

UG-130150

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February 1, 2013

RECEIVED  
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 COMMUNICATIONS SECTION

***Via First Class Mail***

Dave Danner, Secretary and Executive Director  
Washington Utilities and  
Transportation Commission  
1300 S. Evergreen Park Drive, S.W.  
P. O. Box 47250  
Olympia, WA 98504-7250

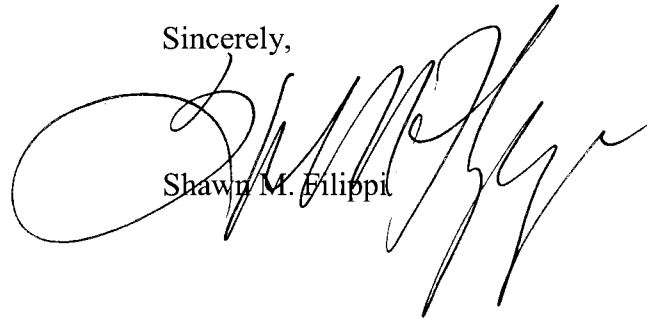
**Re: UG \_\_\_\_\_, Northwest Natural Gas Company's Statement and Application of Northwest Natural Gas Company for an Order Authorizing or Exempting the Company to Issue and/or Sell up to 701,922 shares of Common Stock Pursuant to its Long Term Incentive Plan**

Dear Mr. Danner:

Submitted herewith for filing with the Commission is the Statement and Application of Northwest Natural Gas Company for an Order Authorizing or Exempting the Company to Issue and/or Sell up to 701,922 shares of Common Stock Pursuant to its Long Term Incentive Plan.

If you have any questions regarding this matter or require any additional information, please contact me at 503-220-2435.

Sincerely,



Shawn M. Filippi

SMF:nkb  
Encl.



employees to exert their best efforts for the Company, thereby improving and maintaining the Company's service. The Company would like the ability to make LTIP awards using original issue stock, as a mechanism that will allow the Company to make economically rational decisions regarding the source of stock, depending on the then-current price of the Company's stock on the open market. Further, the ability of the Company to use original issue Common Stock to satisfy LTIP awards would also help the Company achieve the Company's WUTC-approved debt-to-equity ratios.

The purposes which proceeds, if any, will be used are for a) the construction, completion, extension, or improvement of the Company's facilities, b) the improvement or maintenance of the Company's service, c) the potential repayment of maturing long-term obligations, d) the reimbursement of moneys actually expended from income or from any other moneys in the treasury of the Company not secured by or obtained from the issue of stock or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidence of indebtedness of the Company for any of the aforesaid purposes except maintenance of service, in cases where the Company keeps its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purpose for which the expenditure was made.

**(2) A description of the proposed issuance:**

(a) Overview of Long Term Incentive Plan. Since 2001, the Company has maintained two equity incentive plans: the Restated Stock Option Plan (formerly known as the 1985 Stock Option Plan), pursuant to which the Company granted stock options, and the LTIP pursuant to which the Company has granted performance share awards and restricted stock awards. The Company has issued original Common Stock upon the exercise of options under the Restated Stock Option Plan pursuant to

WUTC's order in Docket UG-030290. Common Stock used to satisfy performance share awards and restricted stock awards under the LTIP has been purchased by the Company on the open market rather than issued as original issue by the Company, and therefore has not required filing with WUTC.

The Company's Board of Directors decided that beginning in 2012, it would grant Restricted Stock Units ("RSUs") with a performance threshold instead of stock options. Accordingly, the Board of Directors terminated the Restated Stock Option Plan so that no new stock options may be granted under that plan, and obtained shareholder approval to consolidate all equity incentive awards into the LTIP.

While the Company's Board of Directors does not presently intend to grant stock options under the LTIP, to maintain flexibility in the future the Board of Directors and the Company's shareholders approved an amendment of the LTIP to permit the issuance of stock options under the LTIP subject to the same terms and conditions applicable to the grants of stock options under the terminated Stock Option Plan, with the addition of a provision prohibiting repricing of options unless approved by shareholders. At December 31, 2011, 580,650 shares of Common Stock were available for issuance under the Stock Option Plan. The Board of Directors and Company's shareholders approved an amendment to the LTIP to increase the number of shares available for issuance under the LTIP by 250,000 shares, so that the overall impact of the LTIP amendments and termination of the Restated Stock Option Plan was a net decrease in shares available for equity incentive grants. The LTIP also provides that the 250,000 additional shares may only be used for option grants, and not for full-value awards such as RSUs or performance shares.

The three types of equity awards that may be granted under the LTIP are

as follows:

i) Performance-Based Awards. The Organization and Executive Compensation Committee of the Board of Directors ("OECC") may grant Performance-Based Awards comprised of Common Stock. All or part of the awards will be earned if performance goals established by the OECC for the period covered by the Performance-Based Award are met and if the employee satisfies any other restrictions established by the OECC. The performance goals may be expressed as one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any subsidiary, division or other unit of the Company: earnings, earnings per share, stock price increase, total shareholder return (stock price increase plus dividends), return on equity, return on assets, return on capital, economic value added, revenues, operating income, inventories, inventory turns, cash flows or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges. Performance-Based Awards may be paid in Common Stock and may be made as awards of restricted shares subject to forfeiture if performance goals are not satisfied, as determined by the OECC. No employee may receive in any fiscal year Performance-Based Awards denominated in Common Stock under which the aggregate amount payable under the Awards exceeds the equivalent of 50,000 shares of Common Stock.

The performance criteria used for the three most recent three-year performance cycles (2010-2012, 2011-2013, and 2012-2014), were based on two primary factors: a total shareholder return component that measures relative total shareholder return versus a named peer group of energy companies (weighted 75 percent of the total award), and a strategic component which measures achievement of performance milestones relative to the Company's core and non-core strategic plan goals (weighted 25 percent of the total award).

ii) Stock Awards. Stock Awards may be awards of Common Stock, awards of Common Stock under which shares are delivered immediately upon grant subject to forfeiture if vesting conditions are not satisfied, or RSUs under which the shares are not delivered until after vesting conditions are satisfied. Restrictions may include restrictions concerning transferability and forfeiture of the shares. Shares underlying Stock Awards that are forfeited to the Company are again available for issuance under the LTIP.

The LTIP plan provides that not more than 600,000 shares are available for issuance as Performance-Based Awards or Stock Awards, and of those, 148,078 have been issued by the Company purchasing shares on the open market, leaving 451,922 shares for future issuance. The OECC determines the individuals to whom Stock Awards are awarded under the LTIP and the terms of any such awards.

In February 2012, the OECC made its first grants of RSUs to certain employees. The awarded RSUs obligate the Company upon vesting of the RSU to issue to the RSU holder one share of common stock plus a cash payment equal to the total amount of dividends paid per share between grant and vesting of the RSU. The awarded RSUs become vested for 25% of the shares covered by each award on March 1 of each of the first four years after the grant date, except that no RSUs will vest on March 1 of any year if the Company's return on common equity for the preceding year does not exceed the Company's average cost of long-term debt for the preceding five years.

iii) Stock Options. Subject to the limitations described below, the OECC will determine the persons to whom options are granted, the option price, the period of each option, the time or times at which options may be exercised, whether the option is an Incentive Stock Option or a Non-Statutory Stock Option, and any other term

of the option grant under the LTIP. No person may be granted options for more than 200,000 shares of Common Stock in any fiscal year. The LTIP provides that, unless shareholder approval is obtained, no stock option may be (1) amended to reduce the exercise price, or (2) canceled in exchange for cash, another award or any other consideration at a time when the exercise price of the option exceeds the fair market value of the Common Stock.

1) *Incentive Stock Options.* The OECC may grant Incentive Stock Options, as defined under Section 422 of the Internal Revenue Code, subject to the following: (1) the option price per share may not be less than the fair market value of the Common Stock when the option is granted and if the optionee owns stock possessing more than 10 percent of the combined voting power of the Company, the option price may not be less than 110 percent of the fair market value of the Common Stock when the option is granted; (2) the term of the option may not exceed ten years, or five years for 10 percent shareholders; and (3) the aggregate fair market value (determined on the date of grant) of shares for which Incentive Stock Options become exercisable for the first time by an optionee in any calendar year may not exceed \$100,000.

2) *Non-Statutory Stock Options.* The OECC may also grant Non-Statutory Stock Options. The option price may not be less than the fair market value of the Common Stock when the option is granted. The term of the option may not exceed ten years plus seven days. In the Company's recent history the OECC has granted only non-statutory stock options, so that any compensation recognized upon the exercise of the options will be tax deductible by the Company.

b) *Administration of the LTIP.* The Board of Directors has authority to administer or delegate authority to administer the LTIP. The Board of Directors has

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delegated authority to administer the LTIP to the OECC, which consists of three independent directors.

c) Eligibility. The LTIP allows Performance-Based Awards, Stock Awards and Stock Options to be granted to employees of the Company or any parent or subsidiary of the Company.

d) Shares Available. Subject to provisions of the Plan regarding adjustments for changes in capital structure, no more than 850,000 shares of authorized but unissued (but including reacquired) Common Stock may be issued pursuant to the LTIP. Of the 850,000 shares, 250,000 are available for issuance only as Stock Options and 600,000 are available for issuance as Performance-Based Awards or Stock Awards. Of the 600,000 shares available for Performance-Based Awards or Stock Awards, 148,078 have been previously issued.

e) Amendment or Termination. The LTIP will continue until the earlier of May 24, 2022, or when all shares available for issuance under the LTIP have been issued and all restrictions on such shares have lapsed. The Company's Board of Directors may amend, suspend or terminate the LTIP at any time except with respect to awards and shares subject to restrictions then outstanding under the LTIP, except it may not, without shareholder approval, increase the total number of shares of Common Stock that are subject to the LTIP, except for adjustments for changes in the capital structure of the Company. Termination will not affect any outstanding awards or the forfeitability of Common Stock awarded under the LTIP.

f) Proposed Method of Selling/Issuing Securities. With respect to Performance-Based Awards and Stock Awards, no cash consideration (other than tax withholding amounts) will be paid by employees to the Company. The Common Stock underlying the Stock Options will be issued and sold as the Stock Options are



exercised. The purchase price for Common Stock underlying a Stock Option may be paid in cash, in shares of the Common Stock previously acquired by the optionee, or by a cashless exercise, whereby an optionee exercises the Stock Option and sells the underlying Common Stock in one combined transaction, receiving the spread between the sale price of the Common Stock and the exercise price of the Stock Option, less any taxes and other employee withholdings.

A Registration Statement on Form S-8 will be filed with the Securities and Exchange Commission, pursuant to the Securities Act of 1933. Additionally, the Company will list the Common Stock reserved but unissued under the LTIP with the New York Stock Exchange. The Company also will file an application with the Public Utility Commission of Oregon establishing compliance with ORS 757.410, 757.412, and 757.415.

**(3) A statement as to why the transaction is in the public interest:**


The incentives offered through the LTIP and described herein are critical for NW Natural's ability to attract and retain qualified and talented employees and to encourage those employees to exert their best efforts for the Company. The Company believes that the facts set forth herein show that the Company's proposed use of the LTIP is for a lawful object within the corporate purposes of the Company and is compatible with the public interest; that said object is necessary or appropriate for or consistent with the proper performance by the Company of service as a public utility; and that the LTIP is reasonably necessary or appropriate for such purpose.

The undersigned certifies, under penalties of perjury under the laws of the State of Washington, that she has read the foregoing Statement and knows the

contents thereof and that the same are true and correct to the signer's information and belief.

DATED at Portland, Oregon this 1st day of February 2013.

NORTHWEST NATURAL GAS COMPANY

By   
Stephen P. Feltz  
Title: Treasurer, Controller, and Assistant Secretary

## EXHIBITS

- |           |  |
|-----------|--|
| Exhibit A | A copy of the LTIP as approved by the Company's Board of Directors and Shareholders. |
| Exhibit B | Draft Prospectus for the LTIP.   |
| Exhibit C | Draft Form S-8 to be filed with the Securities & Exchange Commission.                |
| Exhibit D | Sample Performance-Based Award Agreement   |
| Exhibit E | Sample RSU Agreement   |
| Exhibit F | Sample Stock Option Agreement  |

**Exhibit A**

A copy of the LTIP as approved by the Company's Board of Directors and Shareholders.

**NORTHWEST NATURAL GAS COMPANY  
LONG TERM INCENTIVE PLAN**

1. **Purpose.** The purpose of this Long Term Incentive Plan (the “Plan”) is to enable Northwest Natural Gas Company (the “Company”) to attract and retain the services of selected employees, officers and directors of the Company or of any subsidiary of the Company.

2. **Shares Subject to the Plan.** Subject to adjustment as provided below and in Section 9, the shares to be offered under the Plan shall consist of Common Stock of the Company, and the total number of shares of Common Stock that may be awarded under the Plan shall not exceed 850,000 shares. The shares awarded under the Plan may be authorized and unissued shares, reacquired shares or shares purchased on the open market for delivery to participants. If an option, Stock Award or Performance-based Award granted under the Plan expires, terminates or is cancelled, the shares subject to such option, Stock Award or Performance-based Award shall again be available under the Plan. If any shares delivered pursuant to a Stock Award or Performance-based Award under the Plan are forfeited to the Company, the number of shares forfeited shall again be available under the Plan.

3. **Duration of Plan.** The Plan shall continue in effect until all shares available for award under the Plan have been delivered to participants and all restrictions on such shares have lapsed; provided, however, that no awards shall be made under the Plan on or after the 10th anniversary of the last action by the shareholders approving or re-approving the Plan. The Board of Directors may suspend or terminate the Plan at any time except with respect to awards and shares subject to restrictions then outstanding under the Plan. Termination shall not affect any outstanding awards or the forfeitability of shares awarded under the Plan.

4. **Administration.**

(a) **Board of Directors.** The Plan shall be administered by the Board of Directors of the Company, which shall determine and designate from time to time the individuals to whom awards shall be made, the amount of the awards and the other terms and conditions of the awards. Subject to the provisions of the Plan, the Board of Directors may from time to time adopt and amend rules and regulations relating to administration of the Plan, advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction applicable to shares (except those restrictions imposed by law) and make all other determinations in the judgment of the Board of Directors necessary or desirable for the administration of the Plan. The interpretation and construction of the provisions of the Plan and related agreements by the Board of Directors shall be final and conclusive. The Board of Directors may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it shall deem expedient to carry the Plan into effect, and it shall be the sole and final judge of such expediency.

(b) **Committee.** The Board of Directors may delegate to a committee of the Board of Directors (the “Committee”) any or all authority for administration of the Plan. If authority is delegated to a Committee, all references to the Board of Directors in the Plan shall mean and relate to the Committee except (i) as otherwise provided by the Board of Directors, and (ii) that only the Board of Directors may amend or terminate the Plan as provided in Sections 3 and 10.

5. **Types of Awards; Eligibility.** The Board of Directors may, from time to time, take the following actions, separately or in combination, under the Plan: (i) grant Stock Awards, including restricted stock and restricted stock units, as provided in Section 6; (ii) grant stock options as provided in Section 7; and (iii) grant Performance-based Awards as provided in Section 8. An award may be made to any employee, officer or director of the Company or any subsidiary of the Company. The Board of

Directors shall select the individuals to whom awards shall be made and shall specify the action taken with respect to each individual to whom an award is made.

6. **Stock Awards, including Restricted Stock and Restricted Stock Units.** The Board of Directors may grant shares as stock awards under the Plan ("Stock Awards"). No more than an aggregate of 600,000 shares may be awarded under the Plan pursuant to Stock Awards under this Section 6 and Performance-based Awards under Section 8. Stock Awards shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability and forfeiture of the shares awarded, together with any other restrictions determined by the Board of Directors. Stock Awards subject to restrictions may be either restricted stock awards under which shares are delivered immediately upon grant subject to forfeiture if vesting conditions are not satisfied, or restricted stock unit awards under which shares are not delivered until after vesting conditions are satisfied. The Board of Directors may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares awarded shall bear any legends required by the Board of Directors. The Company may require any recipient of a Stock Award to pay to the Company in cash or by check upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable to the recipient, including salary, subject to applicable law. With the consent of the Board of Directors, a recipient may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be received or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so withheld or delivered shall not exceed the minimum amount necessary to satisfy the required withholding obligation. Upon the delivery of shares under a Stock Award, the number of shares reserved for award under the Plan, and the number of shares available for award under Sections 6 and 8 of the Plan, shall be reduced by the number of shares delivered, less the number of shares withheld or delivered to satisfy withholding obligations.

7. **Stock Options.**

(a) **Option Grants.** Options granted under the Plan may be Incentive Stock Options as defined in Section 422 of the Internal Revenue Code of 1986, as amended ("IRC"), or Non-Statutory Stock Options. A Non-Statutory Stock Option means an option other than an Incentive Stock Option. The Board of Directors has the sole discretion to determine which options shall be Incentive Stock Options and which options shall be Non-Statutory Stock Options, and, at the time of grant, it shall specifically designate each option granted under the Plan as an Incentive Stock Option or a Non-Statutory Stock Option. In the case of Incentive Stock Options, all terms shall be consistent with the requirements of the IRC and applicable regulations. No Incentive Stock Option may be granted under the Plan on or after the tenth anniversary of the last action by the Board of Directors approving an increase in the number of shares available for issuance under the Plan, which action was subsequently approved within 12 months by the shareholders.

(b) **Limitation on Amount of Grants.** No employee may be granted options under the Plan for more than 200,000 shares of Common Stock in any fiscal year.

(c) **Option Price.** The option price per share under each option granted under the Plan shall be determined by the Board of Directors, but the option price for an Incentive Stock Option and a Non-Statutory Stock Option shall be not less than 100 percent of the fair market value of the shares covered by the option on the date the option is granted. Except as otherwise expressly provided, for purposes of the Plan, the fair market value shall be deemed to be the closing sales price for the Common

Stock as reported by the New York Stock Exchange and published in the *Wall Street Journal* for the date the option is granted, or such other fair market value of the Common Stock as determined by the Board of Directors of the Company.

(d) **Duration of Options.** Each option granted under the Plan shall continue in effect for the period fixed by the Board of Directors, except that no Incentive Stock Option shall be exercisable after the expiration of 10 years from the date it is granted and no Non-Statutory Stock Option shall be exercisable after the expiration of 10 years plus seven days from the date it is granted.

(e) **Nonassignability.** Except as otherwise provided by the Board of Directors, each option granted under the Plan by its terms shall be nonassignable and nontransferable by the optionee except by will or by the laws of descent and distribution of the state or country of the optionee's domicile at the time of death, and each option by its terms shall be exercisable during the optionee's lifetime only by the optionee.

(f) **Option Agreements.** The Board of Directors shall determine the employees to whom options shall be granted and the number of shares, option price, the period of each option, the time or times at which options may be exercised, and any other term of the grant, all of which shall be set forth in an option agreement between the Company and the optionee.

(g) **Effect on Shares Available.** Upon the exercise of an option, the number of shares available for issuance under the Plan shall be reduced by the number of shares for which the option was exercised, without any adjustment for shares surrendered in payment of the option price or surrendered or withheld to satisfy withholding requirements.

(h) **No Repricing.** Except for actions approved by the shareholders of the Company or adjustments made pursuant to Section 9, the option price for an outstanding option granted under the Plan may not be decreased after the date of grant nor may the Company grant a new option or pay any cash or other consideration (including another award under the Plan) in exchange for any outstanding option granted under the Plan at a time when the option price of the outstanding option exceeds the fair market value of the shares covered by the option.

8. **Performance-based Awards.** The Board of Directors may grant awards intended to qualify as qualified performance-based compensation under Section 162(m) of the IRC and the regulations thereunder ("Performance-based Awards"). No more than an aggregate of 600,000 shares may be awarded under the Plan pursuant to Stock Awards under Section 6 and Performance-based Awards under this Section 8. Performance-based Awards shall be denominated at the time of grant either in Common Stock ("Stock Performance Awards") or in dollar amounts ("Dollar Performance Awards"). Payment under a Stock Performance Award or a Dollar Performance Award shall be made, at the discretion of the Board of Directors, in Common Stock ("Performance Shares"), or in cash or in any combination thereof. Performance-based Awards shall be subject to the following terms and conditions:

(a) **Award Period.** The Board of Directors shall determine the period of time for which a Performance-based Award is made (the "Award Period").

(b) **Performance Goals and Payment.** The Board of Directors shall establish in writing objectives ("Performance Goals") that must be met by the Company or any subsidiary, division or other unit of the Company ("Business Unit") during the Award Period as a condition to payment being made under the Performance-based Award. The Performance Goals for each award shall be one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any Business Unit: earnings, earnings per share, stock price increase, total

shareholder return (stock price increase plus dividends), return on equity, return on assets, return on capital, economic value added, revenues, operating income, inventories, inventory turns, cash flows or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to criteria established by the Board of Directors). The Board of Directors shall also establish the number of Performance Shares or the amount of cash payment to be made under a Performance-based Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 8(d)). The Board of Directors may establish other restrictions to payment under a Performance-based Award, such as a continued employment requirement, in addition to satisfaction of the Performance Goals. Some or all of the Performance Shares may be delivered to the participant at the time of the award as restricted shares subject to forfeiture in whole or in part if Performance Goals or, if applicable, other restrictions are not satisfied.

(c) **Computation of Payment.** During or after an Award Period, the performance of the Company or Business Unit, as applicable, during the period shall be measured against the Performance Goals. If the Performance Goals are not met, no payment shall be made under a Performance-based Award. If the Performance Goals are met or exceeded, the Board of Directors shall certify that fact in writing and certify the number of Performance Shares earned or the amount of cash payment to be made under the terms of the Performance-based Award.

(d) **Maximum Awards.** No participant may receive in any fiscal year Stock Performance Awards under which the aggregate amount payable under the Awards exceeds the equivalent of 50,000 shares of Common Stock or Dollar Performance Awards under which the aggregate amount payable under the Awards exceeds \$1,000,000.

(e) **Tax Withholding.** Each participant who has received Performance Shares shall, upon notification of the amount due, pay to the Company in cash or by check amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company or the Employer may withhold that amount from other amounts payable to the participant, including salary, subject to applicable law. With the consent of the Board of Directors, a participant may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be received or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so delivered or withheld shall not exceed the minimum amount necessary to satisfy the required withholding obligation.

(f) **Effect on Shares Available.** The payment of a Performance-based Award in cash shall not reduce the number of shares of Common Stock reserved for award under the Plan. The number of shares of Common Stock reserved for award under the Plan, and the number of shares available for award under Sections 6 and 8 of the Plan, shall be reduced by the number of shares delivered to the participant upon payment of an award, less the number of shares delivered or withheld to satisfy withholding obligations.

9. **Changes in Capital Structure.** If the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares or dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Board of Directors in the number and kind of shares available for grants under the Plan and in the number and kind of shares available for grants under Sections 6 and 8 of the Plan. In addition, the Board of Directors shall make appropriate adjustment in the number and kind of shares subject to outstanding awards, and in the exercise price of outstanding options, so that the recipient's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Board of Directors shall have no obligation to effect any adjustment that would or might result in the award of fractional shares, and



any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Board of Directors. Any such adjustments made by the Board of Directors shall be conclusive.

10. **Amendment of Plan.** The Board of Directors may at any time, and from time to time, modify or amend the Plan in such respects as it shall deem advisable because of changes in the law while the Plan is in effect or for any other reason. Except as provided in Section 9, however, no change in an award already granted shall be made without the written consent of the holder of such award.

11. **Approvals.** The issuance by the Company of authorized and unissued shares or reacquired shares under the Plan is subject to the approval of the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission, but no such approvals shall be required for the purchase of shares on the open market for delivery to participants in satisfaction of awards under the Plan. The obligations of the Company under the Plan are otherwise subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the grants under the Plan. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver Common Stock under the Plan if such issuance or delivery would violate applicable state or federal securities laws.

12. **Employment and Service Rights.** Nothing in the Plan or any award pursuant to the Plan shall (i) confer upon any employee any right to be continued in the employment of the Company or any subsidiary or interfere in any way with the right of the Company or any subsidiary by whom such employee is employed to terminate such employee's employment at any time, for any reason, with or without cause, or to decrease such employee's compensation or benefits, or (ii) confer upon any person engaged by the Company any right to be retained or employed by the Company or to the continuation, extension, renewal, or modification of any compensation, contract, or arrangement with or by the Company.

13. **Rights as a Shareholder.** The recipient of any award under the Plan shall have no rights as a shareholder with respect to any Common Stock until the date the recipient becomes the holder of record of those shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs prior to the date the recipient becomes the holder of record.

Draft Prospectus for the LTIP.

PROSPECTUS

## **NORTHWEST NATURAL GAS COMPANY**

### **COMMON STOCK**

Shares of Common Stock of Northwest Natural Gas Company (the “Company”) are offered to selected officers, directors and employees of the Company pursuant to stock options, performance-based awards, restricted stock units and other stock awards granted under the Northwest Natural Gas Company Long Term Incentive Plan.

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THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS  
COVERING SECURITIES THAT HAVE BEEN REGISTERED  
UNDER THE SECURITIES ACT OF 1933.

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The date of this Prospectus is March 1, 2013.

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Additional updating information with respect to the securities and plan covered herein may be provided in the future to plan participants by means of appendices to the Prospectus.

The Company will deliver to each person to whom this Prospectus is given a copy of the Company's Annual Report to Shareholders for its most recent fiscal year unless such individual has otherwise received a copy of the report. The Company will promptly furnish, without charge, another copy of the report on written or oral request of any such individual.

No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus. This Prospectus does not constitute an offering in any jurisdiction in which such offering may not lawfully be made.

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## THE COMPANY

The Company is the issuer of Common Stock offered pursuant to its Long Term Incentive Plan (the "Plan"). The address of the principal executive office of the Company is 220 NW Second Avenue, Portland, Oregon 97209. The Company's telephone number is (503) 226-4211.

## THE LONG TERM INCENTIVE PLAN

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA") or to the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Certain stock options granted under the Plan are intended to be incentive stock options as defined in Section 422 of the Code ("Incentive Stock Options"). Other stock options are not intended to be Incentive Stock Options and are referred to herein as "Nonstatutory Stock Options."

### Purpose of the Plan

The purpose of the Plan is to enable the Company to attract and retain experienced and talented employees and to provide additional incentive to these employees to exert their best efforts for the Company and its shareholders.

### Shares Reserved for Issuance Under the Plan

The Company has reserved a total of 850,000 shares of Common Stock for issuance under the Plan. The number and kind of shares available for grants under the Plan is subject to adjustment if the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares, dividend payable in shares, recapitalization or reclassification. Any such adjustment shall be made by the Organization and Executive Compensation Committee of the Board of Directors (the "Committee"), whose determination shall be conclusive. The Committee shall also make appropriate adjustment in the number and kind of shares subject to outstanding awards, and in the exercise price of outstanding options, so that the recipient's proportionate interest before and after the occurrence of the event is maintained. If an option or other award granted under the Plan expires, terminates or is cancelled, the unissued shares subject to the option or other award shall again become available for options under the Plan. If any shares delivered pursuant to a performance-based award or other award under the Plan are forfeited to the Company, the number of shares forfeited shall again be available under the Plan.

### Administration

The Committee interprets and administers the Plan and may from time to time adopt rules and regulations relating to its administration. Any decision of the Committee relating to the Plan will be final and binding on all parties. Additional information about the Plan and administration of the Plan may be obtained from MardiLyn Saathoff, Chief Governance Officer, Deputy General Counsel, and Corporate Secretary, Northwest Natural Gas Company, 220 NW Second Avenue, Portland, Oregon 97209, (503) 226-4211.

### Participation and Types of Grants

Awards under the Plan may be granted to selected directors, officers and employees of the Company or any parent or subsidiary of the Company. Stock options may be awarded under the Plan and at the time of an option grant, the Committee designates the option as an Incentive Stock Option or a Nonstatutory Stock Option. No employee may be granted options under the Plan for more than 200,000 shares of Common Stock in any fiscal year. The Plan also authorizes the grant of stock awards, including restricted stock and restricted stock units, and performance-based awards. See "Stock Awards" and "Performance-Based Awards" below.

### Exercise Price of Options

The Committee determines the exercise price of any options granted under the Plan. Whether the option is an Incentive Stock Option or a Nonstatutory Stock Option, the exercise

price cannot be less than the fair market value of the Common Stock on the date of the grant. If the recipient of an Incentive Stock Option owns, at the time of the grant, stock possessing more than 10 percent of the combined voting power of the Company, the exercise price cannot be less than 110 percent of the fair market value of the Common Stock on the date of grant.

#### Duration and Exercise of Options

Options granted under the Plan expire on the date fixed by the Committee, except that no Incentive Stock Option may be exercised after the expiration of 10 years from the date it is granted and no Nonstatutory Stock Option may be exercised after the expiration of 10 years and seven days from the date it is granted. If the recipient of an Incentive Stock Option owns, at the time of the grant, stock possessing more than 10 percent of the combined voting power of the Company, the expiration date of the option may not be more than five years after the date of grant.

Options may be exercised in amounts and at times determined by the Committee. Unless otherwise determined by the Committee, if the optionee does not exercise an option in any one year for the full number of shares to which the optionee is entitled in that year, the optionee's rights are cumulative and the optionee may purchase those shares in any subsequent year during the term of the option.

Except as described under "Termination of Employment, Death and Assignment" below, an option generally may not be exercised unless, when exercised, the optionee is an employee of the Company and has been continuously so employed since the date such option was granted. Absence on leave or on account of illness or disability under rules established by the Committee shall not be deemed an interruption of employment or service for this purpose.

An option may be exercised by payment of the full purchase price for the shares purchased pursuant to the option and by delivery of notice to the Company specifying the number of shares for which the optionee wishes to exercise the option and the date on which the optionee desires to complete the transaction. The purchase price shall be paid in cash, in shares of Common Stock of the Company previously acquired by the optionee, valued at fair market value, or in any combination of cash and shares of Common Stock; payment in shares of Common Stock may be made by delivery to the Company of (a) certificates representing the shares or (b) an attestation in a form acceptable to the Company regarding shares that are deemed delivered to the Company. As a condition to exercise of options under the Plan, the optionee must comply with any requirements specified by the Committee for satisfaction of applicable federal, state and local tax withholding requirements.

#### Termination of Employment, Death and Assignment

Under the terms of typical options granted by the Committee, if an optionee ceases to be employed by the Company for any reason other than termination by the Company for cause, retirement (as defined below), death or total disability, the optionee may exercise any option then held at any time prior to the earlier of its expiration date or three months following the

termination date, but only if and to the extent the option was exercisable as of the termination date. Any portion of the option not exercisable at the date of termination will lapse.

Under the terms of typical options granted by the Committee, if the optionee's employment is terminated by the Company for cause (as defined in the option agreement), any option held by the optionee shall immediately terminate, and no portion of any such option may be exercised.

Under the terms of typical options granted by the Committee, if the optionee's employment terminates because of death or total disability, any option held by the optionee may be exercised for all remaining shares subject thereto at any time prior to the earlier of its expiration date or 12 months after the date of termination. The term "total disability" refers to a medically determinable mental or physical impairment of the optionee which is expected to result in death or to last for a continuous period of 12 months or more and that causes the optionee to be unable to be engaged in any substantial gainful activity.

Under the terms of typical options granted by the Committee, if the optionee's employment terminates because of retirement (as defined below), any option held by the optionee may be exercised for all remaining shares subject thereto at any time prior to the earlier of its expiration date or 36 months after the date of retirement. The term "retirement" means termination of employment after the optionee is (a) age 62 with at least five years of service as an employee of the Company, or (b) age 55 with age plus years of service (including fractions) as an employee of the Company totaling at least 70.

Unless otherwise determined by the Committee, options are not assignable or transferable by an optionee, either voluntarily or by operation of law, other than by will or the laws of descent or distribution upon the death of an optionee.

#### Potential Clawback of Option Proceeds

Under the terms of typical options granted by the Committee, if the Committee determines that an optionee (a) engaged in any misconduct (as defined in the option agreement) after the option grant date that contributed to an obligation to restate the Company's financial statements or otherwise had an adverse impact on the market price of the Common Stock, and (b) thereafter sold Common Stock acquired upon exercise of the option at a price that was higher than it would have been if the misconduct had previously been disclosed, the Committee shall require the optionee to pay to the Company the amount determined by the Committee to be the excess proceeds over what the market price would have been if the misconduct had been disclosed. The Committee may not recover excess option proceeds from an optionee (x) after a change in control (as defined in the option agreement) of the Company has occurred, or (y) more than three years after the purchase of those shares.

#### Stock Awards

Shares issued as stock awards shall be subject to the terms, conditions and restrictions determined by the Committee. The restrictions may include restrictions concerning

transferability and forfeiture of the shares issued, together with such other restrictions as may be determined by the Committee. Stock awards subject to restrictions may be either restricted stock awards under which shares are issued immediately upon grant subject to forfeiture if vesting conditions are not satisfied, or restricted stock unit awards under which shares are not issued until after vesting conditions are satisfied. The Committee may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Committee. Certificates representing the shares will contain any legends required by the Committee.

#### Performance-Based Awards

The Committee may grant performance-based awards. All or part of the shares subject to the awards will be earned if performance targets established by the Committee for the period covered by the award are met and the recipient satisfies any other restrictions established by the Committee. The performance targets may be expressed as one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any subsidiary, division or other unit of the Company: earnings, earnings per share, stock price increase, total shareholder return (stock price increase plus dividends), return on equity, return on assets, return on capital, economic value added, revenues, operating income, inventories, inventory turns, cash flows or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges. Performance-based awards may be made as awards of restricted shares subject to forfeiture if performance goals are not satisfied. No recipient may be granted in any fiscal year performance-based awards under which the maximum number of shares that may be issued exceeds 50,000 shares.

#### Amendment and Termination of the Plan

The Board of Directors may amend the Plan at any time, but no change to an award already granted can be made without the consent of the recipient. The Plan will terminate when all shares reserved for issuance under the Plan have been issued or when earlier terminated by the Board of Directors. Early termination by the Board of Directors shall not affect any outstanding awards.

### **FEDERAL INCOME TAX CONSEQUENCES**

#### Incentive Stock Options

General. Under federal income tax law now in effect, no income will be recognized by an optionee upon either grant or exercise of an Incentive Stock Option. However, the amount by which the market value of shares issued upon exercise of an Incentive Stock Option exceeds the exercise price is included in the optionee's alternative minimum taxable income and may, under certain conditions, be taxed under the alternative minimum tax. If the optionee holds shares acquired upon exercise of an Incentive Stock Option for two years after the date of grant and one



year after the date of exercise (the “holding periods”) and if the optionee has been an employee of the Company (or of any parent or subsidiary of the Company) at all times from the date of grant to the date three months before exercise, then any gain realized by the optionee upon sale or exchange of the shares will be long-term capital gain and any loss will be long-term capital loss.

Generally, if an optionee disposes of shares acquired upon exercise of an Incentive Stock Option within the holding periods and all requirements other than the holding period rules are met (an “early disposition”), the optionee will recognize ordinary compensation income for the year of disposition equal to the excess of the market value of the shares on the date of exercise over the exercise price. The remainder of the gain realized upon the early disposition, if any, will be short-term or long-term capital gain. A special rule limits the amount of ordinary compensation income that must be recognized to the amount of gain realized by the optionee upon the early disposition. As a result, the optionee will not be required to recognize the entire spread between the exercise price and the market value on the date of exercise as ordinary compensation income if the early disposition results in either a loss or a gain smaller than the spread at exercise. If shares acquired upon exercise of an Incentive Stock Option are disposed of in an early disposition, the Company will be entitled to a deduction in the year of disposition equal to the amount of ordinary compensation income recognized by the optionee.

Exercise Using Previously Acquired Shares. If an optionee exercises an Incentive Stock Option using previously acquired shares (the “exercise shares”) to acquire new shares (the “option shares”), the tax results will be as set forth above, with the following exceptions. If the exercise shares were acquired on exercise of an Incentive Stock Option and the applicable holding periods have not been satisfied with respect to the exercise shares, the optionee will be treated as having made an early disposition of the exercise shares, and accordingly will have ordinary compensation income for the year of disposition.

In addition, regulations proposed by the Internal Revenue Service divide the option shares into two groups for purposes of determining the tax consequences upon their disposition. The first group, consisting of the number of option shares equal to the number of exercise shares, will have a tax basis equal to the original cost of the exercise shares increased by any amount treated as ordinary compensation income on either the acquisition or disposition of the exercise shares. The second group, consisting of the balance of the option shares, will have a tax basis of zero. The gain upon disposition of option shares will be the excess of the sales proceeds over the tax basis of the shares. If the exercise shares were acquired on exercise of an Incentive Stock Option and the applicable holding periods had been satisfied with respect to the exercise shares, the option shares in the first group will be treated for tax purposes as if acquired under the same plan at the same time as the exercise shares. Only shares in the second group will effectively be subject to the Incentive Stock Option holding periods, and on an early disposition of those shares an amount equal to their market value on the date of exercise will be treated as ordinary compensation income. However, the disposition of any option share will be treated as the disposition of a share in the second group until either all of the shares in the second group have been disposed of or the holding periods have been satisfied. Before exercising an Incentive Stock Option using previously acquired shares, optionees should consult their individual tax advisers.

Exercise by “Insiders.” The tax consequences described above also apply to an optionee who is an “insider” for purposes of Section 16(b) of the Securities Exchange Act of 1934, unless both (a) the grant of the option was not approved by either the Board of Directors or a committee composed solely of two or more non employee directors and (b) the insider exercises the Incentive Stock Option within six months of the date of grant. Optionees who are insiders should consult their individual tax advisers before exercising an Incentive Stock Option in either of those cases. See “Restrictions on Transferability of Shares” for a description of the insider trading rules of Section 16(b).

### Nonstatutory Stock Options

General. Under federal income tax law now in effect, no income is realized by the grantee of a Nonstatutory Stock Option until the option is exercised. When a Nonstatutory Stock Option is exercised, the optionee realizes ordinary compensation income, and the Company generally becomes entitled to a deduction, in the amount by which the market value of the shares subject to the Nonstatutory Stock Option at the time of exercise exceeds the exercise price. With respect to options exercised by certain executive officers, the Company’s deduction can in certain circumstances be limited by the \$1,000,000 cap on deductibility of Section 162(m) of the Code. The Company is required to withhold on all amounts treated as ordinary income to optionees. Upon the sale of shares acquired by exercise of a Nonstatutory Stock Option, the amount by which the sale proceeds exceed the market value of the shares on the date of exercise will constitute long-term capital gain if the shares have been held for the required holding period, which presently is one year.

Exercise Using Previously Acquired Shares. If an optionee exercises a Nonstatutory Stock Option using previously acquired shares (the “exercise shares”), the tax results will be as set forth above, except that for purposes of determining the tax consequences upon disposition of the shares acquired upon exercise of the option (the “option shares”) the option shares will be divided into two groups. The first group, consisting of the number of option shares equal to the number of exercise shares, will have a tax basis equal to the original cost of the exercise shares increased by any amount treated as ordinary compensation income on the acquisition of the exercise shares. The second group, consisting of the balance of the option shares, will have a tax basis equal to the market value of the shares on the date of exercise of the option. The gain upon disposition of option shares will be the excess of the sales proceeds over the tax basis of the shares. If the exercise shares were acquired on exercise of an Incentive Stock Option, the option shares in the first group will be treated for tax purposes as if acquired under the same plan at the same time as the exercise shares. The use of shares previously acquired on exercise of an Incentive Stock Option to exercise a Nonstatutory Stock Option will not be treated as an early disposition of the exercise shares even though the applicable holding periods have not been satisfied.

Exercise by “Insiders.” The tax consequences described above also apply to an optionee who is an “insider” for purposes of Section 16(b) of the Securities Exchange Act of 1934, unless both (a) the grant of the option was not approved by either the Board of Directors or a committee composed solely of two or more non employee directors and (b) the insider exercises the option

within six months of the date of grant. Optionees who are insiders should consult their individual tax advisers before exercising a Nonstatutory Stock Option in either of those cases. See “Restrictions on Transferability of Shares” for a description of the insider trading rules of Section 16(b).

#### Restricted Stock Awards and Performance-Based Awards

A recipient of a restricted stock unit award or a performance-based award generally will recognize ordinary compensation income, and the Company will generally be entitled to a deduction, for the year in which shares are vested and transferred to the recipient, in an amount equal to the fair market value of the Common Stock at the time of the transfer.

A recipient of a restricted stock award that is substantially nonvested for purposes of Section 83 of the Code generally will not recognize income at the time the recipient receives the stock unless the recipient makes an election under Section 83(b) of the Code. If the recipient makes an election under Section 83(b) within 30 days of the date of the award, the recipient will recognize compensation income for the year of the transfer in an amount equal to the fair market value of the Common Stock at the time of the award. If the election is made and the recipient subsequently forfeits some or all of the shares, the recipient will not be entitled to a deduction with respect to any amount included in income as a result of the Section 83(b) election. If a Section 83(b) election is not made, the recipient will recognize compensation income when the shares substantially vest in an amount equal to the fair market value of the Common Stock at that time. The Company will generally be entitled to a deduction in the amount includible as income by the recipient at the same time or times as the recipient recognizes income with respect to the shares.

### **RESTRICTIONS ON TRANSFERABILITY OF SHARES**

Section 16(b) of the Securities Exchange Act of 1934 requires corporate “insiders” to pay to the Company any “profit” realized through any “purchase and sale” or “sale and purchase” of the Company’s securities within any period of less than six months. Neither the grant nor the exercise of an option under the Plan is treated as a purchase for purposes of creating liability under Section 16(b) if either (a) the grant of the option is approved by either the Board of Directors or a committee composed solely of two or more non employee directors or (b) at least six months elapse between the grant of the option and the sale of shares acquired upon exercise of the option. Similarly, the grant of a stock award under the Plan is not treated as a purchase for purposes of creating liability under Section 16(b) if the grant is approved by either the Board of Directors or a committee composed solely of two or more non-employee directors. The disposition of Common Stock to the Company that occurs when the Company withholds vested restricted shares to pay withholding taxes in connection with a restricted stock award will not be treated as a sale for purposes of creating liability under Section 16(b), so long as the terms of the disposition are approved in advance by either the Board of Directors or a committee composed solely of two or more non-employee directors. The sale of shares acquired upon exercise of an option or pursuant to a stock award, however, is subject to Section 16(b) and may be matched with a purchase subject to Section 16(b) to result in liability. The Company may not waive the violation, permit rescission of a transaction with it or settle for less than the entire “profit”

realized, unless recovery on the merits is in serious doubt. Section 16(b) applies to transactions by beneficial owners of 10 percent or more of the Common Stock and to directors and officers of the Company. The liability to the Company arising under Section 16(b) may limit the ability of 10 percent owners, officers and directors to dispose of any Common Stock acquired on exercise of a stock option within six months of a market purchase or other purchase subject to Section 16(b).

In addition, sales of the Company's securities by affiliates of the Company are subject to the registration requirements of the Securities Act of 1933 ("Securities Act"). As a result, affiliates must sell shares acquired upon exercise of options pursuant to an effective registration statement or pursuant to an exemption from registration. In this regard, Rule 144 under the Securities Act may be available for the resale of such shares provided that all the conditions of the Rule are met at the time of resale.

### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The following documents filed with the Securities and Exchange Commission are incorporated herein by reference:

(a) The Company's latest annual report filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 or the latest prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933 that contains audited financial statements for the Company's latest fiscal year for which such statements have been filed.

(b) All other reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 since the end of the fiscal year covered by the annual report or prospectus referred to in (a) above.

(c) The description of the authorized capital stock of the Company contained in the Company's registration statement filed under Section 12 of the Securities Exchange Act of 1934, including any amendment or report filed for the purpose of updating the description.

All reports and other documents subsequently filed by the Company pursuant to Sections 13(a) and (c), 14 and 15(d) of the Securities Exchange Act of 1934 prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities remaining unsold, shall be deemed to be incorporated by reference herein and to be a part hereof from the dates of the filing of such reports and documents.

Copies of any documents or portions of documents incorporated by reference in this Prospectus may be obtained without charge by making written or oral request to MardiLyn Saathoff, Chief Governance Officer, Deputy General Counsel, and Corporate Secretary, Northwest Natural Gas Company, 220 NW Second Avenue, Portland, Oregon 97209, (503) 226-4211.

**Exhibit C**

Draft Form S-8 to be filed with the Securities & Exchange Commission.

As filed with the Securities and Exchange Commission on March 1, 2013  
Registration No. 333-\_\_\_\_\_

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form S-8**  
**REGISTRATION STATEMENT**  
Under  
**THE SECURITIES ACT OF 1933**

**NORTHWEST NATURAL GAS COMPANY**  
(Exact name of registrant as specified in its charter)

**OREGON**  
(State or other jurisdiction  
of incorporation or organization)

**93-0256722**  
(IRS Employer  
Identification No.)

**220 N.W. Second Avenue**  
**Portland, Oregon**  
(Address of Principal  
Executive Offices)

**97209**  
(Zip Code)

**NORTHWEST NATURAL GAS COMPANY**  
**LONG TERM INCENTIVE PLAN**  
(Full title of plan)

**MARDILYN SAATHOFF**  
**Chief Governance Officer, Deputy General Counsel**  
**and Corporate Secretary**  
**Northwest Natural Gas Company**  
**220 N.W. Second Avenue**  
**Portland, Oregon 97209**  
(Name and address of agent for service)

Telephone number, including area code, of agent for service: (503) 220-2410

Copy to:  
**STUART CHESTLER**  
**Stoel Rives LLP**  
**900 SW Fifth Avenue, Suite 2600**  
**Portland, Oregon 97204-1268**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

CALCULATION OF REGISTRATION FEE

<u>Title of Securities to be Registered</u>	<u>Amount to Be Registered</u>	<u>Proposed Maximum Offering Price Per Share<sup>(1)</sup></u>	<u>Proposed Maximum Aggregate Offering Price<sup>(1)</sup></u>	<u>Amount of Registration Fee</u>
Common Stock	701,922 shares	\$ _____	\$ _____	\$ _____

(1) The proposed maximum offering price per share and the proposed maximum aggregate offering price are estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h) under the Securities Act of 1933. The calculation of the registration fee for the shares to be registered is based on \$ \_\_\_\_\_, which was the average of the high and low prices of a share of the Common Stock on February 22, 2013 on the New York Stock Exchange.

## PART II

### INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

#### Item 3. Incorporation of Documents By Reference.

The following documents filed by Northwest Natural Gas Company (the "Company") with the Securities and Exchange Commission are incorporated herein by reference:

(a) The Company's latest annual report filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 or the latest prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933 that contains audited financial statements for the Company's latest fiscal year for which such statements have been filed.

(b) All other reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 since the end of the fiscal year covered by the Company's annual report or prospectus referred to in (a) above.

(c) The description of the Common Stock of the Company contained in the Company's registration statement filed under Section 12 of the Securities Exchange Act of 1934, including any amendments or reports filed for the purpose of updating the description.

All reports and other documents subsequently filed by the Company pursuant to Sections 13(a) and (c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended, prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities remaining unsold, shall be deemed to be incorporated by reference herein and to be a part hereof from the date of the filing of such reports and documents.

#### Item 4. Description of Securities.

Not Applicable.

#### Item 5. Interests of Named Experts and Counsel.

Not Applicable.

#### Item 6. Indemnification of Directors and Officers.

The Oregon Business Corporation Act (the "Act") provides, in general, that a director or officer of a corporation who has been or is threatened to be made a defendant in a legal proceeding because that person is or was a director or officer of the corporation:

(1) shall be indemnified by the corporation for all expenses of such litigation when the director or officer is wholly successful on the merits or otherwise;



(2) may be indemnified by the corporation for the expenses, judgments, fines and amounts paid in settlement of such litigation (other than a derivative lawsuit) if he or she acted in good faith and in a manner reasonably believed to be in, or at least not opposed to, the best interests of the corporation (and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful); and

(3) may be indemnified by the corporation for expenses of a derivative lawsuit (a suit by a shareholder alleging a breach by a director or officer of a duty owed to the corporation) if he or she acted in good faith and in a manner reasonably believed to be in, or at least not opposed to, the best interests of the corporation, provided the director or officer is not adjudged liable to the corporation.

The Act also authorizes the advancement of litigation expenses to a director or officer upon receipt of a written affirmation of the director's or officer's good faith belief that the standard of conduct in Section (2) or (3) above has been met and a written undertaking by such director or officer to repay such expenses if it is ultimately determined that he or she did not meet that standard and, therefore, is not entitled to be indemnified. The Act also provides that the indemnification provided thereunder shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

The Company's Bylaws provide that the Company shall indemnify directors and officers to the fullest extent permitted under the Act, thus making mandatory the discretionary indemnification authorized by the Act.

The Company's Restated Articles of Incorporation provide that the Company shall indemnify its officers and directors to the fullest extent permitted by law, which may be broader than the indemnification authorized by the Act.

The Company's shareholders have approved and the Company has entered into indemnity agreements with its directors and officers which provide for indemnity to the fullest extent permitted by law and also alter or clarify the statutory indemnity in the following respects:

(1) prompt advancement of litigation expenses is provided if the director or officer makes the required affirmation and undertaking;

(2) the director or officer is permitted to enforce the indemnity obligation in court and the burden is on the Company to prove that the director or officer is not entitled to indemnification;

(3) indemnity is explicitly provided for judgments and settlements in derivative actions;

(4) prompt indemnification is provided unless a determination is made that the director or officer is not entitled to indemnification; and

(5) partial indemnification is permitted if the director or officer is not entitled to full indemnification.

The Company maintains in effect a policy of insurance providing for reimbursement to the Company of payments made to directors and officers as indemnity for damages, judgments, settlements, costs and expenses incurred by them which the Company may be required or permitted to make according to applicable law, common or statutory, or under provisions of its Restated Articles of Incorporation, Bylaws or agreements effective under such laws.

Item 7. Exemption from Registration Claimed.

Not Applicable.

Item 8. Exhibits.

- 4.1 Restated Articles of Incorporation of the Company, as amended. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 001-15973.
- 4.2 Bylaws of the Company, as amended. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 30, 2012, File No. 001-15973.
- 5.1 Opinion of Stoel Rives LLP.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 23.2 Consent of Stoel Rives LLP (included in Exhibit 5.1).
- 24.1 Powers of Attorney. See Page II-6.

Item 9. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Portland, State of Oregon, on \_\_\_\_\_, 2013.

NORTHWEST NATURAL GAS COMPANY

By \_\_\_\_\_  
Gregg S. Kantor  
President and Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Gregg S. Kantor and MardiLyn Saathoff and each of them, as attorneys-in-fact, each with the power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto and all documents in connection therewith, with the SEC, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ Gregg S. Kantor	President and Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2013
_____ David H. Anderson	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2013
_____ Stephen P. Feltz	Treasurer and Controller (Principal Accounting Officer)	February 28, 2013

<hr/> Timothy P. Boyle	Director	February 28, 2013
<hr/> Martha L. Byorum	Director	February 28, 2013
<hr/> John D. Carter	Director	February 28, 2013
<hr/> Mark S. Dodson	Director	February 28, 2013
<hr/> C. Scott Gibson	Director	February 28, 2013
<hr/> Tod R. Hamachek	Director	February 28, 2013
<hr/> Jane L. Peverett	Director	February 28, 2013
<hr/> George J. Puentes	Director	February 28, 2013
<hr/> Kenneth Thrasher	Director	February 28, 2013

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Document Description</u>
4.1	Restated Articles of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 001-15973.
4.2	Bylaws of the Company, as amended. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 30, 2012, File No. 001-15973.
5.1	Opinion of Stoel Rives LLP.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Stoel Rives LLP (included in Exhibit 5.1).
24.1	Powers of Attorney. See Page II-6.

EXHIBIT 5.1

\_\_\_\_\_, 2013

Board of Directors  
Northwest Natural Gas Company  
220 N.W. Second Avenue  
Portland, Oregon 97209

We have acted as counsel for Northwest Natural Gas Company (the "Company") in connection with the filing of a Registration Statement on Form S-8 (the "Registration Statement") under the Securities Act of 1933, as amended, covering 701,922 shares of Common Stock (the "Shares") issuable in connection with the Company's Long Term Incentive Plan (the "Plan"). We have reviewed the corporate actions of the Company in connection with this matter and have examined those documents, corporate records, and other instruments we deemed necessary for the purposes of this opinion.

Based on the foregoing, it is our opinion that all requisite action necessary to make the Shares validly issued, fully paid and non-assessable will have been taken when:

- (1) the issuance of the Shares shall have been authorized by the Oregon Public Utility Commission, and the Washington Utilities and Transportation Commission shall have issued an order establishing compliance with applicable statutory provisions with respect to such issuance; and
- (2) the Shares shall have been issued in accordance with the Plan.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement.

Very truly yours,

STOEL RIVES LLP



EXHIBIT 23.1

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated March 1, 2013 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in Northwest Natural Gas Company's Annual Report on Form 10-K for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP

Portland, Oregon  
\_\_\_\_\_, 2013

Sample Performance-Based Award Agreement

## LONG TERM INCENTIVE AWARD AGREEMENT

This Agreement is entered into as of February \_\_, 2012, between Northwest Natural Gas Company, an Oregon corporation (the "Company"), and \_\_\_\_\_ ("Recipient").

On February \_\_, 2012, the Organization and Executive Compensation Committee (the "Committee") of the Company's Board of Directors (the "Board") authorized an objectively-determinable performance-based award (the "TSR Award") to Recipient pursuant to Section 8 of the Company's Long Term Incentive Plan (the "Plan") and a subjective performance-based award (the "Strategic Award") to Recipient pursuant to Section 6 of the Plan. Compensation paid pursuant to the TSR Award is intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), while compensation paid pursuant to the Strategic Award will not so qualify. Recipient desires to accept the awards subject to the terms and conditions of this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Awards. Recipient's "Target Share Amount" for purposes of this Agreement is \_\_\_\_\_ shares.

1.1 TSR Award. Subject to the terms and conditions of this Agreement, the Company shall issue or otherwise deliver to the Recipient the number of shares of Common Stock of the Company (the "TSR Performance Shares") determined under this Agreement based on (a) the performance of the Company's Common Stock relative to a peer group of companies during the three-year period from January 1, 2012 to December 31, 2014 (the "Award Period") as described in Section 2 and (b) Recipient's continued employment during the Award Period as described in Section 4. If the Company issues or otherwise delivers TSR Performance Shares to Recipient, the Company shall also pay to Recipient the amount of cash determined under Section 5 (the "TSR Dividend Equivalent Cash Award"). Recipient's "TSR Target Share Amount" for purposes of this Agreement is 75% of the Target Share Amount.

1.2 Strategic Award. Subject to the terms and conditions of this Agreement, the Company shall issue or otherwise deliver to the Recipient the number of shares of Common Stock of the Company (the "Strategic Performance Shares" and, together with the TSR Performance Shares, the "Performance Shares") determined under this Agreement based on (a) the Company's performance against milestones during the Award Period as determined by the Committee under Section 3 and (b) Recipient's continued employment during the Award Period as described in Section 4. If the Company issues or otherwise delivers Strategic Performance Shares to Recipient, the Company shall also pay to Recipient the amount of cash determined under Section 5 (the "Strategic Dividend Equivalent Cash Award" and, together with the TSR Dividend Equivalent Cash Award, the "Dividend Equivalent Cash Awards"). Recipient's "Strategic Target Share Amount" for purposes of this Agreement is 25% of the Target Share Amount.

2. TSR Performance Condition.

2.1 Subject to possible reduction under Section 4, the number of TSR Performance Shares to be issued or otherwise delivered to Recipient shall be determined by multiplying the TSR Payout Factor (as defined below) by the TSR Target Share Amount.

2.2 The “TSR Payout Factor” shall be determined under the table below based on the TSR Percentile Rank (as defined below) of the Company; provided, however, that if the Company’s TSR (as defined below) is less than 0%, the actual TSR Payout Factor shall be equal to 75% of the TSR Payout Factor determined under the table below:

<u>TSR Percentile Rank</u>	<u>TSR Payout Factor</u>
less than 30%	0%
30%	25%
50%	100%
90% or more	200%

If the Company’s TSR Percentile Rank is between any two data points set forth in the first column of the above table, the TSR Payout Factor shall be interpolated as follows. The excess of the Company’s TSR Percentile Rank over the TSR Percentile Rank of the lower data point shall be divided by the excess of the TSR Percentile Rank of the higher data point over the TSR Percentile Rank of the lower data point. The resulting fraction shall be multiplied by the difference between the TSR Payout Factors in the above table corresponding to the two data points. The product of that calculation shall be rounded to the nearest hundredth of a percentage point and then added to the TSR Payout Factor in the above table corresponding to the lower data point, and the resulting sum shall be the TSR Payout Factor.

2.3 To determine the Company’s “TSR Percentile Rank,” the TSR of the Company and each of the Peer Group Companies (as defined below) shall be calculated, and the Peer Group Companies shall be ranked based on their respective TSR’s from lowest to highest. If the Company’s TSR is equal to the TSR of any other Peer Group Company, the Company’s TSR Percentile Rank shall be equal to the number of Peer Group Companies with a lower TSR divided by the number that is one less than the total number of Peer Group Companies, with the resulting amount expressed as a percentage and rounded to the nearest tenth of a percentage point. If the Company’s TSR is between the TSRs of any two Peer Group Companies, the TSR Percentile Ranks of those two Peer Group Companies shall be determined as set forth in the preceding sentence, and the Company’s TSR Percentile Rank shall be interpolated as follows. The excess of the Company’s TSR over the TSR of the lower Peer Group Company shall be divided by the excess of the TSR of the higher Peer Group Company over the TSR of the lower Peer Group Company. The resulting fraction shall be multiplied by the difference between the TSR Percentile Ranks of the two Peer Group Companies. The product of that calculation shall be added to the TSR Percentile Rank of the lower Peer Group Company, and the resulting sum (rounded to the nearest tenth of a percentage point) shall be the Company’s TSR Percentile Rank. The intent of this definition of TSR Percentile Rank is to produce the same result as calculated using the PERCENTRANK function in Microsoft Excel to determine the rank of the Company’s TSR within the array consisting of the TSRs of the Peer Group Companies.

2.4 The “Peer Group Companies” consist of those companies that were components of the Dow Jones U.S. Gas Distribution Index on October 1, 2011 and that continue to be components of the Dow Jones U.S. Gas Distribution Index through December 31, 2014. If the Dow Jones U.S. Gas Distribution Index ceases to be published prior to December 31, 2014, the Peer Group Companies shall consist of those companies that were components of the Dow

Jones U.S. Gas Distribution Index on October 1, 2011 and that continued to have publicly-traded common stock through December 31, 2014.

2.5 The “TSR” for the Company and each Peer Group Company shall be calculated by (a) assuming that \$100 is invested in the common stock of the company at a price equal to the average of the closing market prices of the stock for the period from October 1, 2011 to December 31, 2011, (b) assuming that for each dividend paid on the stock during the Award Period, the amount equal to the dividend paid on the assumed number of shares held is reinvested in additional shares at a price equal to the closing market price of the stock on the ex-dividend date for the dividend, and (c) determining the final dollar value of the total assumed number of shares based on the average of the closing market prices of the stock for the period from October 1, 2014 to December 31, 2014. The “TSR” shall then equal the amount determined by subtracting \$100 from the foregoing final dollar value, dividing the result by 100 and expressing the resulting fraction as a percentage.

2.6 If during the Award Period any Peer Group Company enters into an agreement pursuant to which all or substantially all of the stock or assets of the Peer Group Company will be acquired by a third party (a “Signed Acquisition”), and if the Signed Acquisition is not completed by the end of the Award Period, then that company shall not be a Peer Group Company. If a Signed Acquisition of a Peer Group Company is terminated (other than in connection with the execution of another Signed Acquisition) before the end of the Award Period, then that company shall remain a Peer Group Company, and the TSR for that Peer Group Company shall be calculated as provided in Section 2.5, except that if the announcement of the termination of the Signed Acquisition occurs during the last three months of the Award Period, for purposes of determining the final dollar value under clause (c) of Section 2.5, the three-month period for which closing market prices are averaged shall be shortened to exclude any trading days preceding the announcement of the termination of the Signed Acquisition.

3. Strategic Performance Condition. Subject to possible reduction under Section 4, the number of Strategic Performance Shares to be issued or otherwise delivered to Recipient shall be determined by multiplying the Strategic Payout Factor by the Strategic Target Share Amount. The “Strategic Payout Factor” shall be a percentage between 0% and 200% determined by the Committee after the Award Period based on the Committee’s assessment of the extent to which the Company has achieved the following goals during the Award Period:

[applicable goals]

The Strategic Payout Factor shall be the same percentage for Recipient and all other recipients of similar awards for the Award Period. Although each goal category set forth above is shown as having a Goal Weight, such Goal Weights may be changed by the Committee at any time in its sole discretion. In determining the Strategic Payout Factor, the Committee in its discretion generally will assign a percentage of 100% for satisfactory achievement of all goals, a higher percentage for exceeding expectations and a lower percentage if goals are not achieved.

4. Employment Condition.

4.1 In order to receive the full number of Performance Shares determined under Section 2 or Section 3, Recipient must be employed by the Company on the last day of the Award Period.

4.2 If Recipient's employment by the Company is terminated at any time prior to the end of the Award Period because of death, physical disability (within the meaning of Section 22(e)(3) of the Code), or Retirement (unless such Retirement results from a termination of Recipient's employment by the Company for Cause), Recipient shall be entitled to receive pro-rated awards. The number of each type of Performance Shares to be issued or otherwise delivered as a pro-rated award shall be determined by multiplying the number of Performance Shares determined under Section 2 or Section 3 by a fraction, the numerator of which is the number of days Recipient was employed by the Company during the Award Period and the denominator of which is the number of days in the Award Period.

4.3 If Recipient's employment by the Company is terminated at any time prior to the end of the Award Period and Section 4.2 does not apply to such termination, Recipient shall not be entitled to receive any Performance Shares.

4.4 "Retirement" shall mean termination of employment after Recipient is (a) age 62 with at least five years of service as an employee of the Company, or (b) age 60 with age plus years of service (including fractions) as an employee of the Company totaling at least 70.

4.5 "Cause" shall mean (a) the willful and continued failure by Recipient to perform substantially Recipient's assigned duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Recipient by the Company which specifically identifies the manner in which Recipient has not substantially performed such duties, (b) willful commission by Recipient of an act of fraud or dishonesty resulting in economic or financial injury to the Company, (c) willful misconduct by Recipient that substantially impairs the Company's business or reputation, or (d) willful gross negligence by Recipient in the performance of his or her duties.

5. Dividend Equivalent Cash Awards. The amount of each type of Dividend Equivalent Cash Award shall be determined by multiplying the number of Performance Shares deliverable to Recipient as determined under Sections 2 and 4 or under Sections 3 and 4, as applicable, by the total amount of dividends paid per share of the Company's Common Stock for which the dividend record date occurred after the beginning of the Award Period and before the date of delivery of the Performance Shares.

6. Certification and Payment. At the regularly scheduled meeting of the Committee held in February of the year immediately following the final year of the Award Period (the "Certification Meeting"), the Committee shall determine the Strategic Payout Factor and certify in writing (which may consist of approved minutes of the Certification Meeting) the number of Strategic Performance Shares deliverable to Recipient and the amount of the Strategic Dividend Equivalent Cash Award payable to Recipient. Prior to the Certification Meeting, the Company

shall calculate the number of TSR Performance Shares deliverable and the amount of the TSR Dividend Equivalent Cash Award payable to Recipient, and shall submit these calculations to the Committee. At or prior to the Certification Meeting, the Committee shall certify in writing (which may consist of approved minutes of the Certification Meeting) the levels of TSR attained by the Company and the Peer Group Companies, the number of TSR Performance Shares deliverable to Recipient and the amount of the TSR Dividend Equivalent Cash Award payable to Recipient. Subject to applicable tax withholding, the amounts so certified shall be delivered or paid (as applicable) on a date (the "Payment Date") that is the later of March 1, 2015 or five business days following the Certification Meeting, and no amounts shall be delivered or paid prior to certification. No fractional shares shall be delivered and the number of Performance Shares deliverable shall be rounded to the nearest whole share. Notwithstanding the foregoing, if Recipient shall have made a valid election to defer receipt of Performance Shares or Dividend Equivalent Cash Awards pursuant to the terms of the Company's Deferred Compensation Plan for Directors and Executives (the "DCP"), payment of the award shall be made in accordance with that election.

7. Tax Withholding. Recipient acknowledges that, on the Payment Date when the Performance Shares are issued or otherwise delivered to Recipient, the Value (as defined below) on that date of the Performance Shares (as well as the amount of the Dividend Equivalent Cash Awards) will be treated as ordinary compensation income for federal and state income and FICA tax purposes, and that the Company will be required to withhold taxes on these income amounts. To satisfy the required withholding amount, the Company shall first withhold all or part of the Dividend Equivalent Cash Awards, and if that is insufficient, the Company shall withhold the number of Performance Shares having a Value equal to the remaining withholding amount. For purposes of this Section 7, the "Value" of a Performance Share shall be equal to the closing market price for Company Common Stock on the last trading day preceding the Payment Date. Notwithstanding the foregoing, Recipient may elect not to have Performance Shares withheld to cover taxes by giving notice to the Company in writing prior to the Payment Date, in which case the Performance Shares shall be issued or acquired in the Recipient's name on the Payment Date thereby triggering the tax consequences, but the Company shall retain the certificate for the Performance Shares as security until Recipient shall have paid to the Company in cash any required tax withholding not covered by withholding of the Dividend Equivalent Cash Awards.

8. Change in Control.

8.1 If a Change in Control (as defined below) occurs before the end of the Award Period, the Company shall, within 5 business days thereafter and subject to applicable tax withholding as provided for in Section 7, issue or otherwise deliver to Recipient a number of Performance Shares determined by multiplying the CIC Share Amount (as defined below) by a fraction, the numerator of which is the number of days in the period starting on the first day of the Award Period and ending on the date of the Change of Control and the denominator of which is the number of days in the Award Period. At the same time, the Company shall pay to Recipient a Dividend Equivalent Cash Award based on such number of Performance Shares. The "CIC Share Amount" shall equal 100% of the Strategic Target Share Amount plus an amount equal to the CIC TSR Payout Factor (as defined below) multiplied by the TSR Target Share Amount. The "CIC TSR Payout Factor" shall be determined in the same manner as the TSR Payout Factor is determined under Section 2 of this Agreement, except that the final dollar

value under clause (c) of Section 2.5 for the Company and each Peer Group Company shall be determined based on the average of the closing market prices of each stock for the three-month period ending on the date of the Change of Control. Amounts delivered or paid under this Section 8 shall be in satisfaction of any and all obligations of the Company to issue or otherwise deliver Performance Shares or pay Dividend Equivalent Cash Awards under this Agreement.

8.2 For purposes of this Agreement, a “Change in Control” of the Company shall mean the occurrence of any of the following events:

(a) The consummation of:

(1) any consolidation, merger or plan of share exchange involving the Company (a “Merger”) as a result of which the holders of outstanding securities of the Company ordinarily having the right to vote for the election of directors (“Voting Securities”) immediately prior to the Merger do not continue to hold at least 50% of the combined voting power of the outstanding Voting Securities of the surviving corporation or a parent corporation of the surviving corporation immediately after the Merger, disregarding any Voting Securities issued to or retained by such holders in respect of securities of any other party to the Merger; or

(2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company;

(b) At any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board (“Incumbent Directors”) shall cease for any reason to constitute at least a majority thereof; provided, however, that the term “Incumbent Director” shall also include each new director elected during such two-year period whose nomination or election was approved by two-thirds of the Incumbent Directors then in office; or

(c) Any person (as such term is used in Section 14(d) of the Securities Exchange Act of 1934, other than the Company or any employee benefit plan sponsored by the Company) shall, as a result of a tender or exchange offer, open market purchases or privately negotiated purchases from anyone other than the Company, have become the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of Voting Securities representing twenty percent (20%) or more of the combined voting power of the then outstanding Voting Securities.

## 9. Changes in Capital Structure.

9.1 If the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares or dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Committee in the number and kind of shares subject to this Agreement so that the Recipient’s proportionate interest before and after the occurrence of the event is maintained.



9.2 If the outstanding Common Stock of the Company is hereafter converted into or exchanged for all of the outstanding Common Stock of a corporation (the "Parent Successor") as part of a transaction (the "Transaction") in which the Company becomes a wholly-owned subsidiary of Parent Successor, then (a) the obligations under this Agreement shall be assumed by Parent Successor and references in this Agreement to the Company shall thereafter generally be deemed to refer to Parent Successor, (b) Common Stock of Parent Successor shall be issued in lieu of Common Stock of the Company under this Agreement, (c) the performance measured pursuant to Sections 2 and 3 of this Agreement shall be the continuous performance of the Company prior to the Transaction and Parent Successor after the Transaction, (d) employment by the Company for purposes of Section 4 of this Agreement shall include employment by either the Company or Parent Successor, and (e) the Dividend Equivalent Cash Awards under Section 5 of this Agreement shall be based on dividends paid on the Common Stock of the Company prior to the Transaction and Parent Successor after the Transaction.

10. Recoupment On Misconduct Affecting TSR.

10.1 If at any time before a Change in Control and within three years after the Payment Date, the Committee determines that Recipient engaged in any Misconduct (as defined below) during the Award Period that contributed to an obligation to restate the Company's financial statements for any quarter or year in the Award Period or that otherwise has had (or will have when publicly disclosed) an adverse impact on the Company's common stock price, Recipient shall repay to the Company the Excess LTIP Compensation (as defined below). The term "Excess LTIP Compensation" means the excess of (a) the number of TSR Performance Shares and the amount of the TSR Dividend Equivalent Cash Award as originally calculated and certified under Section 6 of this Agreement, over (b) the number of TSR Performance Shares and the amount of the TSR Dividend Equivalent Cash Award as recalculated assuming that the average of the closing market prices of the Company's common stock for the period from October 1, 2014 to December 31, 2014 was an amount determined appropriate by the Committee in its discretion to reflect what the Company's common stock price would have been if the restatement had occurred or other Misconduct had been disclosed prior to October 1, 2014. Excess LTIP Compensation shall not include any Strategic Performance Shares or any portion of the Strategic Dividend Equivalent Cash Award. The Committee may, in its sole discretion, reduce the amount of Excess LTIP Compensation to be repaid by Recipient to take into account the tax consequences of such repayment or any other factors. If any TSR Performance Shares included in the Excess LTIP Compensation are sold by Recipient prior to the Company's demand for repayment (including any shares withheld for taxes under Section 7 of this Agreement), Recipient shall repay to the Company 100% of the proceeds of such sale or sales. The return of Excess LTIP Compensation is in addition to and separate from any other relief available to the Company due to Recipient's Misconduct.

10.2 "Misconduct" shall mean (a) willful commission by Recipient of an act of fraud or dishonesty resulting in economic or financial injury to the Company, (b) willful misconduct by Recipient that substantially impairs the Company's business or reputation, or (c) willful gross negligence by Recipient in the performance of his or her duties.

10.3 If any portion of the TSR Performance Shares or the TSR Dividend Equivalent Cash Award was deferred under the DCP, the Excess LTIP Compensation shall first be recovered by canceling all or a portion of the amounts so deferred under the DCP and any dividends or other earnings credited under the DCP with respect to such cancelled amounts. The Company may seek direct repayment from Recipient of any Excess LTIP Compensation not so recovered and may, to the extent permitted by applicable law, offset such Excess LTIP Compensation against any compensation or other amounts owed by the Company to Recipient. In particular, Excess LTIP Compensation may be recovered by offset against the after-tax proceeds of deferred compensation payouts under the DCP, the Company's Executive Supplemental Retirement Income Plan or the Company's Supplemental Executive Retirement Plan at the times such deferred compensation payouts occur under the terms of those plans. Excess LTIP Compensation that remains unpaid for more than 60 days after demand by the Company shall accrue interest at the rate used from time to time for crediting interest under the DCP.

11. Approvals. The issuance by the Company of authorized and unissued shares or reacquired shares under this Agreement is subject to the approval of the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission, but no such approvals shall be required for the purchase of shares on the open market for delivery to Recipient in satisfaction of its obligations under this Agreement. The obligations of the Company under this Agreement are otherwise subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the award under this Agreement. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver Common Stock under this Agreement if such issuance or delivery would violate applicable state or federal law.

12. No Right to Employment. Nothing contained in this Agreement shall confer upon Recipient any right to be employed by the Company or to continue to provide services to the Company or to interfere in any way with the right of the Company to terminate Recipient's services at any time for any reason, with or without cause.

13. Miscellaneous.

13.1 Entire Agreement; Amendment. This Agreement constitutes the entire agreement of the parties with regard to the subjects hereof and may be amended only by written agreement between the Company and Recipient.

13.2 Notices. Any notice required or permitted under this Agreement shall be in writing and shall be deemed sufficient when delivered personally to the party to whom it is addressed or when deposited into the United States Mail as registered or certified mail, return receipt requested, postage prepaid, addressed to the Company, Attention: Corporate Secretary, at its principal executive offices or to Recipient at the address of Recipient in the Company's records, or at such other address as such party may designate by ten (10) days' advance written notice to the other party.

13.3 Assignment; Rights and Benefits. Recipient shall not assign this Agreement or any rights hereunder to any other party or parties without the prior written consent of the Company. The rights and benefits of this Agreement shall inure to the benefit of and be enforceable by the Company's successors and assigns and, subject to the foregoing restriction on assignment, be binding upon Recipient's heirs, executors, administrators, successors and assigns.

13.4 Further Action. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

13.5 Applicable Law; Attorneys' Fees. The terms and conditions of this Agreement shall be governed by the laws of the State of Oregon. In the event either party institutes litigation hereunder, the prevailing party shall be entitled to reasonable attorneys' fees to be set by the trial court and, upon any appeal, the appellate court.

13.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NORTHWEST NATURAL GAS COMPANY

By \_\_\_\_\_

Title \_\_\_\_\_

RECIPIENT

\_\_\_\_\_

Sample RSU Agreement

## RESTRICTED STOCK UNIT AWARD AGREEMENT

This Agreement is entered into as of February \_\_, 2013, between Northwest Natural Gas Company, an Oregon corporation (the "Company"), and \_\_\_\_\_ ("Recipient").

On February \_\_, 2013, the Organization and Executive Compensation Committee (the "Committee") of the Company's Board of Directors (the "Board") awarded restricted stock units to Recipient with a performance threshold intended to qualify the award as a performance-based award pursuant to Section 8 of the Company's Long Term Incentive Plan (the "Plan"). Compensation paid pursuant to the restricted stock units is intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986 (the "Code"). Recipient desires to accept the award subject to the terms and conditions of this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Grant of Restricted Stock Units; Dividend Equivalents. Subject to the terms and conditions of this Agreement, the Company hereby grants to the Recipient \_\_\_\_\_ restricted stock units (the "RSUs"). The grant of RSUs obligates the Company, upon vesting in accordance with this Agreement, to deliver to the Recipient one share of Common Stock of the Company (a "Share") for each RSU. Upon vesting of each RSU, the Company also agrees to make a dividend equivalent cash payment with respect to each vested RSU in an amount equal to the total amount of dividends paid per share of Company Common Stock for which the dividend record dates occurred after the date of this Agreement and before the date of delivery of the underlying Shares. The RSUs are subject to forfeiture as set forth in Sections 2.1 and 2.10 below.

2. Vesting; Forfeiture Restriction.

2.1 Vesting Schedule.

(a) All of the RSUs shall initially be unvested. Subject to Sections 2.3, 2.4, 2.5, 2.10 and 5.2, the RSUs shall vest as follows:

(1) one-fourth of the RSUs shall vest on March 1, 2014 if the Performance Threshold (as defined in Section 2.2 below) is satisfied for 2013;

(2) an additional one-fourth of the RSUs shall vest on March 1, 2015 if the Performance Threshold is satisfied for 2014;

(3) an additional one-fourth of the RSUs shall vest on March 1, 2016 if the Performance Threshold is satisfied for 2015; and

(4) the final one-fourth of the RSUs shall vest on March 1, 2017 if the Performance Threshold is satisfied for 2016.

(b) If the Performance Threshold is not satisfied for any year set forth in (1), (2), (3) or (4) above, the RSUs that would have vested if the Performance Threshold had been satisfied for that year (the "Performance Year") shall be forfeited to the Company effective

as of the last day of the Performance Year. For example, if the Performance Threshold is not satisfied for 2013, all RSUs that were scheduled to vest on March 1, 2014 shall be forfeited effective as of December 31, 2013.

(c) If a Change in Control (as defined in Section 2.6 below) occurs, the Performance Threshold shall be deemed to be satisfied for all Performance Years that were not completed prior to the Change in Control, with the effect that the RSUs outstanding at the time of the Change of Control shall vest upon completion of the applicable time periods in Section 2.1(a).

## 2.2 Performance Threshold.

(a) For purposes of this Agreement, the “Performance Threshold” for any year shall be satisfied if the ROE (as defined below) for that year is greater than the 5 Yr Avg Cost of LT Debt (as defined below) for that year.

(b) The “ROE” for any year shall be calculated by dividing the Company’s net income attributable to common shareholders for the year (as set forth in the audited consolidated statement of income of the Company and its subsidiaries for the year) by the Average Equity (as defined below) for the year. “Average Equity” for any year shall mean the average of the Company’s total common stock equity as of the last day of the year and the Company’s total common stock equity as of the last day of the prior year, in each case as set forth on the audited consolidated balance sheet of the Company and its subsidiaries as of the applicable date.

(c) The “5 Yr Avg Cost of LT Debt” for any year shall mean the average of five numbers consisting of the Avg Cost of LT Debt (as defined below) for that year and for each of the four preceding years. The “Avg Cost of LT Debt” for any year shall be equal to the sum of the Weighted Costs (as defined below) calculated for each series or tranche of long-term debt of the Company outstanding on the last day of the year. The “Weighted Cost” for a series or tranche of long-term debt as of any date shall be calculated by multiplying the Effective Interest Rate (as defined below) on the debt as of that date by the outstanding principal balance of the debt on that date, and then dividing the resulting amount by the Company’s total outstanding principal balance of long-term debt as of that date. The “Effective Interest Rate” for a series or tranche of long-term debt as of any date shall be the yield calculated based on the settlement date for the original issuance of the series or tranche, the maturity date of the series or tranche, the stated annual interest rate of the series or tranche in effect on that date, the number of interest payments per year under the terms of the series or tranche, the initial borrowing of an amount equal to the principal balance net of Debt Issuance Costs (as defined below) for the series or tranche, and the repayment of principal at maturity or otherwise according to the terms of the series or tranche. The “Debt Issuance Costs” for a series or tranche of long-term debt shall include the fees, commissions and expenses of issuance of such debt, any other purchase discount from the face amount of such debt, and any premiums, write-offs of unamortized debt issuance costs and other costs incurred in connection with retiring debt refinanced with the proceeds of such debt, all as reflected in the Company’s accounting records. For purposes of this Section 2.2(c), the Company’s long term debt and the interest rates and outstanding principal balances of the outstanding series or tranches of long-term debt as of any date shall be those

amounts as set forth in the audited consolidated financial statements of the Company and its subsidiaries for the year ending on that date, and shall in all cases include the current portion of any long-term debt and exclude borrowings under a revolving credit facility. For the avoidance of doubt, the Effective Interest Rate for purposes of this Agreement of each series of fixed-rate long-term debt outstanding as of the date of this Agreement is set forth on Exhibit A hereto.

2.3 Effect of Retirement, Death, or Disability.

(a) If Recipient's employment by the Company terminates because of Retirement (as defined below), death or physical disability (within the meaning of Section 22(e)(3) of the Code and a Change in Control has not previously occurred, all outstanding RSUs shall remain outstanding and subject to potential future vesting upon satisfaction of the Performance Threshold for the applicable years.

(b) If Recipient's employment by the Company terminates because of Retirement, death or physical disability and a Change in Control subsequently occurs, all outstanding RSUs shall immediately vest. If a Change in Control occurs and Recipient's employment by the Company subsequently terminates because of Retirement, death or physical disability, all outstanding RSUs shall immediately vest.

(c) The term "Retirement" means termination of employment after the Recipient is (1) age 62 with at least five years of service as an employee of the Company, or (2) age 55 with age plus years of service (including fractions) as an employee of the Company totaling at least 70; provided, however, that a termination of Recipient's employment by the Company for Cause (as defined in Section 2.8 below) shall not constitute a Retirement.

2.4 CIC Acceleration if Party to a Severance Agreement. If Recipient is a party to a Change in Control Severance Agreement with the Company, all outstanding RSUs shall immediately vest if Recipient becomes entitled to a Change in Control Severance Benefit (as defined below). A "Change in Control Severance Benefit" means the severance benefit provided for in Recipient's Change in Control Severance Agreement with the Company; provided, however, that such severance benefit is a "Change in Control Severance Benefit" for purposes of this Agreement only if, under the terms of Recipient's Change in Control Severance Agreement, Recipient becomes entitled to the severance benefit (a) after a change in control of the Company has occurred, (b) because Recipient's employment with the Company has been terminated by Recipient for good reason in accordance with the terms and conditions of the Change in Control Severance Agreement or by the Company other than for cause, and (c) because Recipient has satisfied any other conditions or requirements specified in the Change in Control Severance Agreement and necessary for Recipient to become entitled to receive the severance benefit. For purposes of this Section 2.4, the terms "change in control," "good reason," "cause" and "disability" shall have the meanings set forth in Recipient's Change in Control Severance Agreement.

2.5 CIC Acceleration if Not a Party to a Severance Agreement. If Recipient is not a party to a Change in Control Severance Agreement with the Company, all outstanding RSUs shall immediately vest if a Change in Control (as defined in Section 2.6 below) occurs and at any time after the earlier of Shareholder Approval (as defined in Section 2.7 below), if any, or

the Change in Control and on or before the second anniversary of the Change in Control, (a) Recipient's employment is terminated by the Company (or its successor) without Cause (as defined in Section 2.8 below), or (b) Recipient's employment is terminated by Recipient for Good Reason (as defined in Section 2.9 below).

2.6 Change in Control. For purposes of this Agreement, a "Change in Control" of the Company shall mean the occurrence of any of the following events:

(a) The consummation of:

(1) any consolidation, merger or plan of share exchange involving the Company (a "Merger") as a result of which the holders of outstanding securities of the Company ordinarily having the right to vote for the election of directors ("Voting Securities") immediately prior to the Merger do not continue to hold at least 50% of the combined voting power of the outstanding Voting Securities of the surviving corporation or a parent corporation of the surviving corporation immediately after the Merger, disregarding any Voting Securities issued to or retained by such holders in respect of securities of any other party to the Merger; or

(2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company;

(b) At any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board ("Incumbent Directors") shall cease for any reason to constitute at least a majority thereof; provided, however, that the term "Incumbent Director" shall also include each new director elected during such two-year period whose nomination or election was approved by two-thirds of the Incumbent Directors then in office; or

(c) Any person (as such term is used in Section 14(d) of the Securities Exchange Act of 1934, other than the Company or any employee benefit plan sponsored by the Company) shall, as a result of a tender or exchange offer, open market purchases or privately negotiated purchases from anyone other than the Company, have become the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of Voting Securities representing twenty percent (20%) or more of the combined voting power of the then outstanding Voting Securities.

2.7 Shareholder Approval. For purposes of this Agreement, "Shareholder Approval" shall be deemed to have occurred if the shareholders of the Company approve an agreement entered into by the Company, the consummation of which would result in the occurrence of a Change in Control.

2.8 Cause. For purposes of this Agreement, "Cause" shall mean (a) the willful and continued failure by Recipient to perform substantially Recipient's assigned duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Recipient by the Company which specifically identifies the manner in which Recipient has not substantially performed such duties,



(b) willful commission by Recipient of an act of fraud or dishonesty resulting in economic or financial injury to the Company, (c) willful misconduct by Recipient that substantially impairs the Company's business or reputation, or (d) willful gross negligence by Recipient in the performance of his or her duties.

2.9 Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence after Shareholder Approval, if applicable, or the Change in Control, of any of the following circumstances, but only if (x) Recipient gives notice to the Company of Recipient's intent to terminate employment for Good Reason within 30 days after the later of (1) notice to Recipient of such circumstances, or (2) the Change in Control, and (y) such circumstances are not fully corrected by the Company within 90 days after Recipient's notice:

(a) the assignment to Recipient of a different title, job or responsibilities that results in a decrease in the level of Recipient's responsibility; provided that Good Reason shall not exist if Recipient continues to have the same or a greater general level of responsibility for the former Company operations after the Change in Control as Recipient had prior to the Change in Control even though such responsibilities have necessarily changed due to the former Company operations becoming a subsidiary or division of the surviving company;

(b) a reduction by the Company in Recipient's base salary as in effect immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control;

(c) the failure by the Company to continue in effect any employee benefit or incentive plan in which Recipient is participating immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control (or plans providing Recipient with at least substantially similar benefits) other than as a result of the normal expiration of any such plan in accordance with its terms as in effect immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control, or the taking of any action, or the failure to act, by the Company which would adversely affect Recipient's continued participation in any of such plans on at least as favorable a basis to Recipient as is the case immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control or which would materially reduce Recipient's benefits in the future under any of such plans or deprive Recipient of any material benefit enjoyed by Recipient immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control;

(d) the failure by the Company to provide and credit Recipient with the number of paid vacation days to which Recipient is then entitled in accordance with the Company's normal vacation policy as in effect immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control; or

(e) the Company's requiring Recipient to be based more than 30 miles from where Recipient's office is located immediately prior to the earlier of Shareholder Approval, if applicable, or the Change in Control except for required travel on the Company's business to an extent substantially consistent with the business travel obligations which Recipient undertook on behalf of the Company prior to the earlier of Shareholder Approval, if applicable, or the Change in Control.

2.10 Forfeiture; Possible Restoration. If Recipient ceases to be employed by the Company for any reason or for no reason, with or without cause, other than because of Retirement, death or physical disability (within the meaning of Section 22(e)(3) of the Code), any RSUs that did not vest pursuant to this Section 2 or Section 5.2 at or prior to the time of such termination of employment shall be forfeited to the Company; provided, however, that if Recipient's employment is terminated by the Company without Cause or by the Recipient for Good Reason after Shareholder Approval but before a Change in Control, any RSUs that are forfeited under this sentence shall be restored to the Recipient and vested if a Change in Control subsequently occurs within two years.

3. Certification and Delivery. As soon as practicable following the completion of each Performance Year, the Company shall calculate the ROE and the 5 Yr Avg Cost of LT Debt for that Performance Year, and shall submit those calculations to the Committee. At or prior to the regularly scheduled meeting of the Committee held in February of the year immediately following each Performance Year, the Committee shall certify in writing (which may consist of approved minutes of the meeting) the levels of ROE and 5 Yr Avg Cost of LT Debt attained by the Company for that Performance Year, and whether or not the Performance Threshold was satisfied for that Performance Year. Unless otherwise required under this Agreement as a result of the occurrence of a Change in Control, no amounts shall be delivered or paid unless the Committee certifies that the Performance Threshold has been satisfied for the applicable Performance Year. Subject to applicable tax withholding, on a date (a "Payment Date") as soon as practicable after any of the RSUs become vested, the Company shall deliver to Recipient (a) the number of Shares underlying the RSUs that vested (rounded down to the nearest whole share), and (b) the dividend equivalent cash payment determined under Section 1 with respect to the number of Shares that are delivered; provided, however, that if accelerated vesting of the RSUs occurs pursuant to Section 2.3(b) as a result of Recipient's Retirement after a Change in Control has previously occurred, the Payment Date shall be delayed until a date as soon as practicable after the earlier of (x) the date the RSUs would have vested under Section 2.1, or (y) the date that is six months after Recipient's separation from service (within the meaning of Section 409A of the Internal Revenue Code). Notwithstanding the foregoing provisions of this Section 3, if Recipient shall have made a valid election to defer receipt of the Shares and dividend equivalent cash payment pursuant to the terms of the Company's Deferred Compensation Plan for Directors and Executives (the "DCP"), payment of RSUs that vest shall be made in accordance with that election.

4. Tax Withholding.

4.1 Recipient acknowledges that, on any Payment Date when Shares are delivered to Recipient, the Value (as defined below) on that date of the Shares so delivered (as well as the amount of the related dividend equivalent cash payment) will be treated as ordinary compensation income for federal and state income and FICA tax purposes, and that the Company will be required to withhold taxes on these income amounts. To satisfy the required withholding amount, the Company shall first withhold all or part of the dividend equivalent cash payment, and if that is insufficient, the Company shall withhold the number of Shares having a Value equal to the remaining withholding amount. For purposes of this Section 4, the "Value" of a Share shall be equal to the closing market price for Company Common Stock on the last trading day preceding the Payment Date.

4.2 Recipient acknowledges that under current tax law, the Company is required to withhold FICA taxes with respect to the RSUs at the earlier of (a) the issuance of shares underlying the RSUs or (b) the date after a Change in Control on which Recipient becomes eligible for Retirement (or the date of the Change in Control if Recipient is eligible for Retirement at the time of the Change in Control). To satisfy the required minimum FICA withholding in the event that subsection (b) applies, Recipient shall, immediately upon notification of the amount due, pay to the Company in cash or by check amounts necessary to satisfy applicable FICA withholding requirements. If Recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable to Recipient, including salary, subject to applicable law.

4.3 Notwithstanding the foregoing, Recipient may elect not to have Shares withheld to cover taxes by giving notice to the Company in writing prior to the Payment Date, in which case the Shares shall be issued or acquired in Recipient's name on the Payment Date thereby triggering the tax consequences, but the Company shall retain the certificate for the Shares as security until Recipient shall have paid to the Company in cash any required tax withholding not covered by withholding of the dividend equivalent cash payment.

5. Sale of the Company. If there shall occur a merger, consolidation or plan of exchange involving the Company pursuant to which the outstanding shares of Common Stock of the Company are converted into cash or other stock, securities or property, or a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company, then either:

5.1 the unvested RSUs shall be converted into restricted stock units for stock of the surviving or acquiring corporation in the applicable transaction, with the amount and type of shares subject thereto to be conclusively determined by the Committee, taking into account the relative values of the companies involved in the applicable transaction and the exchange rate, if any, used in determining shares of the surviving corporation to be held by the former holders of the Company's Common Stock following the applicable transaction, and disregarding fractional shares; or

5.2 all of the unvested RSUs shall immediately vest and the underlying Shares and related dividend equivalent cash payment shall be delivered simultaneously with the closing of the applicable transaction such that Recipient will participate as a shareholder in receiving proceeds from such transaction with respect to those Shares.

6. Changes in Capital Structure.

6.1 If, prior to the full vesting of all of the RSUs granted under this Agreement, the outstanding Common Stock of the Company is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares or dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Committee in the number and kind of shares subject to the unvested RSUs so that Recipient's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Committee shall have no obligation to effect any adjustment that would or might

result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Committee. Any such adjustments made by the Committee shall be conclusive.

6.2 If the outstanding Common Stock of the Company is hereafter converted into or exchanged for all of the outstanding Common Stock of a corporation (the “Parent Successor”) as part of a transaction (the “Transaction”) in which the Company becomes a wholly-owned subsidiary of Parent Successor, then (a) the obligations under this Agreement shall be assumed by Parent Successor and references in this Agreement to the Company shall thereafter generally be deemed to refer to Parent Successor, (b) Common Stock of Parent Successor shall be issued in lieu of Common Stock of the Company under this Agreement, (c) the performance measured by the Performance Threshold shall be the continuous performance of the Company prior to the Transaction and Parent Successor after the Transaction, (d) employment by the Company for purposes of Section 2 of this Agreement shall include employment by either the Company or Parent Successor, and (e) the dividend equivalent cash payments under this Agreement shall be based on dividends paid on the Common Stock of the Company prior to the Transaction and Parent Successor after the Transaction.

7. Recoupment On Misconduct.

7.1 If at any time before a Change in Control and within three years after any date on which any RSUs vested, (a) the Company’s financial statements for the corresponding Performance Year are the subject of a restatement due to the Misconduct (as defined below) of any person (whether or not Recipient was personally involved in such Misconduct), and (b) based on the Company’s financial statements as restated, the Performance Threshold was not satisfied for that Performance Year, then Recipient shall repay to the Company the Shares (the “Excess Shares”) and dividend equivalent cash payment (the “Excess Dividends”) that vested under this Agreement on that vesting date. If any Excess Shares are sold by Recipient prior to the Company’s demand for repayment (including any shares withheld for taxes under Section 4 of this Agreement), Recipient shall repay to the Company 100% of the proceeds of such sale or sales. The Committee may, in its sole discretion, reduce the amount to be repaid by Recipient to take into account the tax consequences of such repayment for Recipient.

7.2 If the Committee determines that Recipient engaged in any Misconduct after the date of this Agreement and prior to a sale of any of the Shares (the “Tainted Shares”), and this determination is made before a Change in Control and within three years after the vesting of the Tainted Shares, Recipient shall repay to the Company the Excess Proceeds (as defined below). The Committee may, in its sole discretion, reduce the amount of Excess Proceeds to be repaid by Recipient to take into account the tax consequences of such repayment or any other factors. The return of Excess Proceeds is in addition to and separate from any other relief available to the Company due to Recipient’s Misconduct.

7.3 “Misconduct” shall mean (a) willful commission of an act of fraud or dishonesty resulting in economic or financial injury to the Company, (b) willful misconduct that substantially impairs the Company’s business or reputation, or (c) willful gross negligence in the performance of the person’s duties; provided, however, that such acts shall only constitute Misconduct if the Committee determines that such acts contributed to an obligation to restate the

Company's financial statements for any quarter or year or otherwise had (or will have when publicly disclosed) an adverse impact on the market price of the Company Common Stock.

7.4 "Excess Proceeds" shall mean the excess of (a) the actual aggregate sales proceeds from Recipient's sales of Tainted Shares, over (b) the aggregate sales proceeds Recipient would have received from sales of Tainted Shares at a price per share determined appropriate by the Committee in its discretion to reflect what the market price of the Company Common Stock would have been if the restatement had occurred or other Misconduct had been disclosed prior to such sales.

7.5 If any portion of the Excess Shares and Excess Dividends was deferred under the DCP, that portion shall be recovered by canceling the amounts so deferred under the DCP and any dividends or other earnings credited under the DCP with respect to such cancelled amounts. The Company may seek direct repayment from Recipient of any Excess Shares, Excess Dividends and Excess Proceeds not so recovered and may, to the extent permitted by applicable law, offset such amounts against any compensation or other amounts owed by the Company to Recipient. In particular, such amounts may be recovered by offset against the after-tax proceeds of deferred compensation payouts under the DCP, the Company's Executive Supplemental Retirement Income Plan or the Company's Supplemental Executive Retirement Plan at the times such deferred compensation payouts occur under the terms of those plans. Amounts that remain unpaid for more than 60 days after demand by the Company shall accrue interest at the rate used from time to time for crediting interest under the DCP.

8. Approvals. The issuance by the Company of authorized and unissued shares or reacquired shares under this Agreement is subject to the approval of the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission, but no such approvals shall be required for the purchase of shares on the open market for delivery to Recipient in satisfaction of its obligations under this Agreement. The obligations of the Company under this Agreement are otherwise subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the award under this Agreement. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver Common Stock under this Agreement if such issuance or delivery would violate applicable state or federal law.

9. No Right to Employment. Nothing contained in this Agreement shall confer upon Recipient any right to be employed by the Company or to continue to provide services to the Company or to interfere in any way with the right of the Company to terminate Recipient's services at any time for any reason, with or without cause.

10. Miscellaneous.

10.1 Entire Agreement; Amendment. This Agreement constitutes the entire agreement of the parties with regard to the subjects hereof and may be amended only by written agreement between the Company and Recipient.

10.2 Notices. Any notice required or permitted under this Agreement shall be in writing and shall be deemed sufficient when delivered personally to the party to whom it is addressed or when deposited into the United States Mail as registered or certified mail, return receipt requested, postage prepaid, addressed to the Company, Attention: Corporate Secretary, at its principal executive offices or to Recipient at the address of Recipient in the Company's records, or at such other address as such party may designate by ten (10) days' advance written notice to the other party.

10.3 Assignment; Rights and Benefits. Recipient shall not assign this Agreement or any rights hereunder to any other party or parties without the prior written consent of the Company. The rights and benefits of this Agreement shall inure to the benefit of and be enforceable by the Company's successors and assigns and, subject to the foregoing restriction on assignment, be binding upon Recipient's heirs, executors, administrators, successors and assigns.

10.4 Further Action. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

10.5 Applicable Law; Attorneys' Fees. The terms and conditions of this Agreement shall be governed by the laws of the State of Oregon. In the event either party institutes litigation hereunder, the prevailing party shall be entitled to reasonable attorneys' fees to be set by the trial court and, upon any appeal, the appellate court.

10.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NORTHWEST NATURAL GAS COMPANY

By \_\_\_\_\_

Title \_\_\_\_\_

RECIPIENT

\_\_\_\_\_

**EXHIBIT A**

**EFFECTIVE INTEREST RATES OF OUTSTANDING FIXED-RATE LONG-TERM DEBT**

The outstanding series or tranches of fixed-rate long-term debt of the Company outstanding as of the date of this Agreement and the Effective Interest Rate of each such series or tranche are as follows:

<u>Series</u>	<u>Effective Interest Rate</u>
8.26 % Series B due 2014	9.260%
3.95 % Series B due 2014	4.147%
4.70 % Series B due 2015	4.809%
5.15 % Series B due 2016	5.294%
7.00 % Series B due 2017	7.089%
6.60 % Series B due 2018	7.181%
8.31 % Series B due 2019	9.479%
7.63 % Series B due 2019	7.727%
5.37 % Series B due 2020	7.327%
9.05 % Series A due 2021	9.163%
5.62 % Series B due 2023	6.360%
7.72 % Series B due 2025	8.336%
6.52 % Series B due 2025	6.589%
7.05 % Series B due 2026	7.121%
7.00 % Series B due 2027	7.062%
6.65 % Series B due 2027	6.714%
6.65 % Series B due 2028	6.727%
7.74 % Series B due 2030	8.433%
7.85 % Series B due 2030	8.551%
5.82 % Series B due 2032	5.913%
5.66 % Series B due 2033	5.723%
5.25 % Series B due 2035	5.316%
3.176% Series B due 2021	3.318%
Gill Ranch 7.75% Fixed Rate Tranche due 2016	8.121%
4.00 % Series B due 2042	_____

Sample Stock Option Agreement



## NON-STATUTORY STOCK OPTION AGREEMENT

### LONG TERM INCENTIVE PLAN

THIS AGREEMENT is made as of the \_\_\_\_ day of \_\_\_\_\_, 201\_, between Northwest Natural Gas Company, an Oregon corporation (the “Company”), and «FirstName» «LastName» (the “Optionee”).

Pursuant to the Company’s Long Term Incentive Plan (the “Plan”), the Organization and Executive Compensation Committee of the Board of Directors (the “Committee”) has voted to grant the Optionee an option to purchase common stock of the Company (“Common Stock”) in the amount indicated below, conditioned on the Optionee’s agreement to the terms of this Agreement. In consideration of the promises and mutual covenants herein contained, the Company and the Optionee agree as follows:

1. **Option Grant.** The Company grants to the Optionee on the terms and conditions stated below the right and option (the “Option”) to purchase an aggregate of «Shares» shares of the Company’s authorized but unissued or reacquired Common Stock at a price of \$\_\_\_\_\_ per share. The Option is a Non-Statutory Stock Option as defined in the Plan.

2. **Terms.** The Option is granted on the following terms:

2.1 **Duration of Option.** Subject to reductions in the Option period as provided in section 2.5, the Option shall continue in effect for 10 years and seven days from the date hereof.

2.2 **Vesting.** Except as provided in section 2.5, the Option shall not be exercisable for any shares in the first year after the date hereof and thereafter may be exercised from time to time in the amounts as set forth on attached Schedule A.

2.3 **Limitations on Rights to Exercise.** Except as provided in section 2.5, the Option may not be exercised unless when exercised the Optionee is employed by the Company and shall have been so employed continuously since the Option was granted. For purposes of this Agreement, the Optionee is considered to be employed by the Company if the Optionee is employed by any parent or subsidiary of the Company. Absence on leave or on account of illness or disability under rules established by the Committee shall not be deemed an interruption of employment for this purpose. Vesting of the Option as set forth on Schedule A shall continue during a medical, family or military leave of absence, whether paid or unpaid, and vesting of the Option shall be suspended during any other unpaid leave of absence.

2.4 **Nonassignability.** The Option is nonassignable and nontransferable by the Optionee except by will or by the laws of descent and distribution of the state or country of the Optionee’s domicile at the time of death, and it is exercisable during the Optionee’s lifetime only by the Optionee.

## 2.5 Termination of Employment.

(a) **General Rule.** If employment of the Optionee by the Company is terminated for any reason other than in the circumstances specified in subsection (b) or (c) below, the Option may be exercised at any time prior to its expiration date or the expiration of three months after the date of termination of employment, whichever is the shorter period, but only if and to the extent the Optionee was entitled to exercise the Option on the date of termination.

(b) **Termination because of Retirement, Death or Total Disability.** If the Optionee's employment by the Company is terminated because of retirement (as defined below), the Option may be exercised for all remaining shares subject thereto, free of any limitation on the number of shares for which the Option may be exercised in any period, at any time prior to its expiration date or the expiration of 36 months after the date of termination, whichever is the shorter period. The term "retirement" means termination of employment after the Optionee is (a) age 62 with at least five years of service as an employee of the Company, or (b) age 55 with age plus years of service (including fractions) as an employee of the Company totaling at least 70. If the Optionee's employment by the Company is terminated because of death or total disability (as defined below), the Option may be exercised for all remaining shares subject thereto, free of any limitation on the number of shares for which the Option may be exercised in any period, at any time prior to its expiration date or the expiration of 12 months after the date of termination, whichever is the shorter period. If the Optionee's employment is terminated by death, the Option shall be exercisable only by the person or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or country of the Optionee's domicile at the time of death. The term "total disability" means a medically determinable mental or physical impairment that is expected to result in death or has lasted or is expected to last for a continuous period of 12 months or more and that, in the opinion of the Company and two independent physicians, causes the Optionee to be unable to perform duties as an employee, director, or officer of the Company and unable to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the two independent physicians have furnished their written opinion of total disability to the Company and the Company has reached an opinion of total disability.

(c) **Termination for Cause.** If the Optionee's employment is terminated by the Company for cause (as defined below), the Option shall immediately terminate. If at any time (including after a notice of exercise has been delivered) either the Committee or the Chief Executive Officer of the Company reasonably believes that the Optionee may have committed an act that would constitute cause, the Committee or the Chief Executive Officer may suspend the Optionee's right to exercise the Option pending a final determination of whether cause for termination exists. The term "cause" means (i) the willful and continued failure by the Optionee to perform substantially the Optionee's assigned duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) after a demand for substantial performance is delivered to the Optionee by the Company which specifically identifies the manner in which the Optionee has not substantially performed such duties, (ii) willful commission by the Optionee of an act of fraud or dishonesty resulting in economic or financial injury to the Company, (iii) willful misconduct by the Optionee that

substantially impairs the Company's business or reputation, or (iv) willful gross negligence by the Optionee in the performance of his or her duties.

(d) **Failure to Exercise Option.** In the event of the termination of employment of the Optionee, to the extent the Option is not exercised within the limited periods provided above, all further rights to purchase shares pursuant to the Option shall terminate at the expiration of such periods.

2.6 **Purchase of Shares.** Shares may be purchased or acquired pursuant to the Option only by notice in writing from the Optionee to the Company of the Optionee's binding commitment to exercise the Option, specifying the number of shares the Optionee will purchase and the date on which the Optionee will complete the transaction, which may not be more than 30 days after delivery of the notice. On or before the date specified for completion of the purchase, the Optionee must pay the Company the full purchase price in cash (or by check), in shares of Common Stock previously acquired by the Optionee, valued at fair market value, or in any combination of cash (or check) and shares of Common Stock. Payment in shares of Common Stock may be made by delivery to the Company of (a) certificate(s) representing the shares or (b) an attestation in a form acceptable to the Company regarding shares that are deemed delivered to the Company. For purposes of this paragraph, the fair market value shall be deemed to be the closing price for the Common Stock as reported on the New York Stock Exchange and published in the Wall Street Journal for the day preceding the date specified for completion of the purchase, or such other fair market value of the Common Stock as determined by the Committee. The Optionee shall, on notification of the amount due, if any, and prior to or concurrently with delivery of the certificates representing the shares purchased, pay to the Company amounts necessary to satisfy any applicable federal, state, and local withholding tax requirements. If additional withholding becomes required beyond any amount deposited before delivery of the certificates, the Optionee shall pay such amount to the Company on demand. In the absence of such payment, the Company may withhold such amount from any funds owed by the Company to the Optionee.

## 2.7 **Changes in Capital Structure.**

(a) **Stock Splits, Stock Dividends.** If the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares, dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Company in (i) the number and kind of shares subject to the Option, or the unexercised portion thereof, and (ii) the Option price per share, so that the Optionee's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Company shall have no obligation to effect any adjustment that would or might result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Company. Any such adjustments made by the Company shall be conclusive.

(b) **Mergers, Reorganizations, Etc.** In the event of a merger, consolidation, plan of exchange, acquisition of property or stock, split-up, split-off, spin-off, reorganization or liquidation to which the Company is a party or any sale, lease, exchange or

other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company (each, a “Transaction”), the Company shall, in its sole discretion and to the extent possible under the structure of the Transaction, select one of the following alternatives for treating the Option:

(i) The Option shall remain in effect in accordance with its terms.

(ii) The Option shall be converted into an option to purchase stock in one or more of the corporations, including the Company, that are the surviving or acquiring corporations in the Transaction. The amount, type of securities subject thereto and exercise price of the converted Options shall be determined by the Company, taking into account the relative values of the companies involved in the Transaction and the exchange rate, if any, used in determining shares of the surviving corporation(s) to be held by holders of shares of the Company following the Transaction. The converted Option shall be vested only to the extent that the vesting requirements relating to the Option have been satisfied.

(iii) The Company shall provide a period of 30 days or less before the completion of the Transaction during which the Option may be exercised in full notwithstanding section 2.2, and upon the expiration of that period, the Option shall immediately terminate.

(c) **Dissolution.** In the event of the dissolution of the Company, the Company shall provide a period of 30 days or less before the dissolution of the Company during which the Option may be exercised in full notwithstanding section 2.2, and upon the expiration of that period, the Option shall immediately terminate.

### 3. **Recoupment On Misconduct Affecting Stock Price.**

3.1 If the Committee determines that the Optionee engaged in any Misconduct (as defined below) after the date of this Agreement and prior to the sale of any shares acquired upon exercise of the Option (the “Tainted Shares”), and this determination is made before a Change in Control (as defined below) and within three years after the Optionee purchased the Tainted Shares, the Optionee shall repay to the Company the Excess Option Proceeds (as defined below). The Committee may, in its sole discretion, reduce the amount of Excess Option Proceeds to be repaid by the Optionee to take into account the tax consequences of such repayment or any other factors. The return of Excess Option Proceeds is in addition to and separate from any other relief available to the Company due to the Optionee’s Misconduct.

3.2 “Misconduct” shall mean (a) willful commission by the Optionee of an act of fraud or dishonesty resulting in economic or financial injury to the Company, (b) willful misconduct by the Optionee that substantially impairs the Company’s business or reputation, or (c) willful gross negligence by the Optionee in the performance of his or her duties; provided, however, that such acts shall only constitute Misconduct if the Committee determines that such acts contributed to an obligation to restate the Company’s financial statements for any quarter or year or otherwise had (or will have when publicly disclosed) an adverse impact on the market price of the Common Stock.

3.3 “Excess Option Proceeds” shall mean the excess of (a) the actual aggregate sales proceeds from the Optionee’s sales of Tainted Shares, over (b) the aggregate sales proceeds the Optionee would have received from sales of Tainted Shares at a price per share determined appropriate by the Committee in its discretion to reflect what the Company’s common stock price would have been if the restatement had occurred or other Misconduct had been disclosed prior to such sales; provided, however, that the aggregate sales proceeds determined by the Committee under this clause (b) shall not be less than the aggregate exercise price paid by the Optionee for the Tainted Shares.

3.4 The Company may seek direct repayment from the Optionee of any Excess Option Proceeds and may, to the extent permitted by applicable law, offset such Excess Option Proceeds against any compensation or other amounts owed by the Company to the Optionee. In particular, Excess Option Proceeds may be recovered by offset against the after-tax proceeds of deferred compensation payouts under the Company’s Deferred Compensation Plan for Directors and Executives (“DCP”), the Company’s Executive Supplemental Retirement Income Plan or the Company’s Supplemental Executive Retirement Plan at the times such deferred compensation payouts occur under the terms of those plans. Excess Option Proceeds that remain unpaid for more than 60 days after demand by the Company shall accrue interest at the rate used from time to time for crediting interest under the DCP.

3.5 “Change in Control” of the Company shall mean the occurrence of any of the following events:

(a) The consummation of:

(i) any consolidation, merger or plan of share exchange involving the Company (a “Merger”) as a result of which the holders of outstanding securities of the Company ordinarily having the right to vote for the election of directors (“Voting Securities”) immediately prior to the Merger do not continue to hold at least 50% of the combined voting power of the outstanding Voting Securities of the surviving corporation or a parent corporation of the surviving corporation immediately after the Merger, disregarding any Voting Securities issued to or retained by such holders in respect of securities of any other party to the Merger; or

(ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company;

(b) At any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Company’s Board of Directors (“Incumbent Directors”) shall cease for any reason to constitute at least a majority thereof; provided, however, that the term “Incumbent Director” shall also include each new director elected during such two-year period whose nomination or election was approved by two-thirds of the Incumbent Directors then in office; or

(c) Any person (as such term is used in Section 14(d) of the Securities Exchange Act of 1934, other than the Company or any employee benefit plan sponsored by the

Company) shall, as a result of a tender or exchange offer, open market purchases or privately negotiated purchases from anyone other than the Company, have become the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of Voting Securities representing twenty percent (20%) or more of the combined voting power of the then outstanding Voting Securities.

4. **Conditions on Obligations.** The obligations of the Company under this Agreement are expressly made subject to the approval of the Oregon Public Utility Commission, the Washington Utilities and Transportation Commission, and other state or federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the issuance or sale of any shares purchased on the exercise of the Option. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver shares of Common Stock if the Company is advised by its legal counsel that such issuance or delivery would violate applicable state or federal laws. The Company shall not be obligated to register shares issuable on exercise of the Option under the Securities Act of 1933.

5. **No Right to Employment.** Nothing in the Plan or this Agreement shall confer on the Optionee any right to be continued in the employment of the Company, or shall interfere in any way with the right of the Company to terminate the Optionee's employment at any time, for any reason, with or without cause.

6. **Successors of the Company.** This Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company but except as hereinabove provided the Option granted shall not be assigned or otherwise disposed of by the Optionee.

7. **Notices.** Any notices under this Agreement must be in writing and will be effective when actually delivered or, if mailed, three days after deposit into the United States mail by registered or certified mail, postage prepaid. Notices shall be directed to the Company, Attention: Corporate Secretary, at its principal executive offices or to the Optionee at the address of the Optionee in the Company's records, or to such other address as a party may designate by 10 days' advance notice to the other party.

8. **Rights as a Shareholder.** The Optionee shall have no rights as a shareholder with respect to any shares of Common Stock until the date the Optionee becomes the holder of record of those shares. No adjustment shall be made for dividends or other rights for which the record date occurs before the date the Optionee becomes the holder of record.

9. **Amendments.** The Company may at any time amend this Agreement if the amendment does not adversely affect the Optionee. Otherwise, this Agreement may not be amended without the written consent of the Optionee and the Company.

10. **Governing Law.** This Agreement shall be governed by the laws of the state of Oregon, without regard to conflicts of law provisions.

11. **Complete Agreement.** This Agreement constitutes the entire agreement between the Optionee and the Company, both oral and written concerning the matters addressed herein,

and all prior agreements or representations concerning the matters addressed herein, whether written or oral, express or implied, are terminated and of no further effect.

IN WITNESS WHEREOF, the parties have executed this Non-Statutory Stock Option Agreement in duplicate as of the day and year first written above.

NORTHWEST NATURAL GAS COMPANY

By: \_\_\_\_\_  
President & CEO

\_\_\_\_\_  
Optionee

**DRAFT ORDER**



BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION

In the Matter of the Application of	)	DOCKET UG-_____
	)	
NORTHWEST NATURAL GAS	)	ORDER ESTABLISHING
COMPANY	)	COMPLIANCE WITH RCW 80.08.040
	)	OR EXEMPTION FROM
for an Order Authorizing or	)	COMPLIANCE PURSUANT TO RCW
Exempting the Company to Issue	)	80.08.047
and/or Sell up to 701,922 shares of	)	
Common Stock Pursuant to its Long	)	
Term Incentive Plan. . . . .	)	

**BACKGROUND**

- 1 On February 1, 2013, Northwest Natural Gas Company (“NW Natural” or “the Company”), filed an application with the Washington Utilities and Transportation Commission under the provisions of RCW 80.08.040 and RCW 80.08.047.
- 2 RCW 80.08.040 requires the Company to file certain information with the Commission and authorizes the Company, at its option, to request the Commission to enter an order that the Company has complied with the requirements of RCW 80.08.040. The Company has filed the information required by RCW 80.08.040 and has requested that the Commission confirm that the Company has complied with the requirements of RCW 80.08.040, or that the Company is exempt from such requirements pursuant to RCW 80.08.047.
- 3 This matter was brought before the Commission at its \_\_\_\_\_, regularly scheduled open meeting. The Commissioners, have been fully advised in the matter, and having determined the following order to be consistent with RCW 80.08.040, or exempt pursuant to RCW 80.08.047, directed the Secretary to enter the following order and related provisions.

**FINDINGS OF FACT**

THE COMMISSION FINDS:

- 4 (1) Northwest Natural Gas Company, a Washington corporation, is a public service company subject to the jurisdiction of this Commission under the provisions of Chapter 80.08 RCW.
- 5 (2) As to form, the application herein meets the requirements of Chapter 80.08 RCW and the rules and regulations of the Commission adopted pursuant thereto.

- 6 (3) The Company's application in this Docket contains (a) a description of the purposes for which the proposed Securities will be issued along with certification by an authorized officer that the proceeds, if any, from the LTIP will be used for the purposes allowed by Chapter 80.08 RCW; (b) a description of the proposed issuance; and (c) a statement as to why the proposed transactions are in the public interest.
- 7 (4) An order consistent with the above findings should be entered.

**ORDER**

THE COMMISSION ORDERS:

- 8 (1) Northwest Natural Gas Company is in compliance with the requirements of Chapter 80.08.040 RCW.
- 9 (2) Northwest Natural Gas will file a Report of Securities Issued as required by WAC 480-90-262.
- 10 (3) This order shall in no way affect the authority of this Commission over rates, services, accounts, valuations, estimates or determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs, or any valuation of property claimed or asserted.

DATED at Olympia, Washington, and effective this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Secretary