The methods are:

1. Direct Charge:

All NW Natural field employees account for their time on daily time tickets. If non-utility activity work is performed, the appropriate non-utility account is reported on the time ticket.

The labor of individual salaried employees, both bargaining and non-bargaining, is allocated through the PeopleSoft payroll system based on estimated percentage of time spent on utility and non-utility activities. The allocations are reviewed annually or if job changes or transfers occur.

2. Exception Time Card:

Each NW Natural salaried employee, both bargaining and non-bargaining, has an individual standard departmental account distribution. If an employee spends time on non-utility activities, the employee is required to account for that time and report the hours to Accounting. Accounting then prepares and records a journal entry transferring the labor to the non-utility account at the individual salary rate of that employee. An overhead load is added at the same rate that is used throughout the company. (See Payroll Overheads). In addition, an Administrative Overhead load of 27.5% of labor cost is added to cover the cost of rented space, furniture, and equipment.

Payroll Overheads

Vacation, Sick & Holiday Pay

For Bargaining Unit – Field employees, vacation, sick and holiday pay is charged to a 601 Clearing account. To allocate these costs throughout the year to where Field Hourly labor is actually charged, a percentage overhead load of 15% is added to such labor. The intent is to fully allocate all vacation, sick and holiday pay by year-end resulting in a zero balance in Clearing. For Bargaining Unit Clerical and all Non-Bargaining Office employees, vacation, sick and holiday pay is charged directly to departmental accounts where salaries and wages are assigned.

Other Payroll Overheads

All NW Natural employee benefit costs are initially charged into a Clearing account. NW Natural allocates the costs of employee benefits and payroll taxes by adding a percentage load to all labor charges. The percentage load is set at a rate adequate to fully allocate all such actual costs by year-end. 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 four classes, with different overhead rates for each established class. The employee classes are:

Bargaining Unit – Clerical
Bargaining Unit – Field
Non Bargaining
Executives

In 2007, the following costs were allocated as overhead (company averages):

Health	18.7% of payroll
Pension	13.7% of payroll
Post-Retirement Medical	3.5% of payroll
Workers Compensation	2.0% of payroll
Deferred Comp Match	2.8% of payroll
Payroll Taxes	10.0% of payroll
Key Goal Bonus	4.1% of payroll
Incentive Bonus	4.2% of payroll

Over or under allocation of costs is charged or credited to corporate expense. For the payroll taxes embedded in the overheads rates charged to O&M accounts, a separate entry is made to transfer this cost to 408 as required by FERC accounting.

Discussion of Individual Non-Utility Activities

Amortization of Business Energy Tax Credits

To encourage energy conservation, NW Natural offers to customers who want to weatherize their homes and who qualify for a tax rebate from the Oregon Dept of Revenue, the option of receiving a prepayment from NW Natural for the tax credit they would otherwise receive at tax time on their income tax return. The company is then able to claim this tax credit instead of the gas customer. The cost of this program is expensed over an authorized amortization period in account 426-2625. The expense is offset by reduced tax expense.

Appliance Center

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

The accounting for the product sales and cost of sales at the Appliance Center are as follows:

Activity 415	Merchandise Revenue
Activity 416	Merchandise Expenses

<u>Direct Costs:</u>
Certain NW Natural employees work exclusively on matters related to the operation of the Appliance Center. The cost of the exempt and hourly employees and all related payroll overheads (see Payroll Overheads) is charged to Activity 416. In addition, expenses incurred in the operation of the Appliance Center are charged to Activity 416.

NW Natural owns the building in which the Appliance Center operates and rent is charged to Activity 416 based on the percentage of building square feet that is occupied by the Appliance Center. Revenue from this rent is recorded in activity 412 "Rent from Utility Property". The company periodically adjusts rent based on market rates. Property taxes are included as a component of the rent. Market rental rates were last evaluated in 2001.

NW Natural has made Leasehold Improvements to the property and has capitalized these costs in Account 186005, Appliance Center Leasehold Improvements. NW Natural is amortizing the cost of these improvements over fourteen years, which is an estimate of the life of the improvements. Amortization expense is charged to Activity 416. The Accumulated Amortization of the Appliance Center Leasehold Improvements is in Account 186006.

<u>Shared and Indirect Services:</u>
NW Natural purchases liability insurance on behalf of the Appliance Center. The Risk Services Department obtains insurance for the consolidated corporate entity in the open market. The policies obtained include the Appliance Center's replacement value.

A charge for management oversight is made on a monthly basis by taking 1.5 % of the selling expenses in Activity 911, Activity 912, and Activity 916 and charging Activity 416.

Business Development (Gill Ranch Storage, LLC)

In November 2006, NW Natural began investigating the opportunity to develop a new California-regulated underground natural gas storage project in northern California. It selected the Gill Ranch site located in the San Joaquin Valley. In 2007, NW Natural entered into a Joint Project Agreement with Pacific Gas & Electric Company ("PG&E") for the co-development of the project. Ownership in the project is structured as tenants in common. NW Natural's interest is held by a newly formed subsidiary – Gill Ranch Storage, LLC (GRS). Phase I of the project, which is targeting a 2010 in-service date, will be 75% owned by GRS and 25% by PG&E as co-tenants. Costs of the project will be allocated to the two companies in proportion to their ownership interests. Each company will separately finance, tariff, market and contract for its portion of the project capacity. GRS is the Operator of the project through at least the first three years of commercial operation.

NW Natural employee direct costs are being time tracked and allocated to this project in accounts 426-1505 and 426-2053 depending on the type of cost. Capital costs are recorded in 124062 "Other Investments". The overhead allocation of these employees is specified in Exhibit G of the Operator Agreement. Consulting and other invoice charges are charged direct.

Classical Chinese Gardens Block

NW Natural owns the land that is presently used for the Classical Chinese Garden. The land is held in Non-Utility Plant in account 121044. It consists of one square block from Northwest Second to Northwest Third and from Northwest Everett to Northwest Flanders in Portland. NW Natural has leased the Property to the City of Portland under a long-term lease for 100 years for $1 per year.

Direct Costs:
None

Shared and Indirect Services:
NW Natural provides no insurance coverage. Property taxes are the responsibility of the operator of the Garden.

Company-Owned and Trust Owned Life Insurance

NW Natural has a Corporate-Owned Life Insurance (COLI) Plan where it has purchased key-person life insurance contracts to provide informal funding for long-term, people-related liabilities including post-retirement medical benefits. The policies are owned by and payable to NW Natural and are increasing whole-life insurance. Similarly, NW Natural also has Trust-Owned Life Insurance Plans (TOLI) where the policies provide informal funding for non-qualified employee benefits and are owned by and payable to the Trust. Costs and benefits relating to these investments are recorded in ledger accounts 124100 through 124109, including the build-up of cash surrender value.

For accounting purposes, life insurance premiums are charged to a non-utility account, Account 426-2385 - Life Insurance. Correspondingly, any income generated from these policy investments are credited to the same account.

Since nominal time is spent on administering this program, A&G costs are immaterial. Also, since current practice is to record life insurance gains and losses plus premium costs to a non-utility account, there is very little exposure to under-allocating costs to non-utility accounts.

Coos County Pipeline

An intrastate natural gas transmission pipeline to Coos County was built 2004 and became operational in January 2005, to provide gas service to the Southern Oregon Coast service area of NW Natural's franchise. Coos County owns this pipeline and has contracted with NW Natural to operate it. NW Natural and Avista Utilities were the only shippers on the Coos County Pipeline as of the end of 2007. NW Natural collects the costs of operation in a clearing account, activity 616. These costs include payroll costs of management and operating employees who work on the pipeline. NW Natural bills Coos County monthly for the operating costs. Coos County then bills NW Natural and Avista Utilities standard monthly amounts based on each year's budget, allocated by projected volumetric flows for each shipper. These costs are then trued up at the end of each year, based on actual operating costs and actual volumes delivered for each shipper. When NW Natural pays its bill, the cost becomes a Cost of Gas to NW Natural. These revenues and expenses are recorded in activity 421-6056. An additional monthly amount of $2,000 is billed to and paid by Coos County as "compensation" to NW Natural, per the operations contract between the two parties.

Corporate Philanthropy

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

Direct Costs:
The donations are charged to non-utility accounts 426-2180 (Oregon), and 426-2185 (Washington).

No accounting services are allocated.

Development Revenue & Expense (Bradwood Landing)

NW Natural is providing consulting services to NorthernStar Energy LLC (NE) to assist it in permitting the Bradwood Landing Pipeline, which would be interconnected with Bradwood Landing LLC's proposed Bradwood Landing LNG import terminal to be located on the Columbia River in Clatsop County, Oregon. The proposed Bradwood Landing Pipeline would be a FERC-regulated interstate pipeline that runs approximately 35-miles that connects the proposed Bradwood Landing LNG terminal with the interstate pipeline facilities of Northwest Pipeline GP near Kelso, Washington.

For these consulting services, NW Natural is compensated a flat monthly amount plus any out-of-pocket expenses. Employee direct costs are being time tracked and allocated to this project in 421-6266. Out-of-pocket direct costs and reimbursements from NE are also recorded here. Construction work in progress is charged to 121107.

Enerfin Contracts-Mist

NW Natural has a contract with Enerfin Corporation whereby the price of gas purchased from Enerfin for production at Mist is reduced by $0.01 per therm. This reduction is intended to offset general plant expenses for operating Miller Station. This mutually beneficial agreement allows Enerfin to save money by not having to duplicate NW Natural plant and equipment at Miller Station.

Direct Costs:
The $0.01 per therm gas savings was credited to income account 495. Labor provided by NW Natural employees for technical services such as meter calibration is charged directly to 416-4390 on daily time tickets. An overhead load is added at the same rate that is used by NW Natural. (See Payroll Overheads).

Shared and Indirect Services:
None for this activity

Corporate Structure

In 2007, NW Natural conducted some work to investigate the feasibility and desirability of alternate corporate structures. Costs incurred during 2007 were in the form of legal fees related to such work and were directly charged to 426-5329.

Interstate Storage

NW Natural owns and operates the Mist underground natural gas storage facility in Columbia County near Mist, Oregon. In addition to the use of such storage facilities for its retail core customers, NW Natural has pre-built some storage facilities in advance of core need and uses the excess capacity of other existing facilities to provide storage services to customers in the interstate and intrastate market. NW Natural 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*, Nortwest Natural Gas Company, 95 FERC ¶ 61,242 (2001). Under that certificate, NW Natural 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, NW Natural 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 NW Natural'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, NW Natural 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 NW

Natural's Tariff Schedules 185 and 186. These sharing agreements are in lieu of specific allocations of costs.

KB Pipeline Company

KB Pipeline Company (KBPC) is a wholly owned subsidiary of NNGFC. KBPC owns a ten percent (10%) interest in the Kelso-Beaver Pipeline, an approximately 18-mile interstate natural gas pipeline regulated by the Federal Energy Regulatory Commission (FERC) that runs between Kelso, Washington, and delivery points near the PGE Beaver Plant in Clatskanie, Oregon. Approximately 17 miles of the pipeline is in Washington, with the remaining one mile located in Oregon. The other co-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.

In December 2004, Cascade Natural Gas, who is not affiliated with any of the co-owners, was engaged to operate the pipeline under contract. Cascade bills the three owners monthly for each owner's pro-rata share of operating expenses.

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 NW Natural 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 NW Natural.

KBPC has no separate employees of its own. Since Cascade Natural Gas now operates the pipeline, no NW Natural employees charge time to KBPC except for minor administrative time. In July 2004, FERC indicated its approval of KBPC's use of shared employees in an order where it granted KBPC a waiver from the FERC 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 most of the information disclosure prohibitions of the new rules so that KBPC is not required to function independently from NW Natural. *See, Bear Creek Storage Co., et al.*, 108 FERC ¶ 61,011 (2004) 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. Order No. 690 continued the waivers previously granted under Order No. 2004, including KBPC's, pending the outcome of another rulemaking proceeding that would adopt permanent rules, which is still pending.

NW Natural Clearing accounts for KBPC

Any costs related to KBPC are charged to activity 611, a clearing account.

The following steps are followed each month to properly allocate charges in 611 to KBPC:

- The balance in 611 is cleared to the intercompany account for NNGFC, 89050-146016. FC is the parent company of KBPC.
- NNGFC simultaneously credits NNGFC's intercompany account, and charges to the appropriate FERC-regulated accounts on the books of KBPC.

Direct Costs:

NW Natural provides administrative support for KBPC. The cost is based on individual employee hours reported times actual salary rate. (See Labor Allocation Methods). An overhead load is added at the same rate that is used by NW Natural. (See Payroll Overheads).

Under the Gas Transportation Agreement between KBPC and NW Natural dated September 26, 1991, NW Natural pays KBPC a monthly demand charge equal to 96.83 cents per MMBtu under the contract. Based on the contract MDQ of 19,300 MMBtus, this amounts to a total monthly charge of $18,688.19. NW Natural charges 804 and credits the intercompany account 89050-146016. See the Affiliated Interest Report for further information on this demand charge. Additionally, if KBPC actually transports gas for NW Natural, there is an additional volumetric/commodity charge payable by NW Natural to KBPC equal to 1.44 cents per MMBtu of gas transported. The rates charged by KBPC to NW Natural for gas transportation services on the Kelso-Beaver Pipeline were approved by FERC in KBPC's 1991 certificate order.

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

Shared and Indirect Services:

The Risk Services Department obtains insurance for the consolidated NW Natural entities in the open market. The cost of all premiums is initially charged to NW Natural accounts. An allocation for KBPC-related insurance coverage is subsequently made by journal entry to the intercompany account for FC, 89050-146016. The policies obtained for KBPC name KBPC as the beneficiary.

KBPC does pay property taxes indirectly in the two states that the pipeline operates. The portion of the pipeline located in Washington is considered an asset of PGE (the majority owner), for property tax purposes. PGE pays 100% of property taxes assessed to Cowlitz County, Washington. PGE then bills KBPC for its pro-rata share of these property taxes. The Oregon portion of pipeline property is shown on the property rolls of Columbia County, Oregon as property of NW Natural. The tax for these specific tax lots is paid by NW Natural, and then billed to KBPC.

KBPC-related income taxes are offset through the intercompany account of KBPC's parent company, NNGFC (see NNG Financial Corporation.)

Leveraged Lease

NW Natural has a certain beneficial interest in a Boeing 737 aircraft, which is leased, operated, and maintained by Continental Airlines, pursuant to a lease agreement. NW Natural is Owner Participant and Continental is the Lessee. Several lenders provided financing. In 2007, the investment was carried in asset account 174, offset by accounts for deferred income tax, 283033, and deferred income tax credit, 255033.

Direct Costs:
NW Natural does not allocate direct labor to the leveraged lease investment. (See Shared & Indirect Services below). Continental provides for its own insurance.

Consulting invoices related to the leveraged lease investment are charged directly to FERC account 421.

Shared and Indirect Services:
FC manages the leveraged lease investment for NW Natural, pursuant to a management agreement dated June 30, 1996, when Oregon Natural Gas Development Company's (ONGDC's) beneficial interest in the airplane was transferred to NW Natural as the result of ONGDC's merger into NW Natural. The Agreement calls for NW Natural to pay FC a fee of $250 per month for performing services under the Agreement. The fee is charged to FERC account 421 and credited to the FC's intercompany account, 89050-146016.

Lobbying, Civic, and Political Contributions

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

Direct Costs:
All company contributions to political candidates are charged directly to account 426-4955. Contributions for ballot measures, opinion research on issues are charged to 426-4935. Chamber of Commerce and Social Club dues are charged to 426-2085, and 426-2575.

Shared and Indirect Services:
A portion of three employee's and some executive salary and expenses are charged to 426-4950 and 426-4935. No accounting administration cost is allocated.

2007 charges were:

426-4935 Civic Expenses	$369,974
426-4950 Lobbying Expenses	214,551
426-4955 Political Contributions	126,112
426-2085 Chamber of Commerce dues	20,069
426-2575 Social Club dues	60,359

NNG Financial Corporation

NNG Financial Corporation (FC) has investments as a limited partner in windpower electric generating projects, low-income housing projects, and a gas pipeline. The Windpower investments were sold in 2007. One of the two low-income housing projects was also transferred to a non-profit organization, under the terms of the partnership agreement.

Direct Costs:
FC has no employees of its own, but NW Natural employees provide administrative support. The cost of this support is charged to FC through a monthly journal entry recorded in an intercompany account, 89050-146016. The cost is based on individual employee hours reported times actual salary rate. (See Labor Allocation Methods). An overhead load is added at the same rate that is used by NW Natural. (See Payroll Overheads).

Invoices applicable to FC but billed through NW Natural are charged directly to the intercompany account 89050-146016.

FC has no real or personal property other than assets owned by limited partnership investments, and therefore FC neither pays nor is allocated any property taxes. NW Natural files federal and state income taxes on a consolidated basis. For each taxable year, FC income may cause the consolidated tax liability to increase or decrease. Monthly payments are made to NW Natural by FC for any corresponding increase in the consolidated tax liability. Conversely, payments are made from NW Natural to FC when FC losses decrease the consolidated tax liability. A separate intercompany account is used to track tax balances. That account is 89050-146096.

FC had no line of credit in 2007 and no parent guaranty of debt existed.

All intercompany balances are paid in cash on a monthly basis to the receivable company.

Shared and Indirect Services:
NW Natural acquires corporate insurance coverage which includes FC. The Risk Services Department obtains insurance for the consolidated entity in the open market. The cost of all premiums is initially charged to NW Natural accounts. An allocation for FC related insurance coverage is subsequently made by journal entry to the intercompany account for FC, 89050-146016. NW Natural's insurance broker provides information on the amount that should be allocated to subsidiary companies. Allocation is based on the underwriting principles for each type of policy. NW Natural's intent is to use an allocation methodology that does not result in utility subsidization to the affiliate.

NW Natural provides management oversight for FC. The labor cost of this management is discussed above under "Direct Costs".

Non Operating Advertising

NW Natural charges some advertising and consumer incentive or contest expense to a 416 non-utility account. In 2007, the charges were for advertising to promote the benefits of natural gas and high-efficiency natural gas equipment, and to incent customers to sign up for payment programs such as Paperless Billing, Equal Pay, and Auto Pay.

NW Energy Corporation

Northwest Energy Corporation (NW Energy) is a wholly owned subsidiary of NW Natural. 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 was eventually terminated in May 2003, with all transaction costs in connection with the acquisition effort being charged to Non-Utility Expense. NW Energy has had no active operations.

Shared and Indirect Services:
NW Natural purchases corporate excess Directors & Officers liability insurance, which includes NW Energy. This insurance is charged to 426-2380.

NW Energy Sub Corporation

Northwest Energy Sub Corporation was created in 2001 to effect the corporate reorganization to a holding company if the acquisition of Portland General Electric Company had been completed. As explained under NW Energy Corporation, the acquisition effort was terminated in 2002. Sub corporation is currently inactive.

Shared and Indirect Services:
NW Natural purchases corporate excess Directors & Officers liability insurance, which includes NW Energy Sub Corporation. This insurance is charged to 426-2380.

Note Receivable for Commercial Property sold in Vancouver, Washington

Land in Vancouver, Washington was acquired in 1992 for purposes of potentially becoming the site of a Clark County district service center. The property is considered situs in Washington. The site has since been determined to be unsatisfactory for its intended purpose and was sold in December 2004. The property was sold on contract and the outstanding note balance resides in account 124099. The debtor makes quarterly payments. The gain associated with the sale is recorded in 421, and is amortized over the contract period as payments are made by the buyer.

Oil Storage Tanks/Dock Lease

NW Natural leases oil storage tanks and a loading/unloading dock at its Linnton property to Pacific Terminal Services, Inc., which uses the facilities to store bunker oil for its ship refueling business.

Direct Costs:
The investment, accumulated depreciation, and deferred income taxes are accounted for in Non-Utility plant, accounts 121001, 121002, 121003, 122027, 283031 and 283032. Rental Income is credited to account 418-4140 and depreciation is charged to account 418-2115.

Income taxes are charged to non-utility taxes, account 409-3075 and 409-3145. Property taxes are billed to, and paid by the lessee.

NW Natural purchases liability insurance coverage for the Dock facility. The Risk Services Department obtains insurance for the consolidated corporate entity in the open market. The policies obtained include the Dock facility's replacement value. This insurance is charged to 426-2380.

Lessees provide their own insurance coverage.

Shared and Indirect Services:
No accounting or management costs are currently charged to this business segment.

Other Deductions

The Other Deductions account, 426-2445, is used for miscellaneous write-offs or other non-utility expenses not readily classifiable in any other utility or non-utility accounts.

Palomar Pipeline Project

NW Natural and Gas Transmission Northwest Corporation ("GTN") indirectly equally own an interest in Palomar Gas Transmission, LLC ("PGT") which is developing a proposed interstate gas pipeline, known as the Palomar Pipeline. *See*, FERC Docket No. PF07-13-000. If approved by the Federal Energy Regulatory Commission ("FERC"), the Palomar Pipeline will be a FERC jurisdictional pipeline. Prospective scheduled in-service is November 2011.

There are two potential development scenarios of the Palomar Pipeline:
1) "Full" Palomar (Eastern and Western Zones): This project would connect a proposed LNG terminal on the Columbia River to the GTN mainline near Madras, Oregon. There would also be an interconnection with Northwest Pipeline's Grants Pass lateral and NW Natural's South Mist Pipeline Extension at Molalla.
2) Palomar East (Eastern Zone only): This project would connect NW Natural's South Mist Pipeline Extension at Molalla, Oregon, to the GTN mainline near Madras, Oregon. This reduced scale would potentially occur if the proposed LNG terminal on the Columbia River is either terminated or significantly delayed.

Employee direct costs are being time tracked.

More specifically, as required by WAC 480-90-264, NW Natural further summarizes these transactions that occurred between the utility and its subsidiary, PGT, in 2007. On August 4, 2007, NW Natural and PGT entered into a Precedent Agreement for Firm Natural Gas Transportation Service for the Eastern Zone (the "Eastern Zone Precedent Agreement"), and a Precedent Agreement for Firm Natural Gas Transportation Service for the Western Zone (the

"Western Zone Precedent Agreement") (collectively, the agreements are referred to as the "Precedent Agreements"). NW Natural notes that the first sentence of Sub-section (2) of such rule provides that when the total transactions with a subsidiary are less than one hundred thousand dollars for the reporting period, the utility must provide, in addition to the name of the subsidiary, the total dollar amounts of the transactions. NW Natural made no payments under the Precedent Agreements for the 2007 reporting period. Furthermore, NW Natural is not required to make any future payments to PGT under the Precedent Agreements unless certain possible, but unlikely, events occur which cause a termination of the Precedent Agreements resulting in NW Natural owing a termination payment to PGT. In such event, NW Natural will of course report as required by this rule.

Core Customer costs

Pursuant to the Eastern Zone Precedent Agreement, NW Natural is a prospective anchor shipper on the Eastern Zone of the proposed Palomar Pipeline. Separate Precedent Agreements for each zone have been executed and approved by the OPUC. Any out-of-pocket costs incurred on behalf of representing core customers (e.g. legal) are being allocated to the utility. Employee direct costs are not being time tracked.

Conduct Guidelines

NW Natural has developed a set of internal Conduct Guidelines given the dual roles NW Natural has in the Palomar project. A NW Natural employee is designated with the responsibility for the negotiation of the terms for NW Natural's ownership interest in PGT. A different NW Natural employee is designated with the responsibility to negotiate the terms of the Precedent Agreements. The NW Natural employee designated with responsibilities regarding the negotiation of NW Natural's ownership interest is not the same employee as the employee designated for the negotiation of the Precedent Agreements.

Expenses are charged to 421-2051, and consist of allocations of NW Natural employee time as explained in "Labor Allocation Methods". Out-of-pocket direct costs are also being charged to 421-2051. Additional study costs charged to 183002, "Preliminary Surveys" were written off in 2007.

Parking

In 2007, a net total of $65,949 was charged to Account 5047 –"Parking". The amounts were charged out to the following account classes:

Class	Costs	Reimbursements	OPS	Totals
Non Utility	212,766	(175,099)	0	37,667
O&M	17,982	(19,320)	20,399	19,061
Construction	8,741	0	0	8,741
Other	480	0	0	480
Totals	239,969	(194,419)	20,399	65,949

Parking costs are recorded as direct invoice charges from parking vendors and payments to employees working on utility business. Non Utility is charged to 426-2463.

Regulatory & Tax Penalties

Any regulatory or tax penalties are charged to 426-2495.

Revenue from Utility Property

(See appliance center). Account 412 "Revenue from Utility Property" receives the credit for rent income received from the Appliance Center.

Service Solutions

NW Natural provides a repair referral service to customers with equipment problems. Customers call the Service Solutions Center and a representative connects the customer with a NW Natural Certified Contractor. Participating dealers agree to complete the service call within one week of the date of the referral or within 24 hours on an emergency basis. Dealers must meet strict qualification standards and agree to pay annual fees that are used to fund the program.

Expenses are tracked in 416-4857, and offset by fees paid by the participating dealers. This revenue is recorded in 416-6550. The expenses include primarily labor and overhead, depreciation on original CIS (Customer Information System) program development expenses, and an answering service vendor.

Sesquicentennial

NW Natural is celebrating its 150th anniversary in 2009. The sesquicentennial budget supports special events and projects as well as public relations and marketing support, to promote the company's image and long-term value to customers, shareholders and communities in Oregon. The NW Natural sesquicentennial celebration is also coordinating and supporting promotions with the state of Oregon, which is also celebrating its 150th anniversary in 2009. Costs consist of direct charge invoices to 426-2967, and will include some exception labor time in 2008-2009.

Sherwood House

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

The land is classed as utility property since it is needed for the valve site. The house is not needed for utility operations and is carried in account 121045. Rental income is recorded in 418-6427. Depreciation on the house is recorded in 421-2116.

Smart Energy

Smart Energy is an Oregon tariffed utility program which provides Oregon customers an opportunity to offset the carbon dioxide emissions from their use of natural gas by purchasing carbon offsets. The program became effective on September 1, 2007. The ongoing costs of this program are paid by program participants. The start-up costs for the first 3 years of the 5-year pilot program are being paid for by NW Natural Shareholders and all Oregon customers.

2007 start-up costs of the program were paid by NW Natural Shareholders, and charged to 426-2972 In addition, Shareholders also funded the cost of purchasing offsets to cover the carbon dioxide emissions from the natural gas used to heat NW Natural's facilities for the five-year duration of the program.

Strategic Planning

NW Natural has a Strategic Planning function that is performed primarily by one employee. The majority of NW Natural's Strategic Planning process deals with the utility business in areas such as acquisition cost per customer, operating costs per customer, industrial load development, etc. Non-utility opportunities such as the Gas Storage business and Palomar Pipeline are also explored under the Strategic Planning process. These non-utility opportunities typically have a related core customer benefit.

<u>Direct Costs</u>:
Strategic Planning direct costs considered to be related to core customer benefits are charged to O&M, Accounting Unit 45010.

<u>Shared and Indirect Services:</u>
No Strategic Planning support, accounting or management oversight is currently allocated to non-utility expense.

Cost Allocation Manual for NW Natural
Appendix

Line	Name of Affiliate or Non-Utility activity	Assets @ 12/31/07	Year ended 2007. Gross Revenues	Year ended 2007. Expenses
1	Amortization of Business Energy Tax Credits	-	-	31,605
2	Appliance Center/Misc Merchandising	1,388,109	4,664,531	4,496,765
3	Business Development (Gill Ranch)	-	-	480,996
4	Classical Chinese Gardens Block	438,739	-	-
5	Company Owned Life Insurance	46,294,408	1,939,385	-
6	Coos County Pipeline	-	276,084	245,596
7	Corporate Philanthropy	-	-	1,132,167
8	Development Revenue/Expense (Bradwood)	-	220,531	183,397
9	Enerfin Contracts-Mist	-	27,734	28,483
10	Gill Ranch	259,096	-	471,649
11	Corporate Structure	-	-	241,448
12	Interstate Storage	46,611,478	27,501,652	18,759,796
13	KB Pipeline Corporation	included in NNGFC		-
14	Leveraged Lease, Net	3,152,497	256,190	19,075
15	Lobbying, Civic,and Political Contributions	-	-	789,358
16	NNG Financial Corporation, Net	1,379,137	2,028,548	830,167
17	Non-Operating Advertising	-	-	77,838
18	Non Utility Tax Expense (Benefit)	-	-	(1,041,828)
19	Northwest Energy Corporation	500	-	-
20	Northwest Energy Sub Corporation	-	-	-
21	Note Receivable for Vancouver Property	506,122	65,043	-
22	Oil Storage Tanks/Dock Lease	389,823	375,156	41,459
23	Other Deductions	-	-	238,586
24	Palomar Pipeline Project	5,979,528	56,715	323,051
25	Parking (Non Utility only)	-	-	34,422
26	Regulatory & Tax Penalties	-	-	501
27	Revenue from Utility Property	-	41,520	-
28	Service Solutions	-	173,511	196,694
29	Sesquicentennial	-	-	18,103
30	Sherwood House	153,037	5,671	1,942
31	Smart Energy	-	-	346,752
32	Strategic Planning	-	-	125,057
		106,552,476	37,632,270	28,073,079
	Total Consolidated Corporation	2,014,183,000	1,033,193,000	
		5.3%	3.6%	