

Rates and Regulatory Affairs
Facsimile: 503.721.2516



April 27, 2010

Dave Danner, Secretary & Executive Director
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Post Office Box 47250
Olympia, Washington 98504-7250

2010 APR 29 AM 8:10
 STATE OF WASHINGTON
 DEPARTMENT OF COMMUNITY DEVELOPMENT
 COMMUNICATIONS SECTION

Re: Master Service Agreement for Affiliate Transactions

Dear Mr. Danner:

Pursuant to RCW 80.16.020 and WAC 480-90-245, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), hereby submits the enclosed Master Service Agreement, which establishes parameters for the Company's transactions with its affiliates.

Please address correspondence on this matter to me at jennifer.gross@nwnatural.com, with copies to the following:

Kelley C. Miller, Staff Assistant
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2516
Telephone: (503) 226-4211, ext. 3589
kelley.miller@nwnatural.com
and
eFiling@nwnatural.com

Please contact me if you have questions.

Sincerely,

NW NATURAL

Jennifer Gross/kcm
 Jennifer Gross
 Rates & Regulatory Affairs

enclosures

MASTER SERVICES AGREEMENT

THIS MASTER SERVICES AGREEMENT (the "Agreement"), effective May 1, 2010, including Exhibit A and related addenda, is between NORTHWEST NATURAL GAS COMPANY, dba NW Natural, and its affiliates and subsidiaries (hereinafter, "Affiliates") as listed in attached Addendum 1, which may be amended periodically (individually referred to herein as "Party" or collectively as "Parties"). NW Natural and its Affiliates are "Affiliated Interests," as defined under ORS 757.015 and RCW 80.16.010.

RECITALS

A. NW Natural is an Oregon corporation that is a natural gas local distribution company that serves customers through separate facilities located in western Oregon and southwestern Washington. In addition, NW Natural maintains a gas storage business, which serves other customers using underground natural gas storage and related transportation capacity that is in excess of core utility requirements. NW Natural is subject to regulation by the Oregon Public Utility Commission ("OPUC") and Washington Utilities and Transportation Commission ("WUTC"), respectively, for its state-regulated gas distribution activities in such states, and by the OPUC and the Federal Energy Regulatory Commission ("FERC") for its regulated intrastate and interstate gas storage activities. NW Natural's headquarter office is located in Portland, Oregon.

B. Attached as Addendum 1 is a list of NW Natural's Affiliated Non-OPUC/WUTC-Regulated Businesses. Except as otherwise noted on the Addendum, all of these Affiliates are legal entities separate and apart from NW Natural. Nothing in the Agreement is to be interpreted to the contrary.

C. NW Natural employs certain trained personnel capable of performing needed management, analytical, professional, and administrative services (which, together with the more detailed services specified on Addendum 2, are referred to herein as the "Services") in furtherance of the Affiliated Interests' operations. NW Natural and its Affiliates agree that in some cases it is more economical for NW Natural to provide its Affiliates with Services rather than for the Affiliates to obtain such Services by employing additional staff or by retaining consultants.

D. NW Natural desires to make available to NW Natural's Affiliates such personnel and Services as the board of directors, officers or managers of those Parties shall reasonably request in the future, without detriment to NW Natural's utility functions.

E. NW Natural's Affiliates desire to make available to NW Natural such personnel and Services as the board of directors, officers or managers of NW Natural shall reasonably request in the future, without detriment to NW Natural's Affiliates' respective business functions.

THEREFORE, the Parties agree as follows:

1. **Services Provided by NW Natural**

Upon the request of the board of directors, officers, or managers of NW Natural, NW Natural shall furnish to its Affiliates the Services listed in Addendum 2 as requested, subject to applicable requirements of the cognizant utility commission(s), and given the terms and conditions as follows:

2. **Requests for Service**

All Services provided shall be mutually agreeable and based upon a written request for Services in a form substantially similar to that attached as Addendum 3 hereto ("Request for

Services”), specifying the scope of Services. Changes in the Request for Services shall be agreed to in writing by the Parties.

3. **Basis of Charges**

3.1 **Costs Included in State Utility Revenue Requirements.** If the service cost or benefit is intended for inclusion in NW Natural’s state operations revenue requirements, then:

a. All billing by NW Natural to an Affiliate shall be at the higher of cost or market, unless otherwise specified by the Parties and approved by the OPUC and/or the WUTC. Competitive bidding, although not required, may be the basis for determining market.

b. All billings by an Affiliate to NW Natural shall be at the lower of cost or market, unless otherwise specified by the Parties and approved by the OPUC and/or the WUTC, or unless provided at an approved rate on file with the OPUC and/or the WUTC or the FERC. Competitive bidding, although not required, may be the basis for determining market.

c. All billings resulting from a “Blind Exchange Transaction” shall be at the amount of such transaction. The term “Blind Exchange Transaction” means circumstances where a Party sells a service to an independent third party that in turn sells such service to another Party unbeknownst to the original seller. Blind Exchange Transactions are not transactions in which the Party sells a service to an independent third party that the Party knows shall be resold to another Party. Blind Exchange Transactions shall not be used to circumvent the intent of this Agreement.

d. All billings for Services rendered to NW Natural by an Affiliate shall meet the following three criteria: (1) they must be necessary, just, and reasonable regulated utility expenses; (2) they must be for functions that NW Natural would perform as a stand-alone

utility; and (3) they must not duplicate, but may augment/supplement, functions already performed by NW Natural.

3.2 Costs Defined. For the purpose of this Agreement, “costs” shall include both of the following:

a. All out-of-pocket expenses of the Party providing the Services incurred in connection with the provision of Services rendered, including salaries, labor costs and benefits; amounts paid for independent technical and professional Services; amounts paid to third-party contractors; and all overhead expenses, including, but not limited to, space utilization. Labor costs shall be based on the number of hours worked by the employees multiplied by the cost rate per hour applicable to those employees. The hourly rate shall be adjusted to include all appropriate payroll loadings (for benefits, taxes, etc.). In addition, the applicable Administration & General (“A&G”) loading rate shall be applied to derive the fully loaded cost of employee time associated with Services provided. Materials, supplies, and non-labor vouchered items shall similarly be charged to the other Party on the basis of the full cost of the items supplied. Supporting documentation on the cost of non-labor items shall be available to the other Party to substantiate the charges billed. Non-labor costs shall not have an A&G loading rate applied.

b. A reasonable return on any investment in assets, equipment, or plant (“Assets”) supporting the provision of Services in the following amounts:

(i) For Services provided by NW Natural, the return on Assets employed, if any, shall be no less than the rate case authorized rate of return on its investment serving its ratepayers; and

(ii) For Services provided by an Affiliate to NW Natural, the return on Assets employed, if any, shall be no more than the rate case authorized rate of return on its investment serving its ratepayers, if applicable.

4. **Method of Charging for Services**

4.1 **Direct Assignment and Allocation Methods.** Direct assignment of costs shall be the primary method for charging for Services according to the accounting procedures in Exhibit A. Exhibit A contains rules for determining and allocating any remaining costs associated with those Services that cannot be directly assigned to a user of a Service. The allocation methods set forth in Exhibit A shall be applied to allocate those costs that cannot be directly assigned.

4.2 **Review of Affiliate Charges to NW Natural.** At least annually, NW Natural shall review the Services supplied by the Affiliates under each of the Addenda executed. The review shall include a determination that billing is consistent with the accounting and cost assignment procedures in Section 3 and Exhibit A.

5. **Invoicing**

a. As soon as practicable after the last day of each month, the provider of Services shall invoice the recipient of Services for expenses for the month concluded, computed pursuant to Sections 3 and 4 above.

b. All invoice charges shall be supported by documentation satisfactory to the recipient. Charges for Services shall be entered into the accounting records in the month following the period in which Services were rendered. However, if the invoice charges are less than \$50,000 per Party, then invoice may be delayed until either (1) total charges are more than \$50,000 per Party, or (2) quarterly, whichever comes first.

6. **Monitoring and Control**

The Inter-Company Services Coordinator (“Coordinator”) is responsible for reviewing, monitoring and maintaining Services Requests that are active. The Coordinator ensures authorization of new Services Requests and that allocation factors are proper and accurate. Additionally, the Coordinator is responsible for coordinating the monthly billing process as described in Section 5 above.

7. **Billing Disputes**

Disputes on billings for Services shall be resolved through negotiations between the authorized representative(s) of the Affiliate, the Controller of NW Natural, and the Vice President(s) of the department at NW Natural responsible for providing or receiving Services, or their respective designee(s).

8. **Books and Records**

a. All transactions made under this Agreement shall be recorded by NW Natural in accordance with the Uniform System of Accounts prescribed by the regulatory authorities having jurisdiction over NW Natural.

b. Each Party shall have the right at all reasonable times to examine the books and records of the other for the purpose of verifying the cost, or the market value determination if applicable, of the Services performed by the other Party.

9. **Limitations on Service**

a. NW Natural shall diligently and competently render all Services reasonably requested by the Affiliates to the extent NW Natural can make available its resources without detriment to its utility functions.

b. The Affiliates shall diligently and competently render all Services reasonably requested by NW Natural to the extent those entities can make available their resources without detriment to their business functions, and to the extent that such Services to NW Natural are specified in the attached Addendum 2 to this Agreement.

c. NW Natural and its Affiliates shall coordinate and administer all Services being rendered under this Agreement in order that such Services shall be furnished as efficiently and economically as possible.

d. Except as provided in subsections 9.a. and b. above, neither NW Natural nor its Affiliates shall have priority over the other in obtaining Services under this Agreement.

10. **Limitation of Authority**

The Parties agree that no Party shall assume nor create any obligation on behalf of any other Party other than as specifically provided for in this Agreement. Each Party reserves to itself the right to make commitments for loans, financing, mortgages, and other commitments necessary and proper for its corporate purposes.

11. **Inspection and Reporting**

a. All books, records, and other data in possession of the Parties relating to the provision of Services pursuant to this Agreement shall at all times, during normal business hours, be made available to or copies provided to any regulatory agency having jurisdiction when engaged in the performance of its lawful functions, except to the extent that such information is reasonably determined by any Party to be confidential in nature in which case any such information shall be submitted to any such regulatory agency under confidential

treatment in accordance with the applicable laws and regulations governing such confidential treatment request.

b. Each Party shall timely furnish to each other Party such information with regard to its operations as shall be reasonably required.

12. **Regulatory Jurisdiction**

The Parties acknowledge that NW Natural is a public utility company subject to regulation and control by various state and federal governmental regulatory agencies. The provisions of this Agreement shall be construed in aid of and not in derogation of the lawful control and regulatory power of any such agency.

13. **Damages**

In no event shall a Party be liable to another Party for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise) under or in respect of this Agreement or for any failure of performance however caused, whether or not arising from the Party's sole, joint, or concurrent negligence. To the extent any payment required to be made under this Agreement is agreed by the Parties to constitute liquidated damages, the Parties acknowledge that actual damages in such circumstances are difficult or impossible to determine and that such payment of liquidated damages constitutes a reasonable approximation of such damages, and not a penalty.

14. **Governing Law**

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Oregon.

15. **Waiver**

Any of the terms and conditions of this Agreement may be waived at any time and from time to time by the Party entitled to the benefit of such term or condition, but a waiver in one instance shall not be construed as a waiver in any other instance. A failure to enforce any provision of this Agreement shall not operate as a waiver of such provision or of any other provision. A waiver by any Party in favor of another Party shall not bind any regulatory agency with jurisdiction over such matter if the agency determines that such waiver would violate its regulations, orders, or applicable statutes.

16. **Assignment**

This Agreement shall be binding upon the Parties and their representatives and may not be assigned.

17. **Termination**

NW Natural reserves the right at any time upon thirty (30) days notice to its Affiliates to terminate this Agreement in whole or part. NW Natural shall promptly notify the OPUC and/or WUTC, if applicable, of such termination. NW Natural, or any Affiliate, reserves the right at any time upon notice to the other to terminate any or all of NW Natural or any Affiliate's Services Request(s) under this Agreement.

18. **Integrated Agreement**

This Agreement embodies the entire agreement and understanding between the Parties and does not supersede any prior agreement between such Parties, but governs all agreements entered into after the Effective Date. This Agreement may be executed by the Parties in separate counterparts, each of which when executed and delivered shall be an original, but which together shall constitute but one and the same agreement.

19. **Adoption of Agreement by Affiliates**

At such time that a NW Natural Affiliate requests or provides Services from/to any Party to this Agreement, the Affiliate shall sign Addendum 3 which adopts this Agreement.

Date as of April 27 2010

NORTHWEST NATURAL GAS COMPANY

By: Stephen P. Feltz

Name: Stephen P. Feltz

Title: Treasurer and Controller

Exhibit A

Accounting and Allocation Methods

This document sets forth the methodologies used to accumulate the costs of Services performed by NW Natural and to assign or allocate such costs to Affiliates.

Cost of Services Performed

NW Natural maintains an accounting system that enables costs to be identified by cost center, account number, internal order number, and other system tracking processes. The primary cost inputs to the accounting system are a) payroll system distribution including time records of hours worked by NW Natural employees; b) purchasing and account payable transactions, and c) journal entries. To facilitate the use of time records, all employees of NW Natural working on Affiliates' activities shall keep track of time as requested by the Party, and the payroll system shall be maintained with respect to active Service Agreements. For each Affiliate to which this Exhibit A applies, NW Natural shall charge the Affiliate receiving service from it under this Agreement using the following methods:

I. To the extent practicable, costs shall be directly charged to the Affiliates. Bills or other internal accounting documentation shall be issued for the Services rendered to Affiliates or NW Natural on a monthly basis.

II. The costs of rendering service by NW Natural or its Affiliates shall include all costs of doing business, including a reasonable return on investment for capitalized assets used.

1. All expenditures incurred by NW Natural or its Affiliates shall be recorded to cost centers designated as direct or group cost centers.

(a) **Direct Cost Centers** include those costs that are incurred, for the direct benefit and convenience of NW Natural or its Affiliates, and, therefore, are direct charged and not subject to allocation.

(b) **Group Cost Centers** are those costs that are incurred for the benefit and convenience of both NW Natural and its affiliates and are subject to allocation.

2. The cost loading and allocation rules are set forth below:

(a) **Direct Charges to/from Affiliates.** Fully loaded Direct Costs shall be billed to the designated Affiliate or NW Natural.

(b) **Group Cost Center Allocation.** Group cost center charges shall be charged to NW Natural and its Affiliates through allocation factors in accordance with Section III below.

III. The following factors shall be applied to Group Cost Centers that render Services to NW Natural and one or more Affiliates participating in such service. Allocation factors shall

be calculated using the data available from the first year immediately prior to the year in which costs are to be allocated if available and assuming the prior year reasonably represents the expected costs.

Department/Functions	Allocation Factors
Field employees	Internal Time Tracking/Direct charge
Salaried employees	Internal Tracking/Direct charge
Accounting/Finance/Budget/Treasury	Internal Time Tracking or Time Study/Direct charge
Legal	Internal Time Tracking/Direct charge
Information Technology	Internal Time Tracking/Direct charge
Facilities Management	Market rate primarily based upon square footage
Risk Management	Insurance allocation
Office Services	Internal Time Tracking/Direct charge
Tax – Income	Stand alone entity
Tax – Property	Allocation based on % of total property
Marketing	Internal Time Tracking/Direct Charge
Purchasing	Internal Time Tracking/Direct Charge
Land and environmental	Internal Time Tracking/Direct charge
Internal Auditing:	Internal Time Tracking/Direct charge

Addendum 1:
Affiliated Non-WUTC/OPUC-Regulated Businesses of
NW Natural *

- The Appliance Center**
- Northwest Energy Corporation
- Northwest Energy Sub Corporation
- NNG Financial Corporation
- KB Pipeline Company
- Palomar Gas Holdings, LLC
- Palomar Gas Transmission, LLC
- Gill Ranch Storage, LLC

*Each of these businesses with the exception of the Appliance Center is a legal entity separate and apart from NW Natural. Nothing in this Agreement is intended to be interpreted to the contrary.

**The Appliance Center is a nonregulated division of NW Natural.

Addendum 2:

List of Services

This Addendum provides a description of the Services that **may be** performed by the Parties, which may be modified from time to time. This list is exemplary only, and nothing in this addendum suggests that such services have or shall actually be performed by or for any Party. The specific Services to be provided to a particular Party are set forth in Addendum 3.

All Services provided by the Parties shall be based on a mutually agreeable work scope, specifying the scope of Services, personnel, and budget for Services. Changes in the scope of work shall be agreed to by the Parties involved.

Internal Auditing	Reviews internal controls and procedures to ensure assets are safeguarded and transactions are properly authorized and recorded. Periodically audits accounting and other records and coordinates their examination, where applicable, with that of independent public accountants.
Legal	Provide legal advice and assistance with respect to labor and employment law, litigation, contracts, rates and regulation, environmental matters, and real estate legal

	issues, as well as, authorizations and compliance with matters under federal and state laws.
Corporate Planning and Business Analysis	Facilitates preparation of strategic plans, monitors trends and evaluates business opportunities, including acquisitions and dispositions. Facilitates process improvements by investigating and conducting research into issues relating to production, utilization, testing, manufacture, transmission, storage and distribution of energy. Keeps current on all research developments and programs of significance affecting company and the energy industry. Conducts research and development in promising areas and advises and assists in the solution of technical problems.
Accounting/Finance/Budgeting/Treasury	Provide advice and assistance to Company in finance, treasury and accounting matters, including the development of accounting practices, procedures and controls, the maintenance of the general ledger and related subsidiary financial systems, the preparation and analysis of financial reports, treasury management and credit. Provide services related to managing all administrative activities associated with financing, including management of capital structure; cash, credit and risk management activities; investment and commercial banking relationships; oversight of retirement trust funds and general financing activities. Advise and assist company and Affiliates in studying and planning in connection with infrastructure, budgets, economic forecasts, benchmarking, capital expenditures and special projects. Provide centralized accounts payable processing.
Tax	Advise and assist in the preparation of federal, state and other tax returns, and generally advise company as to any issues involving taxes.
Risk Management	Advise and assist company in its risk and control framework. Manage the purchase and administration of all property and casualty insurance including the settlement of insured claims and in providing risk prevention advice.
Land and Environmental	Provide right of way services, including encroachments. Establishes policies and

	<p>procedures for compliance with environmental laws and regulations. Researches emerging environmental issues and monitors compliance with environmental requirements. Provides oversight for environmental remediation services.</p>
Corporate Communications	<p>Prepares and disseminates information to employees, customers, government agencies, communities and the media.</p>
External Affairs	<p>Provide services in support of corporate strategies for managing relationships with federal, state and local governments, agencies and legislative bodies. Monitor, review, research, and advocate legislative issues. Formulate and assist with public relations and communications programs and administration of corporate contribution and community affairs programs.</p>
Human Resources/Employee Benefits	<p>Advise and assist company in the formulation and administration of human resources and employee relations' policies and programs relating to personnel administration, training, wage and salary administration and safety programs. Provide central accounting for employee benefits. Direct and administer all medical and health activities for company. Advise and assist company in the administration of such plans and prepare and maintain records of employee and company accounts under the said plans, together with such statistical data and reports as are pertinent to the plans. Provide centralized payroll system.</p>
Information Technology	<p>Provide the resources for the operation of an information technology function, including the development, implementation, and operation of a centralized data processing facility and the management of a telecommunications network. This function includes the central processing of computerized applications, support of individual applications and the development, implementation and processing of those computerized applications that can be best accomplished on a centralized basis. This function provides centralized help desk.</p>
Facilities Management	<p>Manage headquarters facilities, service centers,</p>

	and district offices. Administers contracts for real estate leases, security, housekeeping, and maintenance of facilities. Maintain database of real estate contracts, managing lease/rental properties, handling purchases and sales of real property.
Office Services	Provide centralized mail, imaging, record management services, and other general administrative support services.

Purchasing	Procure materials, supplies and services necessary for all operations, with the exception of wholesale gas purchases. Manage materials and supplies inventories. Work closely with business unit teams, seeking the best value for company through refined sourcing strategies, contracts and supplier agreements.
Marketing	Provide initial contact service related to new customer additions. Plan, formulate and implement marketing programs, as well as provide associated marketing services to improving customer satisfaction, load retention and shaping, growth of energy sales and deliveries, etc. Assist in carrying out policies and programs for the development of plant location and of industrial, commercial and wholesale markets. Provide customer support for industrial and commercial customers. Assist large customers in meeting business requirements related to gas quality, conservation, etc. Seek to maintain positive working relationships with major customers.

Addendum 3:

Sample Services Request Form

Services Requested

The undersigned requests that **[Party Providing Services]** provide the following Services listed in Addendum 2 to the Master Services Agreement:

[List of Specific Services Requested, e.g. Accounting, Customer Services, Legal and Marketing.]

The undersigned agrees to the terms and conditions contained in the Master Services Agreement, and further agrees that all requests for Services from **[name of Party]** to NW Natural will be governed by the Master Services Agreement.

Services are requested beginning **[Dates Services Requested]**.

[Party Requesting Services]

By: _____

Print Name: _____

Title: _____

Date: _____