

UG-120822-SI

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June 1, 2012

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

RECEIVED
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2012 JUN -4 AM 8:11
STATE OF WASH.
UTIL. AND TRANS.
COMMISSION

Re: 2011 Affiliated Interest Report and Cost Allocation Manual

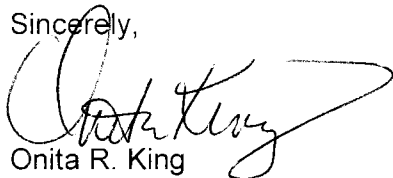
Pursuant to WAC 480-90-264, enclosed please find an original and two copies of the 2011 Affiliated Interest Report and Cost Allocation Manual for Northwest Natural Gas Company, dba NW Natural.

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

enclosure

cc: Alex Miller
Shawn Filippi
Jennifer Toepke

NORTHWEST NATURAL GAS COMPANY
 AFFILIATED INTEREST REPORT
 FOR THE CALENDAR YEAR ENDING DECEMBER 31, 2011

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	\$211,899

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.

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

<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) (NNGFC & KBPC)	\$238	\$0

<u>Account/description:</u>	<u>Total Company</u>	<u>Total Washington</u>
<u>Palomar Gas Holdings ("PGH")</u>		
Portion of NWN salaries and related overhead		
Allocated to PGH (922)	\$72,268	\$0
Legal Expense (921)	\$23,578	\$0
Other Expense Non-Utility not reimbursed by PGH (426)	\$2,581	\$0
Total PGH.....	\$98,427	\$0

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)(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

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

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%.¹

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 flow 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),

¹ NNGFC sold its interest in this low-income housing project in 2012.

reorganization to a holding company in the event that the acquisition of PGE had been completed. The corporation has remained dormant.

There were no affiliated transactions between NWN and NW Energy Sub in 2011.

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 2011 were:

- NWN made a research and development grant to the project in 2010 in the amount of \$50,000 for the purpose of developing this new technology. In 2011, NW Biogas refunded the grant back to NWN;
- 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-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; and
- Equity investments in NWN Energy 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-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; and
- Equity investments in NWN Gas Storage from NWN Energy.

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") to develop and own the Gill

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 Palomar Pipeline. On March 23, 2011, PGT filed a notice of withdrawal at FERC to withdraw its pending certificate application to construct and operate the Palomar Pipeline. PGT informed FERC that it intended to re-file an application to reflect changes in the project scope, which was expected to eliminate the western portion of the proposed pipeline and align the revised project with the region's current and future gas infrastructure needs. PGT is working with customers in the Pacific Northwest to further understand their gas transportation needs and determine the commercial support for a revised pipeline proposal. We expect to file a new FERC certificate application to reflect a revised scope based on the regional needs. .

As previously reported to the Commission, on August 4, 2007, NWN and PGT originally 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"). The Western Zone Precedent Agreement is being reviewed and may be either amended or terminated. NWN evaluated its portion of the Western Zone assets and determined the cumulative value of these assets was minimal. Therefore, NWN recorded a pre-tax impairment of \$0.3 million for its share of the Western Zone project in 2011. An evaluation of the Eastern Zone project was also performed during 2011, and a charge of \$1.0 million was recorded. The Eastern Zone charge related to costs that would potentially be outdated and, if so, would need to be redone for the re-filed application. NWN is working with PGT to create a new or amend the remaining Precedent Agreement to address changes in the project scope, cost and schedule.

NWN made no payments under the Eastern Zone Precedent Agreement during the 2011 reporting period. Furthermore, NWN does not expect to make any future payments to PGT under the current, Eastern Zone Precedent Agreement unless certain possible, but unlikely, events occur which cause a termination of the Precedent Agreement, resulting in NWN owing a termination payment to PGT. If such a termination event occurs, NWN will report the required information at that time.

Core Customer Costs

Pursuant to the Eastern Zone Precedent Agreement, NWN is a prospective anchor shipper on the Eastern Zone of the proposed Palomar Pipeline. The Precedent Agreements for each zone have been executed and approved by the OPUC pursuant to Order No. 08-107, as referenced above. Any out-of-pocket costs incurred on behalf of representing core customers (e.g. legal) are being allocated to the utility.

There were no affiliated transactions between NWN Energy and PGT in 2011.

(*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)

CHANGES IN MEMBERS OF THE BOARD

No changes.

OFFICERS OF THE COMPANY

J. Keith White*	President
Randolph S. Friedman	Vice President
C. Alex Miller*	Treasurer
Shawn M. Filippi**	Corporate Secretary
MardiLyn Saathoff*	Assistant Corporate Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

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.

PALOMAR GAS HOLDINGS, LLC

50% membership interest owned by NW Natural Energy, LLC
50% membership interest owned by TransCanada American Investment Ltd.
Type of Operations: Gas Pipeline Owner and Operator
Year created: 2006

MANAGEMENT

Management is by Management Committee consisting of: Dean Ferguson, TransCanada and J. Keith White, NWN.

PALOMAR GAS TRANSMISSION, LLC

Wholly-owned subsidiary of Palomar Gas Holdings, LLC
Type of Operations: Gas Pipeline Owner and Operator
Year Created: 2006

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 is member-managed.

CHANGES IN OFFICERS

Mr. Stinson retired on April 1, 2011. Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer as of January 1, 2012.

NORTHWEST BIOGAS, LLC

50% membership interest owned by Northwest Natural Gas Company
50% membership interest owned by BEF Renewable Incorporated
Type of Operations: Biodigester Owner
Year Created: 2008

MANAGEMENT

Northwest Biogas, LLC is member-managed
Managing Member: Northwest Natural Gas Company

OFFICERS OF THE LIMITED LIABILITY COMPANY

Angus Duncan	President
Barbara Cronise	Vice President
Margi Gardner	Secretary

CHANGES IN OFFICERS

Margi Gardner replaced David Wang as Secretary.

NW NATURAL ENERGY, LLC

Wholly-owned subsidiary of Northwest Natural Gas Company
Type of Operations: Holding Company
Year Created: 2009

MANAGEMENT

NW Natural Energy, LLC is manager-managed
Manager: Board of Directors

BOARD OF DIRECTORS

Gregg S. Kantor*
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 A. Weber	President and Chief Executive Officer ⁵
C. Alex Miller*	Vice President and Treasurer
Charles E. Stinson	Vice President, Engineering and Operations ⁶
Dennis L. Henderson	Vice President, Marketing
Shawn M. Filippi**	Secretary
MardiLyn Saathoff*	Assistant Secretary

(*Officer of NWN)

(**Bylaws officer of NWN)

CHANGES IN OFFICERS

Mr. Stinson retired on April 1, 2011. Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer as of January 1, 2012.

⁵ Effective January 7, 2011, Rick Daniel resigned as President and Chief Executive Officer and David A. Weber was appointed interim President and Chief Executive Officer. Mr. Weber was appointed President and Chief Executive Officer effective January 1, 2012.

⁶ Charles E. Stinson retired on April 1, 2011.

CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

**NORTHWEST NATURAL GAS COMPANY
AFFILIATED INTEREST REPORT
FOR THE YEAR 2011**

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]

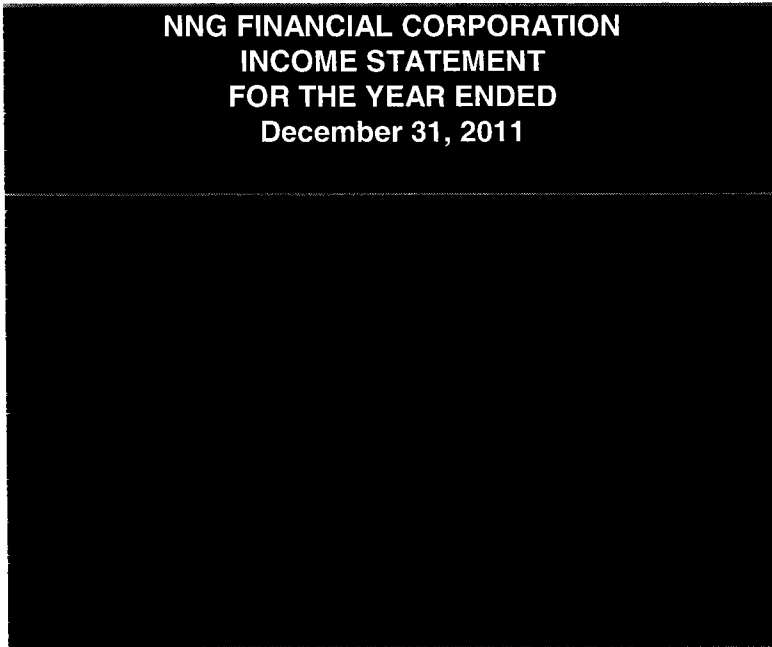
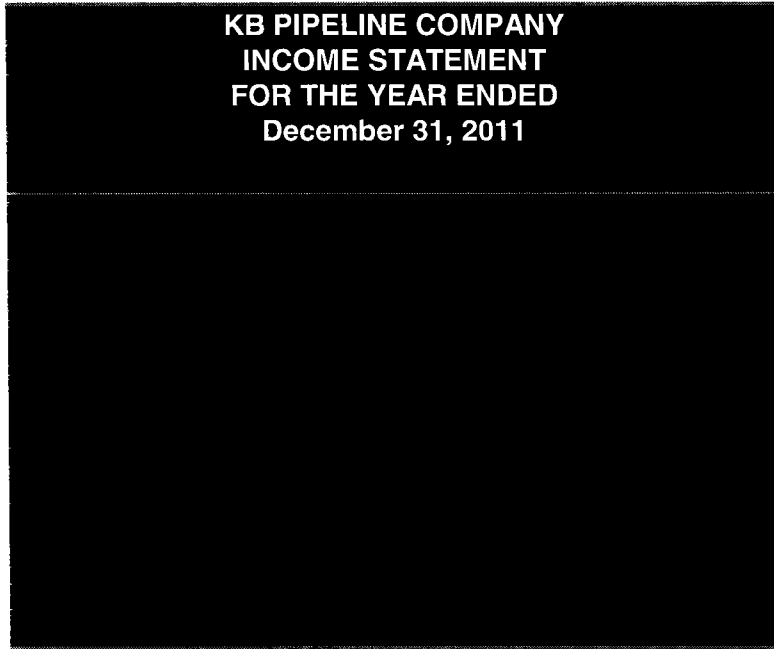


EXHIBIT A

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:

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CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

**NORTHWEST BIOGAS, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2011**



**NORTHWEST BIOGAS, LLC
BALANCE SHEET
December 31, 2011**



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, NW Natural Gas Storage, LLC. The financial statements for NW Natural Gas Storage, LLC before consolidation are as follows:

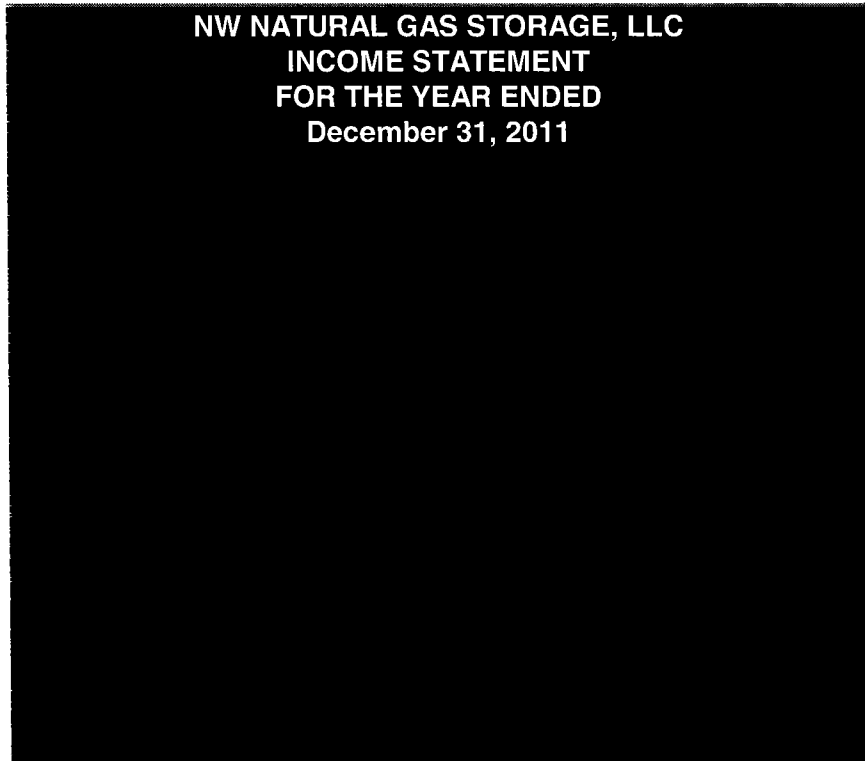
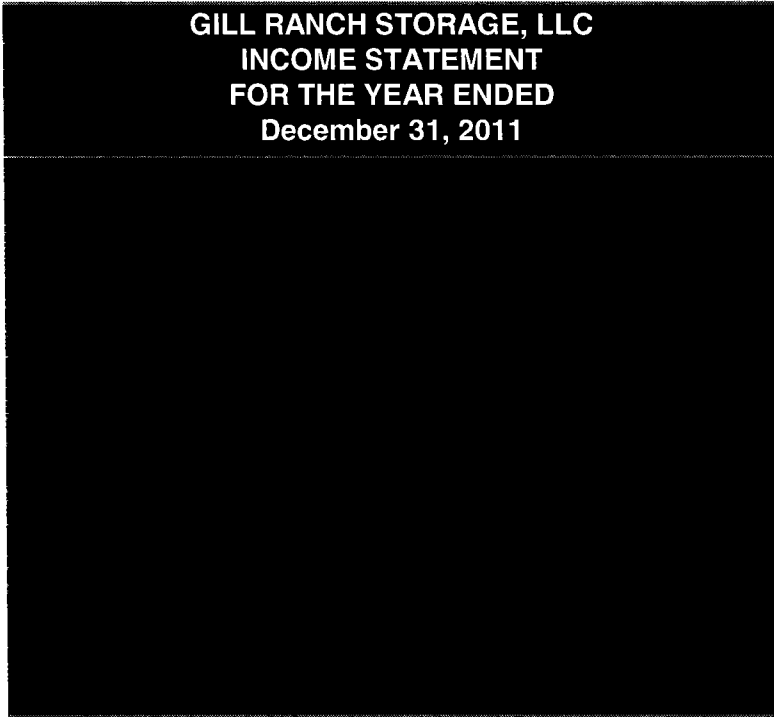


EXHIBIT A

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:




**GILL RANCH STORAGE, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2011**

The table content is redacted with a black box.

CONFIDENTIAL PER WAC 480-07-160

EXHIBIT A

**PALOMAR GAS HOLDINGS, LLC
INCOME STATEMENT
FOR THE YEAR ENDED
December 31, 2011**

A large black rectangular redaction box covers the content of the income statement.

**PALOMAR GAS HOLDINGS, LLC
BALANCE SHEET
December 31, 2011**
