

UG-100929-SI

Rates and Regulatory Affairs  
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May 27, 2010

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

2010 MAY 26 AM 9:34  
 RECEIVED  
 WASHINGTON UTILITIES & TRANSPORTATION COMMISSION  
 1300 S EVERGREEN PARK DRIVE  
 OLYMPIA, WA 98504

Re: 2009 Affiliated Interest Report and Cost Allocation Manual

Pursuant to WAC 480-90-264, enclosed please find two copies of the 2009 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,



Onita R. King  
Rates & Regulatory Affairs

enclosure

cc: Alex Miller  
Elisa Larson  
Kevin McVay  
File

NORTHWEST NATURAL GAS COMPANY  
 AFFILIATED INTEREST REPORT  
 FOR THE CALENDAR YEAR ENDING DECEMBER 31, 2009

**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>
Pipeline demand charges (804) ..... (KBPC)	\$224,258	\$211,799

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 FERC-approved rate schedule.

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.

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

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
Total Insurance - (924)	\$144,886	\$ 32,796

The insurance allocation to each entity is determined by the insurance broker based on actual premiums.  
 (NNGFC, KBPC, NWN Energy, NWN Energy Sub, GRS, PGH)

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
<u>NNGFC and KBPC</u>		
Portion of NWN salaries and related overhead		
Allocated to NNGFC (922) .....	\$713	\$0
(NNGFC & KBPC)		
Legal Expense (921) .....	\$1,568	\$0
(NNGFC)		
Other Administrative Expense (921) .....	\$5,787	\$0
(NNGFC)		
Property tax (408) .....	\$4,477	\$0
(KBPC)		
<b>Total NNGFC &amp; KBPC .....</b>	<b>\$12,545</b>	<b>\$0</b>
<u>Palomar Gas Holdings ("PGH")</u>		
Portion of NWN salaries and related overhead		
Allocated to PGH (922, 426) .....	\$119,704	\$0
Other Administrative Expense (921) .....	\$192,080	\$0
Other Expense Non-Utility not reimbursed by PGH (426)	\$ 43,130	\$0
<b>Total PGH.....</b>	<b>\$354,914</b>	<b>\$0</b>
<u>Gill Ranch Storage ("GRS")</u>		
Portion of NWN salaries and related overhead		
Allocated to GRS (922) .....	\$2,004,231	\$0
Other Administrative Expense (921) .....	\$148,134	\$0
<b>Total GRS .....</b>	<b>\$2,152,365</b>	<b>\$0</b>
<u>NW Biogas, LLC ("NW Biogas")</u>		
Portion of NWN salaries and related overhead		
Allocated to NW Biogas, LLC ("NW Biogas") (922) .....	\$2,111	\$0
<b>Total NW Biogas.....</b>	<b>\$2,111</b>	<b>\$0</b>
<u>NW Natural Energy Gas Storage, LLC ("NWN Gas Storage")</u>		
Administration Expense allocated to		
NWN Gas Storage (426) .....	\$175,665	\$0
Legal Expense (426) .....	\$ 12,130	\$0
<b>Total NWN Gas Storage .....</b>	<b>\$187,795</b>	<b>\$0</b>

**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)(e)**

**A description of the terms and total amount of any obligation or liability assumed by the utility for each such affiliated interest or subsidiary. [Transactions that equal or exceed \$100,000]**

(A) Lines of Credit and Commercial paper:

None.

(B) Other payments by the utility to the affiliate

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
Tax benefits paid by NWN to NNGFC (146)	\$46,538	\$0

(C) Other payments by the affiliate to the utility:

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
Tax expense paid by NNGFC to NWN (146)	\$0	\$0

Description of basis of pricing:

NWN files and pays taxes on a consolidated basis with its subsidiaries. For any taxable year, NNGFC has items including income, which cause NWN's consolidated tax liability to increase or decrease. Monthly payments are made to NWN to the extent NNGFC operations increase the consolidated tax liability. Payments are similarly made from NWN to NNGFC when NNGFC operations decrease the consolidated tax liability.

**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 Appendix A for further description of the activities of each affiliated interest or subsidiary with which NWN has transactions.

**NNG Financial Corporation**

NNGFC owns 100% of the stock of KBPC.

NNGFC is a limited partner in a low-income housing project located in Portland, Oregon. NNGFC's ownership interest in this project is 49.5%.

The affiliated transactions between NWN and NNGFC in 2009 were:

- Allocations of NWN's administrative expense for NNGFC's use of NWN staff;
- Payments between NWN and NNGFC for NNGFC's current tax expense or benefit; and
- Payments by NWN to NNGFC for KBPC demand and commodity transportation charges (as applicable).

### **KB Pipeline Company**

KBPC is a wholly owned subsidiary of 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 flow of gas on its share of the pipeline.

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

KBPC has no separate employees of its own. It uses employees shared with NWN to accomplish its *de minimus* business functions. In July 2004, FERC indicated its approval of KBPC's use of such shared employees in FERC Order 2004 in which it granted KBPC a waiver from its then-effective Standards of Conduct governing relationships between transmission providers and their marketing and energy affiliates. Specifically, based on its small size, lack of staff and limited operations, FERC granted KBPC an exemption from the independent functioning and information disclosure prohibitions of the new rules so that KBPC is not required to function independently from NWN. *See, Bear Creek Storage et al.*, Order on Requests for Waivers from the Standards of Conduct, 108 FERC ¶ 61,011 (July 7, 2005) at P27.

On October 16, 2008, FERC issued Order No. 717, a new final rule regarding Standards of Conduct for Transmission providers. *Standards of Conduct for Transmission Providers* (Order No. 717), 125 FERC ¶ 61,064 (2008). In Order No. 717, FERC concluded that the Standards of Conduct no longer apply to interstate pipelines that are certificated only under Part 157 of FERC's regulations, such as KBPC's share of the Kelso-Beaver Pipeline. As of the November 26, 2008 effective date of Order No. 717, the requirements of the prior partial exemption that KBPC received under the Order No. 2004 regulations

no longer apply to KBPC, and FERC no longer requires KBPC to comply with the Order No. 717 Standards of Conduct with respect to its relationship with its affiliate, NWN. Thus, KBPC and NWN may continue to share employees as necessary to conduct the business of KBPC.

Effective December 1, 2004, KBPC resigned as operator of the Kelso-Beaver Pipeline. Since that date, certain operator responsibilities are handled under contract by Cascade Natural Gas Corporation ("Cascade"), which is not affiliated with any of the co-owners. Cascade incurs the operating costs, and then bills the three co-owners on a monthly basis for those operating costs, based on each owner's percentage share of ownership.

#### **Northwest Energy Corporation**

Northwest Energy Corporation ("NW Energy Corp") was formed in 2001 to serve as the holding company for NWN and PGE in the event that the proposed acquisition of PGE had been completed. However, the acquisition effort was eventually terminated in May 2002, and the corporation has remained dormant.

The affiliated transactions between NWN and NW Energy Corp in 2009 were:

- D&O insurance is purchased for NW Energy Corp, and is charged to a non-regulated account on NWN books.

#### **Northwest Energy Sub Corporation**

Northwest Energy Sub Corporation ("NW Energy Sub") is a subsidiary of Northwest Energy Corporation, and was formed in 2001 to effect the corporate reorganization to a holding company in the event that the acquisition of PGE had been completed. The corporation has remained dormant.

The affiliated transactions between NWN and NW Energy Sub in 2009 were:

- D&O insurance is purchased for NW Energy Sub, and is charged to a non-regulated account on NWN books.

#### **Palomar Gas Holdings, LLC**

Each of NWN and Gas Transmission Northwest Corporation ("GTN") owns a fifty percent (50%) membership interest in PGH. PGH wholly owns Palomar Gas Transmission, LLC ("PGT"), which is developing the Palomar Pipeline. (See below for description of PGT).

The affiliated transactions between NWN and PGH in 2009 were:

- PGH's use of NWN's administrative and operating staff,
- Payments by NWN for outside consultants and D&O insurance premiums,
- Recognition of AFUDC income (426); and
- Because accounting is based on the equity method, PGH has no separate set of accounts on NWN's books except for dedicated nominal accounts

in the non-utility section of NWN's Statement. Investment is tracked as "Other Investments" (124059).

- Dedicated nominal accounts exist in the non-regulated section of the NWN Income Statement for PGH related expenses not billable to PGH; and
- Equity investments in PGH from NWN.

### **Palomar Gas Transmission, LLC**

PGT is a wholly-owned subsidiary of PGH, and is developing a proposed interstate gas pipeline, known as the Palomar Pipeline. See FERC Docket No. PF07-13-000. If approved by FERC, the Palomar Pipeline will be a FERC jurisdictional pipeline.

As previously reported to the Commission, on August 4, 2007, NWN and PGT entered into a Precedent Agreement for Firm Natural Gas Transportation Service for the Eastern Zone (the "Eastern Zone Precedent Agreement"), and a Precedent Agreement for Firm Natural Gas Transportation Service for the Western Zone (the "Western Zone Precedent Agreement") (collectively, the agreements are referred to as the "Precedent Agreements"). NWN made no payments under the Precedent Agreements for the 2009 reporting period. Furthermore, NWN is not required to make any future payments to PGT under the Precedent Agreements unless certain possible, but unlikely, events occur which cause a termination of the Precedent Agreements, resulting in NWN owing a termination payment to PGT. If such a termination event occurs, NWN will report as required at that time.

There were no affiliated transactions between NWN and PGT in 2009.

### **BL Credit Holdings, LLC**

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

There were no affiliated transactions between this subsidiary and NWN in 2009.

### **Gill Ranch Storage, LLC**

GRS was formed in 2007. In 2007, GRS entered into a Joint Project Agreement with Pacific Gas & Electric Company ("PG&E") for the co-development of an underground natural gas storage facility at Gill Ranch located near Fresno, California ("the Project"). GRS owns a 75 percent undivided ownership interest in the Project and is the Project operator, and PG&E owns a 25% undivided ownership interest. Ownership in the project is structured as tenants in common.

GRS's share of the initial development phase will provide approximately 15 Bcf of underground gas storage capacity served by approximately 26 miles of transmission pipeline. On October 29, 2009, the California Public Utilities Commission (CPUC) issued Certificates of Public Convenience and Necessity to GRS and PG&E for the Project. Additional state, federal and local permits are required, many of which have already been obtained. As of December 31, 2009,



Project construction was anticipated to begin in early January 2010, with an operational date scheduled for the fall of 2010.

GRS is subject to CPUC regulation with respect to rates and will require regulatory approvals for certain activities, including but not limited to securities issuance, terms of services, systems of accounts, lien grants and sales of property.

The affiliated transactions between NWN and GRS in 2009 were:

- GRS's use of NWN's administrative and operating staff,
- Payments by NWN to limited outside vendors on GRS's behalf and reimbursed by GRS; and
- Equity investments in GRS from NWN.

### **Northwest Biogas, LLC**

NWN owns a 50% membership interest in NW Biogas, LLC ("NW Biogas"). NWN also serves as the Managing Member. The other 50% membership interest is owned by Bonneville Environmental Foundation. NW Biogas is developing and will operate a demonstration biodigester located at Three Mile Canyon Farms in Boardman, Oregon.

The affiliated transactions between NWN and NW Biogas in 2009 were:

- NWN made an R&D Grant to the project in 2009 in the amount of \$100,000 for the purpose of developing this new technology,
- NW Biogas' use of NWN's administrative staff; and
- Equity investments in NW Biogas from NWN.

### **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-core businesses.

The affiliated transactions between NWN and NWN Energy were:

- Equity investments in GRS from NWN.

### **NW Natural Gas Storage, LLC**

NWN Energy wholly owns NWN Gas Storage which was formed in 2009. The entity is expected to own and manage non-core gas storage interests.

Because a formal accounting structure had not yet been created for this new LLC, initial administrative support costs were charged to a non utility account on the books of NWN (Account 426-61505). These initial costs consisted of the following:

- |                              |           |
|------------------------------|-----------|
| ▪ Administrative time        | \$174,520 |
| ▪ Legal fees                 | 12,130    |
| ▪ Other administrative costs | 1,145     |

**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]***

Notwithstanding the requirements set forth in WAC 480-90-264(2), a list of officers and directors is shown for all affiliates.

**NORTHWEST NATURAL GAS COMPANY**

**OFFICERS AND DIRECTORS**

(That are also officers or directors of an affiliate or subsidiary)

Gregg S. Kantor	President and Chief Executive Officer
David H. Anderson	Senior Vice President of Finance & Chief Financial Officer
J. Keith White	Vice President, Business Development and Energy Supply/Chief Strategic Officer
Stephen P. Feltz	Treasure, Controller, and Assistant Secretary
Lea Anne Doolittle	Senior Vice President
Margaret D. Kirkpatrick	Vice President and General Counsel
Mardi Lyn Saathoff	Chief Governance Officer and Corporate Secretary
C. Alex Miller	Vice President and Assistant Treasurer
Charles Stinson	Director, Project Development

**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**

Gregg S. Kantor took over as Chairman, replacing Mark Dodson. This change reduced the size of the board to three.

### OFFICERS OF THE CORPORATION

David H. Anderson*	President and Chief Executive Officer
Stephen P. Feltz*	Senior Vice President & Treasurer
Elisa M. Larson	Vice President, General Counsel & Assistant Secretary
MardiLyn Saathoff*	Secretary
David W. Aimone	Assistant Treasurer

(\*Officer of NWN)

### CHANGES IN OFFICERS

MardiLyn Saathoff replaced Margaret D. Kirkpatrick in the position of Secretary.

### **KB PIPELINE COMPANY**

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

### BOARD OF DIRECTORS

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

(\*Officer of NWN)

### CHANGES IN MEMBERS OF THE BOARD

Gregg S. Kantor took over Chair, replacing the retiring Mark S. Dodson. Lea Anne Doolittle filled the vacancy created by Gregg S. Kantor's moving to the position of Chair.

### OFFICERS OF THE CORPORATION

J. Keith White*	President
Randolph Friedman	Vice President
C. Alex Miller*	Treasurer
MardiLyn Saathoff*	Secretary
Elisa M. Larson	General Counsel, Chief Compliance Officer, & Assistant Secretary

(\*Officer of NWN)

### CHANGES IN OFFICERS

J. Keith White assumed the office of President, replacing Charles E. Stinson. Randolph Friedman became Vice President, replacing J. Keith White. C. Alex Miller replaced Dave Aimone as Treasurer. MardiLyn Saathoff replaced Margaret D. Kirkpatrick as Secretary.

## **NORTHWEST ENERGY CORPORATION**

Wholly-owned subsidiary of Northwest Natural Gas Company

Type of Operations: Holding Company

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

Gregg S. Kantor took over as Chair, replacing the retiring Mark Dodson.

Margaret D. Kirkpatrick filled the vacant board seat.

### OFFICERS OF THE CORPORATION

Gregg S. Kantor\*

President & Chief Executive Officer

David H. Anderson\*

Senior Vice President & Chief Financial Officer

Stephen P. Feltz\*

Treasurer, Controller, and Assistant Secretary

MardiLyn Saathoff\*

Secretary

(\*Officer of NWN)

### CHANGES IN OFFICERS

Gregg S. Kantor took over as President & Chief Executive Officer, replacing the retiring Mark Dodson. MardiLyn Saathoff replaced Margaret D. Kirkpatrick in the position of Secretary.

## **NORTHWEST ENERGY SUB CORPORATION**

Wholly-owned subsidiary of Northwest Energy Corporation

Type of Operations: 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

Gregg S. Kantor took over as Chairman, replacing resigning Mark Dodson. Margaret D. Kirkpatrick filled the vacant board seat.

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

(\*Officer of NWN)

### CHANGES IN OFFICERS

Gregg S. Kantor took over as President & Chief Executive Officer, replacing the retiring Mark Dodson. MardiLyn Saathoff replaced Margaret D. Kirkpatrick in the position of Secretary.

### **PALOMAR GAS HOLDINGS, LLC**

50% membership interest owned by Northwest Natural Gas Company  
50% membership interest owned by Gas Transmission Northwest Corporation  
Type of Operations: Gas Pipeline Owner and Operator  
Year created: 2007

Management is by Management Committee consisting of a representative of each member.

### **PALOMAR GAS TRANSMISSION, LLC**

Wholly-owned subsidiary of Palomar Gas Holdings, LLC  
Type of Operations: Gas Pipeline Owner and Operator  
Year Created: 2007

### MANAGEMENT

Management is by Management Committee of Palomar Gas Holdings, LLC

### **BL CREDIT HOLDINGS, LLC**

Wholly-owned subsidiary of Palomar Gas Transmission, LLC  
Type of Operations: Gas Transportation  
Year Created: 2009

### MANAGEMENT

B.L. Credit Holdings, LLC ("B.L. Credit") 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 Northwest Natural Gas Company

Type of Operations: Natural Gas Storage

Year Created: 2007

MANAGEMENT

Gill Ranch Storage, LLC is manager-managed

Manager: Northwest Natural Gas Company

OFFICERS OF THE LIMITED LIABILITY COMPANY

Rick Daniel	President
C. Alex Miller*	Vice President, Treasurer, & Director of Regulatory Affairs
Elisa M. Larson	Secretary
MardiLyn Saathoff*	Assistant Secretary
Denny Henderson	Director of Business Development
Charlie Stinson	Director of Project Development

(\*Officer of NWN)

CHANGES IN OFFICERS

Rick Daniel replaced J. Keith White as President. MardiLyn Saathoff replaced Margaret D. Kirkpatrick in the position of Assistant Secretary.

**NORTHWEST BIOGAS, LLC**

50% membership interest owned by Northwest Natural Gas Company

50% membership interest owned by BEF Renewable Incorporated

Type of Operations: Biodigester

Year Created: 2008

MANAGEMENT

Northwest Biogas, LLC is member-managed,

Managing Member: Northwest Natural Gas Company

OFFICERS

William Eddie	President
Barbara Cronise	Vice President
Brad Lawliss	Treasurer
Alice Bray	Secretary

CHANGES IN OFFICERS

No changes.

**NW NATURAL ENERGY, LLC**

Wholly-owned subsidiary of Northwest Natural Gas Company  
Type of operations: Natural Gas Storage and Transportation  
Year Created: 2009

MANAGEMENT

NW Natural Energy, LLC is manager-managed.  
Manager: Northwest Natural Gas Company

BOARD OF DIRECTORS

Gregg S. Kantor, Chair\*  
David H. Anderson\*  
Lea Anne Doolittle\*  
Margaret D. Kirkpatrick\*  
J. Keith White\*

(\*Officer of NWN)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE LIMITED LIABILITY COMPANY

David H. Anderson*	President and Chief Executive Officer
J. Keith White*	Chief Operating Officer
C. Alex Miller*	Treasurer
Elisa M. Larson	Secretary

(\*Officer of NWN)

CHANGES IN OFFICERS

David H. Anderson replaced J. Keith White as President & Chief Executive Officer. J. Keith White became the Chief Operating Officer.

**NW NATURAL GAS STORAGE, LLC**

Wholly-owned subsidiary of NW Natural Energy, LLC  
Type of operations: Natural Gas Storage  
Year Created: 2009

## MANAGEMENT

NW Natural Gas Storage, LLC is manager-managed by NW Natural Energy, LLC.

### BOARD OF DIRECTORS

Gregg S. Kantor, Chair\*  
David H. Anderson\*  
Lea Anne Doolittle\*  
Margaret D. Kirkpatrick\*  
J. Keith White\*

(\*Officer of NWN)

### CHANGES IN MEMBERS OF THE BOARD

No changes.

### OFFICERS OF THE LIMITED LIABILITY COMPANY

Rick Daniel	President
C. Alex Miller*	Treasurer
Elisa M. Larson	Secretary

(\*Officer of NWN)

### CHANGES IN OFFICERS

No changes.

## **NW NATURAL STORAGE, LLC**

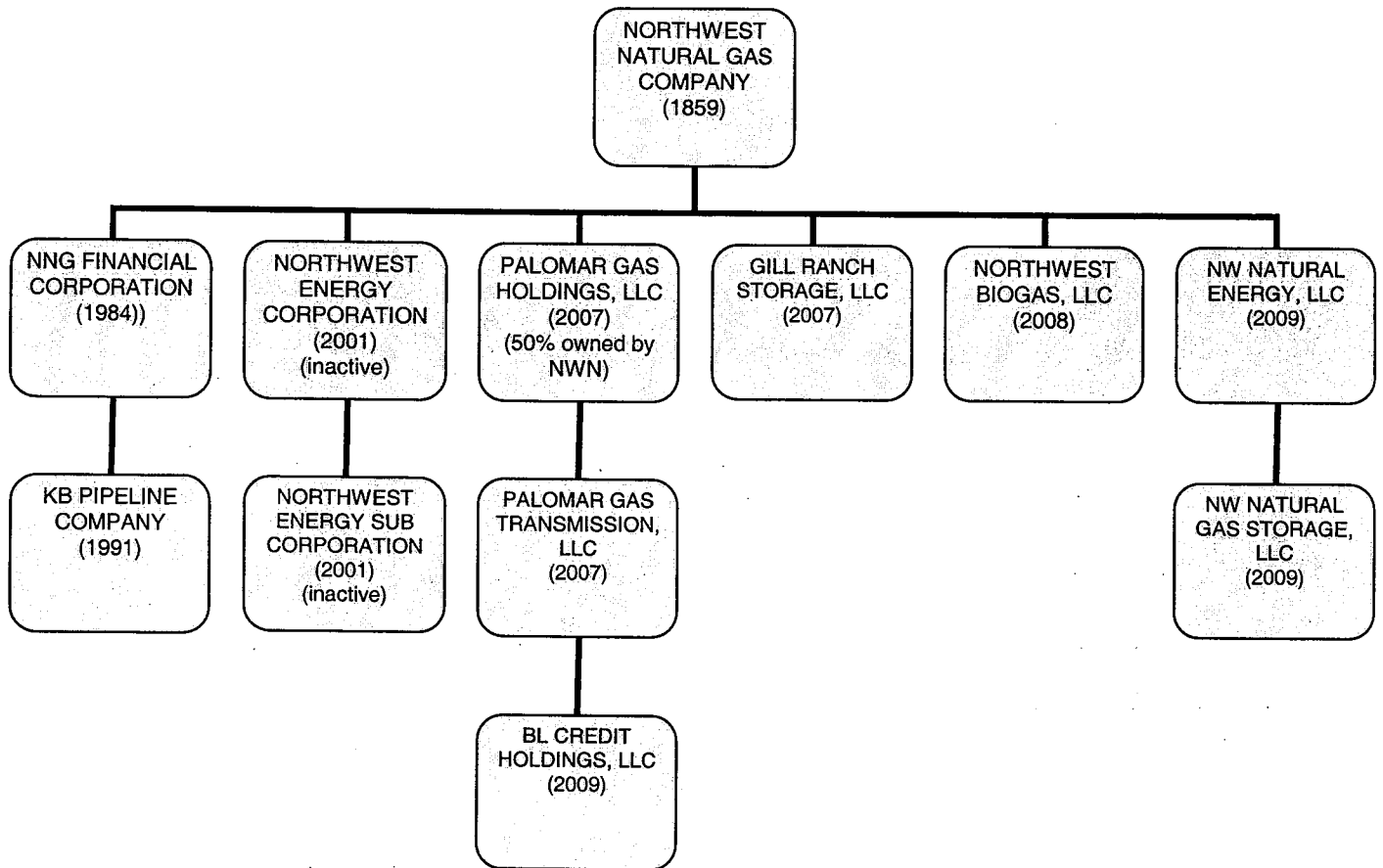
NW Natural Storage, LLC was formed on July 30, 2009 and dissolved on July 31, 2009



# CHART 1

## Organizational Chart

at 12-31-09



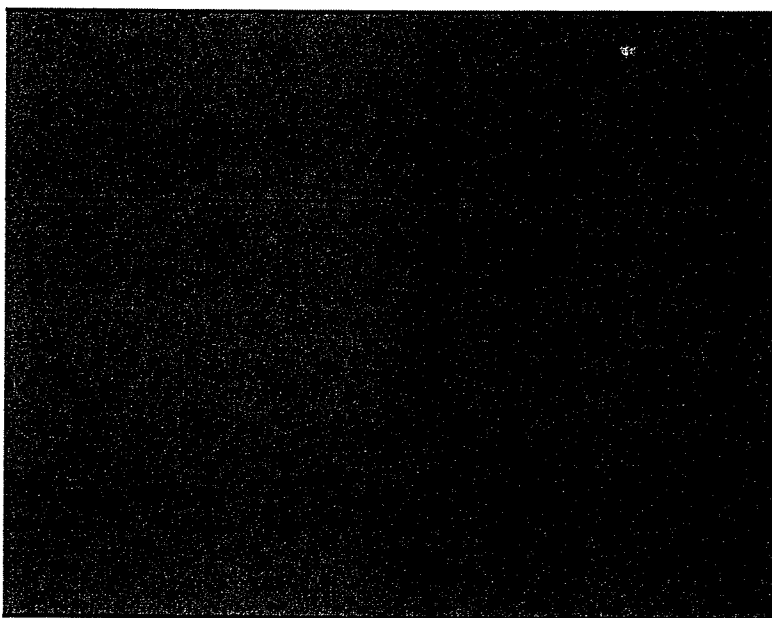
**CONFIDENTIAL PER WAC 480-07-160**

**NORTHWEST NATURAL GAS COMPANY  
AFFILIATED INTEREST REPORT  
FOR THE YEAR 2009**

**EXHIBIT A - REDACTED**

**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]



# Appendix A - Affiliated Interest Report

## 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 a limited amount of its assets invested in affiliates or non-public utility activities. At December 31, 2009, these assets accounted for 7.2% of total assets, and revenue from them was 4.7% 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 or any other labor performed by NWN employees for the benefit of affiliates or non-public utility activities is recorded on the books of the utility in accordance with labor allocation methods as explained below. *See Labor Allocation Methods.* Payroll overhead loadings are applied to all labor in accordance with payroll overhead allocation methods as explained below. *See Payroll Overhead Allocation Methods.* Variances from normal allocation procedures (if any) will be explained in the separate explanatory paragraph for that particular affiliate or non-public utility activity.

Other direct charges may consist of invoice charges attributable to a specific activity. Examples are consulting invoices, direct contributions, or material and supplies benefiting the affiliate or non-public utility activity. Shared services will be covered under separate explanatory paragraphs for the particular activity that uses such services.

Insurance coverage for non-public utility activity will be explained under separate explanatory paragraphs for the particular affiliate or non-public utility activity that receives coverage through the utility.

## AFFILIATES & NON-PUBLIC UTILITY ACTIVITIES

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

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

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

1. Amortization of Business Energy Tax Credits
2. Appliance Center/Miscellaneous Merchandising
3. Business Development
4. Lan Su Chinese Garden (formerly Classical Chinese Garden) Block
5. Company-Owned Life Insurance
6. Coos County Pipeline
7. Corporate Philanthropy
8. Enerfin Contracts
9. Interstate Storage
10. Lobbying, Civic, and Political Contributions
11. Non-Operating Advertising
12. Note Receivable for Vancouver property
13. Oil Storage Tanks/Dock Lease
14. Other Deductions
15. Parking
16. Regulatory and Tax Penalties
17. Revenue from Utility Property
18. Service Solutions
19. Sesquicentennial
20. Sherwood House
21. 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 their Cost Center. If an employee has any exception time to this default account, they must report and record the exception time in the CATS system. Some departments may have a timekeeper perform this function. 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
- 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 in the balance sheet account agrees with total employee vacation cost, as calculated by the NWN’s Human Resources Department.

#### **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 2009, the following costs were allocated as payroll overhead (company averages):

<b>Executives</b>	
Vacation & Holiday Overhead Load	15.0% of payroll
Benefits Overhead Load	63.5% of payroll
Total Executive Payroll Overhead	78.5% of payroll
<b>Non Executives</b>	
Vacation & Holiday Overhead Load	15.0% of payroll
Benefits Overhead Load	73.3% of payroll
Total Non Executives Payroll Overhead	88.3% 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.

An additional administrative overhead load of 27.5% of labor cost is added to cover the cost of rented space, furniture and equipment.

# Individual Affiliate Activities

## *Gill Ranch Storage, LLC*

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

Costs of the project will be allocated to the two companies in proportion to their ownership interests. Each company will separately finance, tariff, market and contract for its portion of the project capacity. GRS is the Operator of the project through at least the first three years of commercial operation.

In accordance with the contract between PG&E and GRS, any NWN employee time charged to the project is calculated as follows:

1. Base Hourly rate – annual salary of the individual employee working on the project, divided by 2,080 hours to determine the employee's base hourly rate.

The base hourly rate is then adjusted upward by:

2. 15% for non productive time for training, vacations, sick leave & holidays;
3. 60.4% for payroll taxes, health insurance, dental insurance, 401(k) contributions, pensions and annual incentive programs; and
4. 10% for project and long term incentive programs.
5. The adjusted hourly rate (the sum of #1- #4) is then adjusted upwards by an additional 60% to reflect other indirect and administrative costs such as information technology, human resources, accounts payable, rent, building services, accounting and legal.
6. The concluded hourly rate as calculated in #5, multiplied by the number of hours worked by the employee on the project is the amount that is billed to the project.

NWN bills GRS quarterly. Interest is added for accumulated balances older than one quarter.

Consulting and other invoice charges are charged directly.

GRS as operator is obligated to maintain insurance policies commensurate with the risk. Coverage should include "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.

The Risk Services Department of NWN obtains insurance for the consolidated entity in the open market. The cost of all premiums is initially charged to NWN accounts with the exception of the Builder's Risk and Well Control insurance that was charged directly to GRS. An allocation for GRS related insurance coverage is subsequently made by journal entry to GRS. NWN's insurance broker provides information on the amount that should be allocated to subsidiary companies. Allocation is based on the underwriting principles for each type of policy. NWN's intent is to use an allocation methodology that does not result in utility subsidization to the affiliate. Once the project construction is complete, the majority of insurance will be purchased directly by GRS.

### ***KB Pipeline Company***

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

KBPC has no separate employees of its own. Since Cascade Natural Gas now operates the pipeline, no NWN employees charge time to KBPC except for minor administrative time.

NW Natural provides administrative support for KBPC. The cost of this administrative support is determined in accordance with the Labor Allocation Methods and Payroll Overheads provisions set forth above.

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. An allocation for KBPC-related insurance coverage is subsequently made by journal entry to the intercompany account for NNGFC, 146016. The policies obtained for KBPC name KBPC as the beneficiary.

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

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. The tax for these specific tax lots is paid by NWN and then billed to KBPC.

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.

### ***NNG Financial Corporation***

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

NNGFC has no employees of its own, but NWN employees may provide *de minimus* administrative support. NWN provides management oversight for NNGFC.

The cost of the administrative support and management oversight is determined in accordance with the Labor Allocation Methods and Payroll Overheads provisions set forth above.

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

NNGFC has no real or personal property and therefore NNGFC neither pays nor is allocated any property taxes. NWN files federal and state income taxes on a consolidated basis. For each taxable year, NNGFC income may cause the consolidated tax liability to increase or decrease. Monthly payments are made to NWN by NNGFC for any corresponding increase in the consolidated tax liability. Conversely, payments are made from NWN to NNGFC when NNGFC losses decrease the consolidated tax liability. A separate intercompany account, 146096, is used to track tax balances.

Invoices applicable to NNGFC but billed through NWN are charged directly to the intercompany account 146016.

NNGFC currently has no line of credit and no parent guaranty of debt.

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

### ***Northwest Biogas, LLC***

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

NWN employees may provide *de minimus* administrative support. The cost of the administrative support is determined in accordance with the Labor Allocation Methods and Payroll Overheads provisions set forth above.

### ***Northwest Energy Corporation***

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

All transaction costs in connection with the acquisition effort were charged to Non-Utility Expense. NW Energy has had no active operations.

NWN purchases corporate excess Directors & Officers liability insurance, which includes NW Energy. This insurance is charged to account 426-2380.

### ***Northwest Energy Sub Corporation***

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

NWN purchases corporate excess Directors & Officers liability insurance, which includes Northwest Energy Sub Corporation. This insurance is charged to account 426-2380.

### ***NW Natural Energy, LLC***

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

See NWN Gas Storage for a description of transactions with this subsidiary.

### ***NW Natural Gas Storage, LLC***

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

Costs are charged to a non-utility account on the books of NWN (account 426). Labor cost is determined in accordance with the Labor Allocation Methods and Payroll Overheads provisions set forth above.

Legal fees are directly charged on the invoice. Employee expenses other than labor are charged directly to the non-utility account.

### ***Palomar Gas Holdings, LLC***

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

Expenses for PGH and its subsidiaries are charged to account 426-2051, and consist of allocations of NWN employee time as explained in "Labor Allocation Methods". Out-of-pocket direct costs are also charged to account 426-2051. As an equity investor, NWN receives a 50% share of income from PGH, recorded in 426. NWN's investment in PGH is not included in consolidated financial statements.

NWN purchases corporate excess Directors & Officers liability insurance, which includes Palomar Gas Holdings, LLC. This insurance is charged to account 426-2380.

### ***Palomar Gas Transmission, LLC***

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

See PGH for a description of transactions with this subsidiary.

### ***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 2009.

# Individual Non-Public Utility Activities

## *Amortization of Business Energy Tax Credits*

This program ended in 2008. There was no activity in 2009.

### *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. NWN's Risk Services Department obtains insurance for the consolidated corporate entity in the open market. The premiums are initially charged to NWN accounts. An allocation for the Appliance Center is subsequently made by journal entry. NWN's intent is to use an allocation methodology that does not result in utility subsidization to the Appliance Center. The policies obtained include the Appliance Center's replacement value.

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.

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

### ***Business Development***

Beginning in 2006, several sites in the western U.S. have been and are being investigated for potential underground gas storage development. The selection of the Gill Ranch site in the San Joaquin Valley of northern California came out of this effort. (See Gill Ranch Storage, LLC section of this manual).

General expenses not directly attributable to Gill Ranch are classified as “Business Development”. A percentage of three employees’ salary is allocated to account 426-1505. In addition, other employees who work in this area on an irregular basis time track their time, which is also allocated to account 426-1505. An overhead load for all employee time is added at the same rate that is used by NWN. Consulting and other invoice charges are directly charged.

### ***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 121044. 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 (“TOLI”) where the policies provide informal funding for non-qualified employee benefits and are owned by and payable to the Trust. Costs and benefits relating to these investments are recorded in accounts 124100 through 124109, including the build-up of cash surrender value.

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

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

### ***Coos County Pipeline***

An intrastate natural gas transmission pipeline to Coos County was built 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 2009.

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 421-6056. NWN bills Coos County monthly for the operating costs and records this as non-utility revenue in the same account 421-6056. 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 421-6059.

### ***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 426-2180 (Oregon), and 426-2185 (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 reduced by \$0.01 per therm. 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 having to duplicate NWN plant and equipment at Miller Station.

The \$0.01 per therm gas savings is credited to income account 415-4390. Labor provided by NWN employees for technical services such as meter calibration is charged directly to account 416-4390 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 the following accounts:

Account 426-4955 - Contributions to political candidates

Account 426-4935 - Contributions for ballot measures and opinion research on issues.

Account 426-2085 - Chamber of Commerce dues

Account 426-2575 - Social Club dues

A portion of two employee's salaries and expenses are charged to account 426-4950 and 426-4935. No accounting administration cost is allocated.

### ***Non Operating Advertising***

NWN charges some advertising and consumer incentive or contest expense to account 416-4080, 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.

### ***Note Receivable for Commercial Property sold in Vancouver, Washington***

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

### ***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 121001, 121002, 121003, 122027, 283031 and 283032. Rental Income is credited to account 418-4140 and depreciation is charged to account 418-2115.

Income taxes are charged to non-utility taxes, accounts 409-3075 and 409-3145. 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 426-2380.

Lessees provide their own insurance coverage.

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



## ***Other Deductions***

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

## ***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 426-2463. 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 426-2495.

## ***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 416-4857, and offset by fees paid by the participating dealers. This revenue is recorded in account 415-6550. The expenses include directly charged labor and overhead, depreciation on original CIS (Customer Information System) program development expenses, and an answering service vendor.

## ***Sesquicentennial***

NWN celebrated its 150<sup>th</sup> anniversary in 2009. The sesquicentennial budget supported special events and projects as well as public relations and marketing support, to promote NWN's image and long-term value to customers, shareholders and communities in Oregon. The NWN sesquicentennial celebration also coordinated and supported

promotions with the State of Oregon, which also celebrated its 150<sup>th</sup> anniversary in 2009. Costs consisted of directly charged invoices to account 426-2967, and included some exception labor time during 2008-2009. This labor was charged with the same payroll overhead load that is used by NWN.

### ***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 121045. Rental income is recorded in account 418-6427. Depreciation on the house is recorded in account 421-2116.

### ***Smart Energy***

Smart Energy is an Oregon-tariffed utility program which provides Oregon customers an opportunity to offset the carbon dioxide emissions from their use of natural gas by purchasing carbon offsets. The program became effective on September 1, 2007. The ongoing costs of this program are paid 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 426-02972.