

UG-141224

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June 2, 2014

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

2014 JUN -4 AM 9:55
 RECEIVED
 WASHINGTON UTILITIES & TRANSPORTATION COMMISSION
 1300 S EVERGREEN PARK DRIVE SW
 OLYMPIA WA 98504-7250

Re: 2013 Affiliated Interest Report and Cost Allocation Manual

Pursuant to WAC 480-90-264, enclosed please find an original and two copies of the 2013 Affiliated Interest Report and Cost Allocation Manual for Northwest Natural Gas Company, dba NW Natural.

NW Natural considers Exhibit A of this document to be confidential, and hereby requests that it be accorded confidential treatment in accordance with RCW 80.04.095 and WAC 480-07-160.

Exhibit A of the document has been printed on yellow paper and is sealed in an envelope bearing the legend: "CONFIDENTIAL PER WAC 480-07-160." No portion of these materials may be copied, reproduced, or disclosed in any manner without the express permission of Northwest Natural Gas Company.

Please contact me should you have questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Onita King', written over a horizontal line.

Onita R. King

enclosures

cc: Alex Miller
Shawn Filippi
Brody Wilson

NORTHWEST NATURAL GAS COMPANY
 AFFILIATED INTEREST REPORT
 FOR THE CALENDAR YEAR ENDING DECEMBER 31, 2013

WAC 480-90-264 (1)

An organization chart of the utility and its affiliated interests and subsidiaries.

See the Organizational Chart ("Chart 1") of Northwest Natural Gas Company ("NWN") attached to this Affiliated Interest Report.

WAC 480-90-264 (2)

The name of the affiliated interest or subsidiary participating in the transaction and the total dollar amounts of the transactions.

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

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
<u>NNGFC and KBPC:</u>		
Pipeline demand charges (804) (KBPC)	\$224,258	\$211,899

The allocation is based on the state's pro rata share of the pipeline demand charges paid by NWN to KB Pipeline Company ("KBPC"), based on miles of pipeline.

Description of basis of pricing:

Services rendered by NNG Financial Corporation ("NNGFC") and KBPC to NWN were provided at cost or pursuant to a Federal Energy Regulatory Commission ("FERC")-approved rate schedule, as applicable.

Demand charges paid by NWN to KBPC were based upon a transportation contract between the two parties which specifies the rates per KBPC's Rate Schedule TF; such rates were approved by FERC as part of KBPC's original certificate order.

2014 JUN -11 AM 8:56
 NORTHWEST NATURAL GAS COMPANY
 AFFILIATED INTEREST REPORT

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

**A balance sheet and income statement for such affiliated interest.
[Transactions that equal or exceed \$100,000]**

See NWN's affiliated interest financial statements ("Confidential Exhibit A") attached to this Affiliated Interest Report.

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

A description of the products or services provided to or from the utility and each such affiliated interest or subsidiary. [Transactions that equal or exceed \$100,000]

In addition to the information provided immediately above, see also the discussions under the section entitled WAC 480-90-264(2)(f) below, and the Cost Allocation Manual ("Appendix A") included as an appendix to this Affiliated Interest Report.

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

A description of the pricing basis or costing method, and procedures for allocating costs for such products or services, and the amount and accounts charged during the year. [Transactions that equal or exceed \$100,000]

Services rendered by NWN to the affiliates are through documented allocations of time by NWN employees on affiliate business. Individual time records are the basis for this allocation. Charges include salary, and payroll overhead.

Actual time spent by employees is charged directly to the affiliate. See Appendix A to this Affiliated Interest Report.

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

A description of the terms of any loans between the utility and each such affiliated interest or subsidiary and a listing of the year-end loan amounts and maximum loan amounts outstanding during the year. [Transactions that equal or exceed \$100,000]

Short-term loans:

None.

Long-term loans:

None.

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

A description of the activities of each such affiliated interest or subsidiary with which the utility has transactions. [Transactions that equal or exceed \$100,000]

In addition to the information provided below, see the Cost Allocation Manual ("Appendix A") included as an appendix to this Affiliated Interest Report for further descriptions of the activities of each affiliated interest or subsidiary with which NWN has transactions.

NNG Financial Corporation

NNG Financial Corporation ("NNGFC") owns 100% of the stock of KB Pipeline Company ("KBPC"). See KBPC activities described below.

The affiliated transactions between NWN and NNGFC were:

- Allocations of NWN's administrative expense for NNGFC's use of NWN staff;
- D&O insurance is purchased for NNGFC, and is charged to a non-regulated account on NWN books;
- Payments between NWN and NNGFC for NNGFC's current tax expense or benefit; and
- Payments from NWN to NNGFC for KBPC demand and commodity transportation charges (as applicable).

KB Pipeline Company

KB Pipeline Company ("KBPC") is a wholly-owned subsidiary of NNG Financial Corporation ("NNGFC"). KBPC owns a 10% interest in, and is the former operator of, an interstate natural gas pipeline known as the Kelso-Beaver Pipeline. The pipeline runs between Kelso, Washington and Clatskanie, Oregon, and is regulated by the Federal Energy Regulatory Commission ("FERC"). The other owners of the Kelso-Beaver Pipeline are Portland General Electric Company ("PGE") (79.5%) and B-R Pipeline Company (10.5%). Each of the co-owners has a separate FERC certificate regarding the ownership and transportation of gas on its share of the pipeline. Pursuant to a memorandum from the Public Utility Commission of Oregon, dated October 15, 1992, KBPC is not required to file a separate affiliated interest report to the OPUC under OAR 860-27-040.

In 1991, FERC issued KBPC a certificate of public convenience and necessity under Part 157 of its regulations to construct, own, and transport gas for NWN using its 10% share of the capacity of the Kelso-Beaver Pipeline at FERC-approved rates. See, *Portland General Electric Co.*, 57 FERC ¶ 61,095 (1991), amended, 57 FERC ¶ 61,312 (1991). Currently, KBPC's share of the pipeline is not open access so it may only provide transportation service to NWN.

NW Natural Gas Reserves, LLC

NW Natural Gas Reserves, LLC (“NWN Gas Reserves”) is a wholly owned subsidiary of Northwest Energy Corporation and was formed in December 2012. In March of 2013, our working interest in the Jonah gas field was transferred to this entity. Our agreements were amended in 2014 to facilitate Encana Oil & Gas (USA) Inc.’s sale of its interest in the Jonah Field to an affiliate of TPG Capital.

The affiliated transactions between NWN and NWN Gas Reserves were:

- Equity investments in NWN Gas Reserves from NW Energy Corp.

Northwest Biogas, LLC

NWN owns a 50% membership interest in NW Biogas. NWN also serves as the Managing Member. The other 50% membership interest is owned by BEF Renewable Incorporated. NW Biogas developed and operates a demonstration biodigester located at Three Mile Canyon Farms in Boardman, Oregon.

The affiliated transactions between NWN and NW Biogas in 2013 were:

- NW Biogas’ use of NWN’s administrative staff.

NW Natural Energy, LLC

NWN wholly owns NW Natural Energy, LLC (“NWN Energy”) which was formed in 2009 to own NW Natural Gas Storage, LLC (“NWN Gas Storage”) and other non-utility businesses.

The affiliated transactions between NWN and NWN Energy were:

- NWN Energy’s use of NWN’s administrative and operating staff;
- D&O insurance is purchased for NW Energy, and is charged to a non-regulated account on NWN books;
- Payments by NWN to limited outside vendors on NWN Energy’s behalf and reimbursed by NWN Energy;
- Equity investments in NWN Energy from NWN; and
- Payments between NWN and NW Energy, LLC for NW Energy LLC’s current tax expense or benefit.

NW Natural Gas Storage, LLC

NWN Energy wholly owns NWN Gas Storage, which was formed in 2009. The entity owns and manages non-utility gas storage interests.

The affiliated transactions between NWN and NWN Gas Storage were:

- NWN Gas Storage’s use of NWN’s administrative and operating staff;
- Payments by NWN to limited outside vendors on Gas Storage’s behalf and reimbursed by GRS;
- Primarily D&O fiduciary and workers’ compensation insurance is purchased for NW Gas Storage, and is charged to a non-regulated account on NWN books;
- Equity investments in NWN Gas Storage from NWN Energy; and

billable expenses to PGH. The investment is tracked as "Other Investments" (124059);

- PGH's use of NWN administrative and operating staff; and
- Payments by NWN to limited outside vendors on PGH's behalf and reimbursed by PGH.

Palomar Gas Transmission, LLC

PGT is a wholly-owned subsidiary of PGH, and has been pursuing the development of a proposed FERC-regulated gas pipeline, known as the Cross-Cascades Pipeline.

There were no affiliated transactions between NWN Energy and PGT in 2013.

BL Credit Holdings, LLC

BL Credit Holdings, LLC is a wholly-owned subsidiary of PGT.

There were no affiliated transactions between this subsidiary and NWN Energy in 2013.

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

A list of all common officers and directors between the gas utility and each such affiliated interest or subsidiary, along with their titles in each organization. [Transactions that equal or exceed \$100,000]

NORTHWEST NATURAL GAS COMPANY

DIRECTORS

Tod R. Hamachek, Chair *	C. Scott Gibson
Timothy P. Boyle	Gregg S. Kantor
Martha L. ("Stormy") Byorum	Jane L. Peverett
John D. Carter	George J. Puentes
Mark S. Dodson	Kenneth Thrasher

- * George J. Puentes resigned from the Board of Directors effective October 9, 2013 due to personal health reasons.

NNG FINANCIAL CORPORATION

Wholly-owned subsidiary of Northwest Natural Gas Company
Type of operations: Financial
Year Created: 1984

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Lea Anne Doolittle*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE CORPORATION

David H. Anderson*	President and Chief Executive Officer
Stephen P. Feltz*	Senior Vice President and Treasurer
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary
David W. Aimone	Assistant Treasurer

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

KB PIPELINE COMPANY

Wholly-owned subsidiary of NNG Financial Corporation
Type of Operations: Gas Pipeline, Owner
Year Created: 1991

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Lea Anne Doolittle*

(*Officer of NWN)

NORTHWEST ENERGY SUB CORPORATION

Wholly-owned subsidiary of Northwest Energy Corporation
Type of Operations: Non-Operating Merger Sub Corporation
Year Created: 2001

BOARD OF DIRECTORS

Gregg S. Kantor, Chair*
David H. Anderson*
Margaret D. Kirkpatrick*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE CORPORATION

Gregg S. Kantor*	President and Chief Executive Officer
David H. Anderson*	Sr. Vice President and Chief Financial Officer
Stephen P. Feltz*	Treasurer and Controller
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

NWN GAS RESERVES, LLC

Wholly-owned subsidiary of Northwest Energy Corporation
Type of Operations: Natural Gas Reserves Development
Year Created: 2013

MANAGEMENT

Manager-managed
Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor
David H. Anderson
Margaret D. Kirkpatrick

MANAGEMENT

BL Credit Holdings, LLC is member-managed.

OFFICERS OF THE LIMITED LIABILITY COMPANY

No officers of NWN are officers of the limited liability company.

GILL RANCH STORAGE, LLC

Wholly-owned subsidiary of NW Natural Gas Storage, LLC

Type of Operations: Natural Gas Storage

Year Created: 2007

MANAGEMENT

Gill Ranch Storage, LLC is manager-managed

Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor*

David H. Anderson*

Stephen P. Feltz*

Lea Anne Doolittle*

Margaret D. Kirkpatrick*

J. Keith White*

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

Stephen P. Feltz has been added to the Board of Directors.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David A. Weber President and Chief Executive Officer

C. Alex Miller* Vice President, Treasurer, and Director of Regulatory
Affairs

Shawn M. Filippi** Corporate Secretary

MardiLyn Saathoff* Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

Dennis L. Henderson has resigned.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David H. Anderson*	President and Chief Executive Officer
J. Keith White*	Chief Operating Officer
C. Alex Miller*	Treasurer
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

No changes.

NW NATURAL GAS STORAGE, LLC

Wholly-owned subsidiary of NW Natural Energy, LLC

Type of Operations: Natural Gas Storage Development and Holding Company

Year Created: 2009

MANAGEMENT

NW Natural Gas Storage, LLC is manager-managed

Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor*
David H. Anderson*
Stephen P. Feltz*
Lea Anne Doolittle*
Margaret D. Kirkpatrick*
J. Keith White *

(*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

Stephen P. Feltz has been added to the Board of Directors.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David A. Weber	President and Chief Executive Officer
C. Alex Miller*	Vice President and Treasurer
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

Dennis L. Henderson has resigned.

CONFIDENTIAL PER WAC 480-07-160

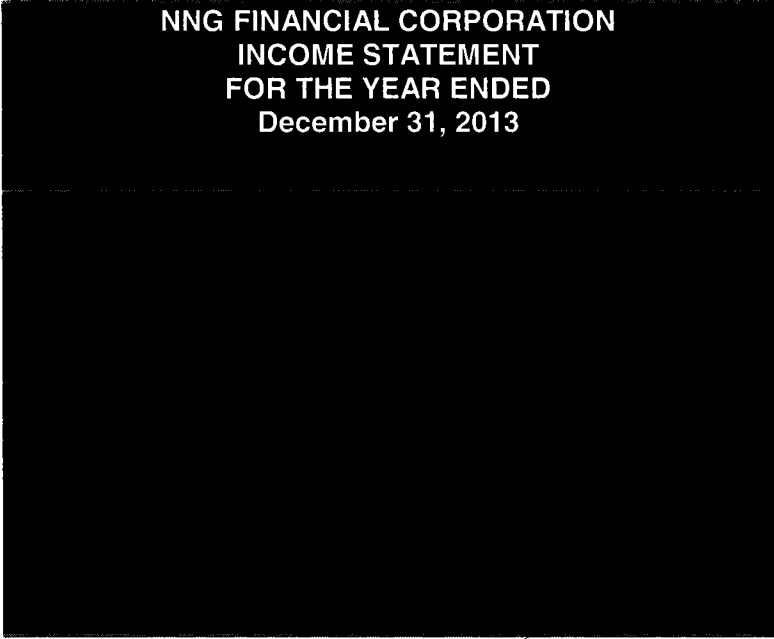
EXHIBIT A

**NORTHWEST NATURAL GAS COMPANY
AFFILIATED INTEREST REPORT
FOR THE YEAR 2013**

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

A balance sheet and income statement for an affiliated interest [with transactions equal to or greater than \$100,000]

**NNG FINANCIAL CORPORATION
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2013**



CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

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

**KB PIPELINE COMPANY
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2013**

CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

**NORTHWEST ENERGY CORP
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2013**

**NORTHWEST ENERGY CORP
BALANCE SHEET
December 31, 2013**

CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

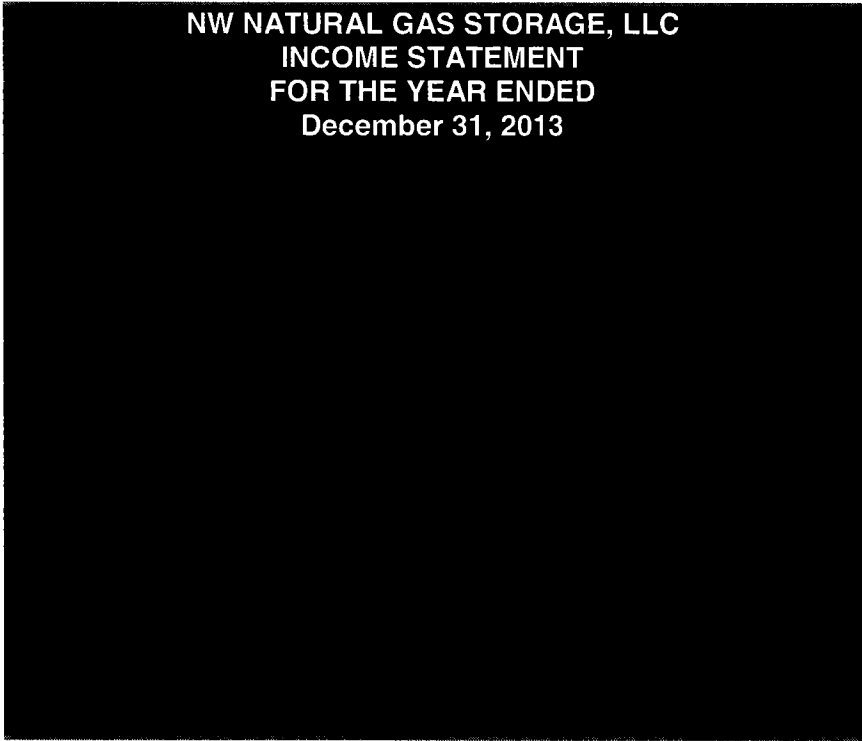
**NORTHWEST BIOGAS, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2013**

**NORTHWEST BIOGAS, LLC
BALANCE SHEET
December 31, 2013**

CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

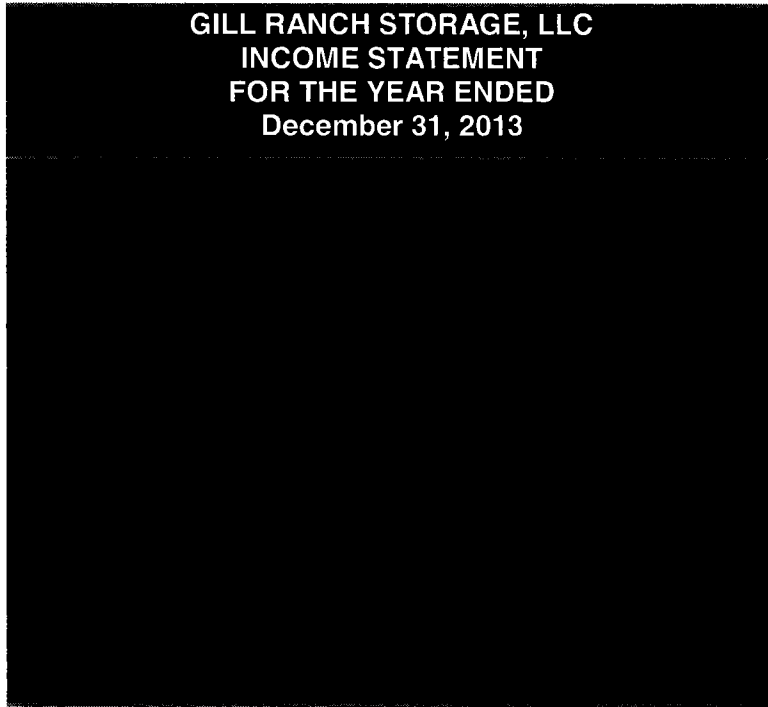
**NW NATURAL GAS STORAGE, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2013**



CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

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



CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

**PALOMAR GAS HOLDINGS, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2013**

**PALOMAR GAS HOLDINGS, LLC
BALANCE SHEET
December 31, 2013**

NORTHWEST NATURAL GAS COMPANY COST ALLOCATION MANUAL

Overview

The purpose of Northwest Natural Gas Company's ("NWN") Cost Allocation Manual is to describe the methodologies for allocating direct, indirect and shared services costs among its public utility activities, its other activities, and its affiliates.

General

NWN has limited assets invested in affiliates or non-public utility activities. At December 31, 2013, these assets accounted for 11% of total assets, and revenue from them was 4% of gross operating revenues. The vast majority of the Company's activities are related to utility operations, and it has maintained a utility parent non-regulated subsidiary organization structure.

Management oversight and other labor performed by NWN employees for the benefit of affiliates or non-public utility activities are recorded on the books of the utility in accordance with the labor allocation methods described below. *See Labor Allocation Methods.* Costs of insurance coverage purchased by NWN on behalf of its affiliates and non-public utility activities are allocated as described below. *See Insurance Cost Allocation Methods.* Income and property taxes attributable to affiliate and non-public utility activities are allocated as described below. *See "Tax Allocation Methods."* Any variation from the general allocation procedures described below is described in the specific description of the particular affiliate or non-public utility activity set forth below.

Affiliates or non-public utility activities are charged directly for materials, supplies and services (e.g., consulting services) purchased by NWN on behalf of the affiliate on the basis of the full cost of the items supplied.

Intercompany balances between NWN and its affiliates are paid on a monthly basis. However, NWN may elect to defer payment of any intercompany balance up to the amount of its net equity contributions to the affiliate for periods of more than one month. If NWN does defer payment, then it will pay monthly interest to the affiliate based on its avoided cost of short-term borrowing for as long as the intercompany balance remains outstanding.

2014 JUN -1 AM 8:57
NWN

Affiliates & Non-Public Utility Activities

The following is a list of NWN's affiliates that currently meet the requirements of ORS 757.015 and RCW 80.16.010, respectively.

1. NNG Financial Corporation
2. KB Pipeline Company
3. Northwest Energy Corporation
4. NW Natural Gas Reserves, LLC
5. Northwest Energy Sub Corporation
6. Northwest Biogas, LLC
7. NW Natural Energy, LLC
8. NW Natural Gas Storage, LLC
9. Gill Ranch Storage, LLC
10. Palomar Gas Holdings, LLC
11. Palomar Gas Transmission, LLC
12. BL Credit Holdings, LLC

The following is a list of NWN's non-public-utility activities.

1. Appliance Center/Miscellaneous Merchandising
2. Lan Su Chinese Garden (formerly Classical Chinese Garden) Block
3. Company-Owned Life Insurance
4. Coos County Pipeline
5. Corporate Philanthropy
6. Enerfin Contracts
7. Interstate Storage
8. Lobbying, Civic, and Political Contributions
9. Non-Operating Advertising
10. Oil Storage Tanks/Dock Lease
11. Other Deductions
12. Parking
13. Regulatory and Tax Penalties
14. Service Solutions
15. Sherwood House
16. Smart Energy

Labor Allocation Methods

Beginning in February 2009, NWN completed the second phase of its Integrated Information Initiative (“III Project”), which included a new time keeping system referred to as “CATS” (the Cross Application Time System). Wages and salaries of all NWN employees are charged to a default account within the employee’s home cost center. If an employee has any exception time to this default account, the employee must report and record the exception time in the CATS system. The CATS system then calculates the cost of the reported hours for each employee, adds the appropriate overhead load and generates an accounting entry in which the costs of the reported hours including overhead load are transferred from the employee’s cost center to the cost center for the reported activity.

Examples of exception time are:

- Vacation,
- Holidays,
- Capital projects,
- Work for other cost centers,
- Work for Non-utility activity within NWN, and
- Work for an affiliate of NWN.

Payroll Overhead Allocation Methods

Payroll overhead is comprised of two types of costs, as follows:

Vacation and Holiday Overhead Load

A vacation and holiday overhead load is added to the pay of all NWN employees to cover the estimated cost of vacations and official holidays. This cost is absorbed by the employee’s home cost center while they are at work. If exception time is reported by the employee (*see* “Labor Allocation Methods”), the vacation and holiday overhead load follows the payroll dollars.

The accumulated vacation and holiday load amounts are recorded as a liability in a balance sheet account (232). When employees report time for vacation or official holidays, the CATS system charges the direct labor, without vacation and holiday overhead load, to the balance sheet account (232). At year-end, any over- or under- accrual to the balance sheet account is charged or credited to corporate expense. The year-end balance reconciles to the subsidiary records by employee in the payroll system.

Benefits Overhead Load

All NWN employee benefit costs are charged into a clearing account (602). NWN allocates the costs of employee benefits and payroll taxes by adding a benefits overhead load to all labor charges that is in addition to the vacation and holiday overhead load described above. If exception time is reported (*see* “Labor Allocation Methods”), the benefits overhead load follows the payroll dollars. The benefits overhead load is set at a rate adequate to fully allocate by year-end all actual benefit costs. The rate is determined at the beginning of the year based on estimated costs.

Because benefit cost rates may differ depending on employee grade, employees are categorized into two classes, with different benefits overhead load rates for each class. The employee classes are: (1) Executives, and (2) Non-executives.

In 2013, the following costs were allocated as payroll overhead (company averages):

Executives	
Vacation & Holiday Overhead Load	15.0% of payroll
Benefits Overhead Load	106.08% of payroll
Total Executive Payroll Overhead ¹	121.08% of payroll
Non-Executives	
Vacation & Holiday Overhead Load	15.0% of payroll
Benefits Overhead Load	87.22% of payroll
Total Non-Executives Payroll Overhead	102.22% of payroll

The benefit overhead load includes the cost of health care, pension, post-retirement medical, workers' compensation, deferred compensation, payroll taxes, and bonuses. At year-end, any over- or under-allocation of costs recorded in clearing accounts (602) is charged or credited to corporate expense.

A separate entry is made to transfer the cost of payroll taxes embedded in the rates charged to O&M to Account 408, as required by FERC accounting.

For non-utility and affiliate labor charges, an additional administrative overhead load of 27.5% of labor cost is added to cover the cost of rented space, furniture and equipment.² In like manner, an appropriate administrative overhead load is also charged from an affiliate to NW Natural when an affiliate provides services to the parent.

Insurance Allocation Methods

NWN's Risk Services Department obtains insurance for the consolidated NWN entities in the open market. The cost of all premiums is initially charged to NWN accounts. However, Gill Ranch Storage, LLC ("GRS") pays a portion of its premiums directly. An allocation for affiliated or non-utility activity related insurance coverage is subsequently made by journal entry to the affiliate or activity. Allocation is based on the underwriting principles for each type of policy. NWN's intent is to use an allocation methodology that does not result in the utility subsidizing the affiliate or non-public utility activity.

¹ The executive payroll overhead rates do not include expenses for various elements of our executive compensation program such as stock option expense, restricted stock unit expense, executive annual incentive plan or long-term incentive plan expenses.

² The administrative overhead load will not be charged if the employee providing the Services is located on affiliate premises for which all facilities related costs are borne by the Affiliate receiving the Services.

Tax Allocation Methods

Income Tax

NWN allocates income tax expense or benefit to each affiliate or activity based on the taxable income or loss of the affiliate or activity. Intercompany tax sharing payments are based on amounts that become payable or receivable between the affiliates or activities based on their respective annual income tax results. For all affiliates or activities, the current tax expense payable or current tax benefit receivable is recorded in an intercompany account (146).”

Property Taxes

Property taxes are charged to the subsidiaries or affiliated interest based on the value of the property owned by the subsidiary or affiliated interest.

Individual Affiliate Activities

NNG Financial Corporation (“NNGFC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

Invoices applicable to NNGFC but billed through NWN are charged directly to the intercompany account 146.

KB Pipeline Company (“KBPC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

KBPC-related income taxes are offset through the intercompany account of NNGFC.

KBPC pays property taxes indirectly in the two states in which the pipeline operates. The portion of the pipeline located in the state of Washington is considered an asset of PGE (the majority owner), for property tax purposes. PGE pays 100% of property taxes assessed to Cowlitz County, Washington. PGE then bills KBPC for its pro-rata share of these property taxes. The portion of the pipeline located in the state of Oregon is shown on the property rolls of Columbia County, Oregon as property of NWN. See Tax Allocation Methods, above.

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

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

Northwest Energy Corporation (“NEC”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate. . Beginning in 2013, NEC began serving as the holding company for NW Natural Gas Reserves, LLC.

Tax amounts are charged directly through the intercompany tax account (146).

NW Natural Gas Reserves, LLC

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate. NW Natural's interests in gas reserves were transferred to NW Natural Gas Reserves, LLC in 2013.

There were no other affiliated transactions between this subsidiary and NWN in 2013.

Northwest Energy Sub Corporation ("NESC")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

There were no affiliated transactions between this subsidiary and NWN in 2013.

Northwest Biogas, LLC ("NW Biogas")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

NW Natural Energy, LLC ("Energy")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

NW Natural will also directly allocate costs to Energy for certain services provided by NWN employees to Energy with respect to special projects not included in the services contemplated under the Subsidiary Agreements

NW Natural Gas Storage, LLC ("NWNGS")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

For management oversight and other labor services provided by NWN to or for the benefit of Northwest Natural Gas Storage, LLC ("NWNGS") or Gill Ranch Storage, LLC ("GRS"), NWN will bill NWNGS in accordance with the specifications of this allocation manual.

NW Natural will also directly allocate costs to NWNGS for certain services provided by NWN employees to NWNGS with respect to special projects not included in the services contemplated under the Subsidiary Agreements.

Gill Ranch Storage, LLC ("GRS")

See NWN's Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

NWN will bill NWNGS in accordance with the specifications of this allocation manual for management oversight and other labor services provided to or for the benefit of NWNGS or GRS by NWN in accordance with the subsidiary agreements.

NW Natural will also directly allocate costs to GRS for certain services provided by NWN employees to GRS with respect to special projects not included in the services contemplated under the Subsidiary Agreements.

GRS as operator of the natural gas storage project co-owned by GRS with Pacific Gas & Electric Company (“PG&E”) is obligated to maintain certain insurance, including “All Risk” insurance, workers compensation, automobile liability and umbrella/excess insurance. The policies are endorsed to provide that the insurer shall waive any right of recovery that the insurer may have or acquire against the owners and their affiliates. Each owner is named as an insured. GRS purchases a majority of their insurance directly. Other insurance costs are allocated as set forth above, under Insurance Allocation Methods.

Palomar Gas Holdings, LLC (“PGH”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

Expenses for Palomar Gas Holdings, LLC (“PGH”) and its subsidiaries are charged to account 426, and consist of allocations of NWN employee time as described above in Labor Allocation Methods. As an equity investor, Energy receives an allocated share of income from PGH, recorded in 426. PGH is included in NWN’s consolidated financial statements as an equity investment.

Palomar Gas Transmission, LLC (“PGT”)

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

There were no affiliated transactions between this subsidiary and NWN in 2013.

BL Credit Holdings, LLC

See NWN’s Annual Affiliated Interest Report for ownership information and a narrative description of this affiliate.

There were no affiliated transactions between this subsidiary and NWN in 2013.

Individual Non-Public-Utility Activities

Appliance Center

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

The accounting for the product sales and cost of sales at the Appliance Center are in one of the following accounts:

Activity 415	Merchandise Revenue
Activity 416	Merchandise Expenses

NWN purchases liability insurance on behalf of the Appliance Center. See Insurance Allocation Methods, above. An additional charge for management oversight is made on a monthly basis by taking 1.5% of the selling expenses in Activity 911, Activity 912, and Activity 916 and charging Activity 416.

Certain NWN employees work exclusively on matters related to the operation of the Appliance Center. The cost of the exempt and hourly employees and all related payroll overheads are charged to Activity 416. In addition, expenses incurred in the operation of the Appliance Center are charged to Activity 416.

NWN owns the building in which the Appliance Center operates and rent is charged to Activity 416 based on the percentage of building square feet that is occupied by the Appliance Center. Revenue that NWN receives from this rent is recorded in activity 412, "Rent from Utility Property." NWN periodically adjusts rent based on market rates. Property taxes are included as a component of the rent. Market rental rates were last evaluated in 2008 and are adjusted annually based upon changes in the CPI Index. The rent cannot decrease despite any decreases in the CPI Index.

NWN has made Leasehold Improvements to the property and has capitalized these costs in account 186, Appliance Center Leasehold Improvements. NWN is amortizing the cost of these improvements over fourteen years, which is the estimated life of the improvements. Amortization expense is charged to Activity 416. The Accumulated Amortization of the Appliance Center Leasehold Improvements is in account 186.

Lan Su Chinese Garden (formerly Classical Chinese Garden) Block

NWN owns the land that is presently used for the Lan Su Chinese Garden (formerly Classical Chinese Garden). The land is held in Non-Utility Plant in account 121. It consists of one square block from Northwest Second Avenue to Northwest Third Avenue and from Northwest Everett Street to Northwest Flanders Street in Portland, Oregon. NWN has leased the property to the City of Portland under a long-term lease for 100 years for \$1 per year.

NWN provides no insurance coverage. Property taxes are the responsibility of the operator of the Garden.

Company-Owned and Trust Owned Life Insurance

NWN has a Corporate-Owned Life Insurance (“COLI”) Plan where it has purchased key-person life insurance contracts to provide informal funding for long-term, people-related liabilities including post-retirement medical benefits. The policies are owned by and payable to NWN and are increasing whole-life insurance. Similarly, NWN also has Trust-Owned Life Insurance Plans where the policies provide informal funding for non-qualified employee benefits and are owned by and payable to the Trust. Costs and benefits relating to these investments are recorded in account 124, including the build-up of cash surrender value.

Coos County Pipeline

An intrastate natural gas transmission pipeline to Coos County was built in 2004 and became operational in January 2005, for the purpose of providing natural gas service to the Southern Oregon Coast service area of NWN’s franchise. Coos County owns this pipeline and has contracted with NWN to operate it. NWN and Avista Utilities were the only shippers on the Coos County Pipeline as of the end of 2010.

NWN collects the costs of operation in a clearing account, activity 616. These costs include payroll costs of management and of operating employees who work on the pipeline. Each month these costs are cleared to Non-Utility Expense account 421. NWN bills Coos County monthly for the operating costs and records this as non-utility revenue in the same account 421. Coos County then bills NWN and Avista Utilities standard monthly amounts based on an annual budget, allocated by projected volumetric flows for each shipper. These costs are trued up at the end of each year, based on actual operating costs and actual volumes delivered for each shipper. NWN charges this payment to Cost of Gas.

NWN bills an additional monthly amount to Coos County as “compensation” to NWN, per the operations contract between the two parties. The contract allows this amount to increase each year for inflation. This revenue is recorded in account 421.

Corporate Philanthropy

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

The donations are directly charged to non-utility accounts 426 for Oregon and Washington. No accounting services are allocated.

Enerfin Contracts-Mist

NWN has a contract with Enerfin Corporation whereby the price of gas purchased from Enerfin for production at Mist is \$0.01 per therm less than what we collect in rates from our customers. This reduction is intended to offset general plant expenses for NWN’s operation of Miller Station. This

mutually beneficial agreement allows Enerfin to save money by not duplicating NWN plant and equipment at Miller Station.

The \$0.01 per therm gas savings is credited to income account 415. Labor provided by NWN employees for technical services such as meter calibration is charged directly to account 416 on daily time tickets. An overhead load is added at the same rate that is used by NWN.

Interstate Storage

NWN owns and operates the Mist underground natural gas storage facility in Columbia County near Mist, Oregon. In addition to the use of such storage facilities for its retail core customers, NWN has pre-built some storage facilities in advance of core need and uses the excess capacity of other existing facilities to provide storage services to customers in the interstate and intrastate market. NWN provides the interstate storage service under a limited jurisdiction blanket certificate issued to it by FERC under Section 284.224 of FERC's regulations. See, Northwest Natural Gas Company, 95 FERC ¶ 61,242 (2001). Under that certificate, NWN is authorized to provide FERC-jurisdictional bundled firm and interruptible storage and related transportation services to and from its Mist storage field in interstate commerce. In addition, NWN provides an intrastate firm storage service for eligible intrastate customers and sites in Oregon under Tariff Schedule 80 (experimental). The terms of Rate Schedule 80 mirror NWN's FERC-authorized interstate service. Since the provision of the storage services is accomplished by the use of some shared storage and transportation assets that are included in the core rate base, NWN has sharing agreements in place with its Oregon and Washington regulators. In Oregon, the sharing arrangement for both storage services and asset optimization assistance is set forth in NWN's Tariff Schedules 185 and 186. These sharing agreements are in lieu of specific allocations of costs.

Lobbying, Civic, and Political Contributions

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

Direct costs are charged to 426 accounts for the following activities:

- Contributions to political candidates,
- Contributions for ballot measures and opinion research on issues,
- Chamber of Commerce dues, and
- Social club dues.

A portion of two employee's salaries and expenses are charged to account 426.

Non-Operating Advertising

NWN charges some advertising and consumer incentive or contest expense to account 416, a non-utility account. The charges are for advertising to promote the benefits of natural gas and

high-efficiency natural gas equipment, and to incent customers to sign up for payment programs such as Paperless Billing, Equal Pay, and Auto Pay.

Oil Storage Tanks/Dock Lease

NWN leases oil storage tanks and a loading/unloading dock at its Linnton property to an outside party, which uses the facilities to store bunker oil for its ship refueling business.

The investment, accumulated depreciation, and deferred income taxes are accounted for in Non-Utility plant, accounts 121, and 283. Rental Income is credited to account 418 and depreciation is charged to account 418.

Income taxes are charged to non-utility taxes, accounts 409. See Tax Allocation Methods, above. Property taxes are billed to, and paid by, the lessee.

NWN purchases liability insurance coverage for the Dock facility. NWN's Risk Services Department obtains insurance for the consolidated corporate entity in the open market. The policies obtained include the Dock facility's replacement value. This insurance is charged to 426. See Insurance Allocation Methods, above.

Lessees provide their own insurance coverage.

No accounting or management costs are currently charged to this business segment.

Other Income and Deductions

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

Parking

Non-utility parking costs are recorded as direct invoice charges from parking vendors or as payments to employees working on non-utility business.

Costs for employee parking are directly charged to non-utility account 426. Parking reimbursement is collected from employees for personal parking and credited to the same account.

Regulatory & Tax Penalties

Any regulatory or tax penalties are charged to account 426.

Revenue from Utility Property

See "Appliance Center". Rent income received from the Appliance Center is credited to account 412, "Revenue from Utility Property".

Service Solutions

NWN provides a repair and maintenance referral service to customers with equipment problems or who desire equipment servicing. Customers call the Service Solutions Center and a representative connects the customer with a NWN Certified Contractor. Participating dealers agree to complete the service call within one week unless otherwise requested by the customer, or within 24 hours on an emergency basis. Dealers must meet strict qualification standards and agree to pay annual fees that are used to fund the program.

Expenses are tracked in account 416 and offset by fees paid by the participating dealers. This revenue is recorded in account 415. The expenses include directly charged labor and overhead, depreciation on original CIS (Customer Information System) program development expenses, and an answering service vendor.

Sherwood House

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

The land is classed as utility property since it is needed for the valve site. The house is not needed for utility operations and is carried in account 121. Rental income is recorded in account 418. Depreciation on the house is recorded in account 421.

Smart Energy

Smart Energy is an Oregon-tariffed utility program which provides Oregon customers an opportunity to offset the carbon dioxide emissions from their use of natural gas by purchasing carbon offsets. The program became effective on September 1, 2007. The ongoing costs of this program are paid for by program participants. The start-up costs for the first 3 years of the 5-year pilot program were paid for by NWN Shareholders and all Oregon customers. Any ongoing incidental costs not covered under the tariff are directly charged to account 426.