

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Gill Ranch Storage, LLC
for a Certificate of Public Convenience
and Necessity for Construction and
Operation of Natural Gas Storage
Facilities.

Application No. 08-07-____
(Filed July 29, 2008)

**APPLICATION OF GILL RANCH STORAGE, LLC
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
FOR CONSTRUCTION AND OPERATION OF
NATURAL GAS STORAGE FACILITIES**

Ann L. Trowbridge
Ralph R. Nevis
DAY CARTER & MURPHY LLP
3620 American River Drive, Suite 205
Sacramento, California 95864
Telephone: (916) 570-2500, ext. 103
FAX: (916) 570-2525
E-mail: atrowbridge@daycartermurphy.com
Attorneys for Gill Ranch Storage, LLC

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Pursuant to sections 1001, 1002, 829, and 853 of the Public Utilities Code and Rules 2.1 through 2.5 and 3.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission” or “CPUC”), Gill Ranch Storage, LLC (“GRS”) respectfully requests that the Commission take the following actions to authorize a new natural gas storage facility in the central San Joaquin Valley:

- (1) Issue to GRS, as a public utility gas corporation, a Certificate of Public Convenience and Necessity (“CPCN”) authorizing GRS to construct and operate the Gill Ranch Gas Storage Project, including ancillary pipeline and other facilities;
- (2) Authorize GRS to charge market-based rates for storage services provided by GRS at the Project;
- (3) Adopt a Mitigated Negative Declaration and issue a Notice of Determination pursuant to the California Environmental Quality Act (“CEQA”) for the Gill Ranch Gas Storage Project; and
- (4) Determine that GRS’ Project-related financing is exempt from the requirements of Public Utilities Code sections 818 and 851 and the Commission’s competitive bidding rule.

I. EXECUTIVE SUMMARY.

A. The Applicant: Gill Ranch Storage, LLC.

Gill Ranch Storage, LLC (“GRS”) is an Oregon limited liability company formed in 2007 for the purpose of developing the Gill Ranch Gas Storage Project (“Project”), located primarily in Madera County, California. GRS is a wholly-owned subsidiary of Northwest Natural Gas Company (“NW Natural”), a 149-year-old local natural gas distribution company based in Oregon. NW Natural is not authorized to and does not provide natural gas local distribution, storage, transmission, or any other services in California. NW Natural provides natural gas local distribution services to its customers in Oregon and southwest Washington. GRS is a separate legal entity from NW Natural and is dedicated exclusively to serving the California market.

GRS and Pacific Gas and Electric Company (“PG&E”) signed a Joint Project Agreement setting forth the terms and conditions pursuant to which GRS and PG&E will own and develop the Project. Under the Joint Project Agreement, GRS shall own a 75 percent undivided interest in the proposed Project and PG&E shall own a 25 percent undivided interest. GRS and PG&E have also entered into an Operator Agreement, which designates GRS as the operator of the Project during the development, permitting, and construction phases, and for at least three years from the date commercial operation begins. GRS and PG&E are not partners, joint venturers, or affiliates with respect to the Project, or for any other purpose.

GRS and PG&E each will separately market its share of Project storage capacity and thus will be competitors in the provision of storage services in California. Subject to CPUC approval of this CPCN application, GRS will offer storage services from its 75 percent share of Project capacity at market-based rates. PG&E proposes to market its share of Project capacity as part of its gas storage portfolio.

PG&E is simultaneously filing a separate application for a CPCN for its 25 percent interest in the Project, and requesting that the Commission issue PG&E a Permit to Construct an electric substation and the 115 kV electric power line that will deliver electricity to the Project’s central compressor station and other facilities at the compressor station site.

GRS has included with this CPCN Application a Proponent’s Environmental Assessment for the entire Project, including the Project substation, as well as the 115 kV electric power line that PG&E will construct, own, and operate.

B. Proposed Facility Description.

The Project will provide additional storage capacity to help meet the energy needs of California customers. It consists of four components: (1) a 20 billion cubic feet (“Bcf”) underground natural gas storage field, the Gill Ranch Storage Field, located primarily in Madera County; (2) a compressor station utilizing electric-drive equipment that will be used to inject and withdraw gas into and from the storage reservoirs, and associated dehydration and control facilities; (3) a natural gas pipeline extending approximately 27 miles from the Gill Ranch Storage Field, through Madera and Fresno Counties, to an interconnection with PG&E’s Line 401; and (4) an electric substation located at the compressor station that will be connected to an approximately 9-mile 115 kV electric power line extending from PG&E’s Dairyland-Mendota 115 kV power line to the compressor site, which power line will be constructed, owned, and operated by PG&E to serve the compressor station and other facilities at the compressor station site.¹

C. CEQA Compliance.

Pursuant to Rule 2.4, and in accordance with CEQA and the Commission’s implementing regulations, a Proponent’s Environmental Assessment (“PEA”) which assesses all potential environmental impacts of the proposed Project, including the 115 kV electric power line that PG&E will construct, own, and operate, is included as Exhibit A to this Application.² The CPUC will serve as the lead agency under CEQA for purposes of environmental review of the Project. The PEA identifies the potential significant environmental impacts associated with construction and operation of the Project, including the electric power line, as well as design features and mitigation measures that will reduce any such potential impacts to less than significant levels.

Every effort has been made to design the Project in a manner that avoids or minimizes the potential for environmental disturbance. The Project will be located in an agricultural area where natural gas production has historically occurred and presently continues to a limited extent. As the PEA demonstrates, the proposed Project configuration, including design features and mitigation measures incorporated into the Project, will have no significant, unmitigable

¹ The power line will be co-located with an existing PG&E distribution line for nearly 80 percent of the route.

² For purposes of the Project, “Proponent’s Environmental Assessment” is intended to refer to the assessment performed on behalf of the Project owners, GRS and PG&E.

environmental impacts. Design features and mitigation measures that will avoid or minimize potential impacts include: (1) a pipeline route that follows existing public rights-of-way to the greatest extent practicable and minimizes environmental and agricultural impacts; (2) use of electric motors instead of natural gas-fired engines for compression of natural gas to minimize air pollutant emissions; (3) use of existing well pads and directional well drilling to the greatest extent practicable to minimize potential surface impacts; (4) directional drilling at waterway and road crossings to avoid potential impacts to water resources and transportation infrastructure; and (5) an electric power line to the compressor facility that will be co-located with PG&E distribution lines for nearly 80 percent of the route.

Based on the substantial evidence and the analysis provided in the PEA, GRS requests that the Commission (1) find that the proposed Project will not have a significant effect on the environment, or that any significant effects may be avoided or reduced to less than significant levels through the proposed Project design features and mitigation measures, and (2) prepare and adopt a Mitigated Negative Declaration and issue a Notice of Determination in compliance with CEQA.

D. Compliance with California Gas Storage Policy and Market-Based Rates.

This Application presents the Commission with another important opportunity to implement the State’s gas storage policy. Specifically, the Commission and the Legislature seek to promote competition in gas storage services by encouraging the development of natural gas storage facilities that provide service to non-core customers, including independent gas storage facilities. The Commission has already taken significant steps to implement this policy by unbundling non-core gas storage services and by approving the independent storage facilities owned by California’s first two independent storage providers, Wild Goose Storage, Inc. (“Wild Goose”) and Lodi Gas Storage, L.L.C. (“LGS”). In the decisions approving those gas storage projects, the Commission applied the “let the market decide” policy to establish a presumption of need for the proposed independent storage and confirmed that market-based pricing is appropriate for independent storage service.³

This Project similarly qualifies for application of the “let the market decide” policy and related market pricing policies. GRS enters the California storage market with a customer base

³ See, e.g., D.97-06-091 (as modified by D.98-06-083); D.00-05-048; D.02-07-036; D.06-03-012; and D.08-02-035.

of zero. In order to develop a share of that market, GRS will have to compete with the incumbent utilities, as well as Wild Goose and LGS. Additionally, GRS' shareholders are 100 percent at risk for the success of GRS' 75 percent interest in the Project. In order to minimize or eliminate the potential for adverse effects on shareholders, GRS will not be able to discount storage services without restraint.

GRS' parent, NW Natural, is a separate legal entity that neither provides natural gas services in California, nor owns or controls transportation infrastructure in California or directly connected to California. Similarly, NW Natural's Mist storage facility, discussed in Sections II.A and VI.A.3 below, is not connected directly to California.

GRS will neither have market power nor the ability to exercise market power in the gas storage market. Rather, the Project will provide another competitive option, reducing market concentration and minimizing the potential for the exercise of market power by any market participant, as called for by California's gas storage policy.

E. Future Opportunity.

As was the case with the Wild Goose facility and the LGS Kirby Hills facility, there is the potential for future expansion at the Gill Ranch Gas Field.⁴ Based on current information, GRS and PG&E estimate that any such future expansion could add between 20 and 25 Bcf of working gas capacity to the Project. GRS will not have the technical or demand information necessary to investigate whether to pursue an expansion until the proposed Project has been developed and is operating. Under the Joint Project Agreement, GRS and PG&E each have the option to participate or not in any future expansion.⁵ Any such future expansion would be subject to Commission approval, including any appropriate additional environmental review under CEQA.

F. Request for CPCN.

GRS respectfully requests that the Commission grant this Application and issue a CPCN authorizing GRS to develop and operate the Project and, with respect to GRS' 75 percent interest in the Project, offer storage services at market-based rates. As described in this Application, construction of the Project is scheduled to begin during the summer of 2009, so that the Project may begin operation during the summer of 2010, in time to help meet California's traditionally

⁴ The Gill Ranch Storage Field is within the Gill Ranch Gas Field.

⁵ If, at a future date, both parties elect to participate in an expansion of the Project, then GRS and PG&E would work toward equalization of their percentages of ownership in the entire Project.

higher fall and winter gas demand. In order to ensure the Project is available to address that demand, and consistent with longstanding state policy encouraging increased competition in gas storage, GRS requests that the Commission expeditiously process this Application and issue a final decision no later than the summer of 2009.⁶

G. Requested Exemptions.

Consistent with its request for approval of market-based rates, GRS also requests that the Commission find, pursuant to Public Utilities Code sections 829 and 853, that GRS is exempt from the requirements of Public Utilities Code sections 818 and 851 in connection with GRS' financing of its 75 percent interest in the Project. Additionally, GRS requests that the Commission determine that the competitive bidding rule is not applicable to any financing arrangements GRS enters into for its 75 percent interest in the Project, or exempt GRS from the rule with respect to Project financing.

II. APPLICANT.

A. Gill Ranch Storage, LLC.

The exact legal name of the applicant is Gill Ranch Storage, LLC. GRS is an Oregon limited liability company that currently has its principal place of business at 220 NW Second Avenue, Portland, Oregon, 97209. GRS plans to operate a local business and operations office at the Project compressor site after a CPCN is issued and Project construction begins. GRS is qualified by the California Secretary of State to do business in California.

GRS was formed in 2007 for the purpose of developing the Project. The current management of GRS is as follows:

President and CEO	J. Keith White
Vice President and Treasurer	C. Alex Miller
Director, Project Development	Charles E. Stinson, P.E.
Director, Business Development	Denny Henderson

GRS is a wholly-owned subsidiary of NW Natural, a local natural gas distribution company based in Oregon. NW Natural is a 149-year-old Oregon corporation engaged in the business of purchasing, selling, storing, transporting, and distributing natural gas to over 652,000

⁶ Assembly Bill 2744 (1992 Statutes, Chapter 1337), which expresses the Legislature's formal natural gas policy, calls for expedited consideration of applications for CPCNs filed by independent gas storage providers to assure such facilities will begin operating within a time frame reasonably consistent with the initiation of unbundled investor owned utility gas storage service.

customers via separate systems in Oregon and southwest Washington. NW Natural's facilities and services in Oregon and Washington are subject to the jurisdiction of the Public Utility Commission of Oregon and the Washington Utilities and Transportation Commission and, except as discussed below, are exempt from Federal Energy Regulatory Commission ("FERC") jurisdiction.⁷

NW Natural developed, owns and, since 1989 has operated, an underground natural gas storage facility in Columbia County, Oregon known as the Mist Storage Facility ("Mist"). NW Natural uses Mist primarily for its core local distribution customers. Since 2001, NW Natural, through a separate business segment, has made excess and new storage capacity at Mist that was pre-built in advance of core need available to customers in the interstate market pursuant to a limited jurisdiction blanket certificate issued by FERC.⁸ Any interstate customers of Mist must receive their gas at delivery point interconnections between NW Natural's Oregon local distribution system and the facilities of an interstate pipeline.

GRS is dedicated exclusively to serving the California market. NW Natural is not authorized to and does not provide natural gas local distribution, storage, transmission, or any other services in California. As discussed further in Section VI.A.3 of this application, NW Natural neither owns nor controls natural gas transportation or storage infrastructure in California or directly connected to California.

B. Project Ownership.

GRS and PG&E have signed a Joint Project Agreement setting forth the terms and conditions pursuant to which GRS and PG&E will own and develop the Project. Under the Joint Project Agreement, GRS shall own a 75 percent undivided interest in the proposed Project and PG&E shall own a 25 percent undivided interest. GRS and PG&E have also entered into an Operator Agreement, which designates GRS as the operator of the Project during the development, permitting, and construction phases, and for at least three years from the date commercial operation begins. GRS and PG&E are not partners, joint venturers, or affiliates with respect to the Project, or for any other purpose. GRS and PG&E each will separately market its

⁷ Portland Gas and Coke Company, 17 FPC 638 (1957); Natural Gas Pipeline Company of America, et al., 18 FERC ¶ 61,235 (1982).

⁸ Northwest Natural Gas Company, 95 FERC ¶ 61,242 (2110); *see also* 111 FERC ¶ 61,406 (2005) (rate settlement).

share of Project storage capacity and thus will be competitors in the provision of storage services in California.

C. Designated Contact for GRS.

The designated contacts for questions concerning this Application and serving of notices and pleadings are:

Charles E. Stinson
Gill Ranch Storage, LLC
Director, Project Development
220 NW Second Ave.
Portland, OR 97209
Tel.: (503)220-2585
FAX: (503)220-2584
charlie.stinson@gillranchstorage.com

Ann L. Trowbridge
Day Carter & Murphy LLP
3620 American River Dr., Suite 205
Sacramento, CA 95864
Tel.: (916)570-2500, ext. 103
FAX: (916)570-2525
atrowbridge@daycartermurphy.com

D. Articles of Organization.

A copy of GRS' Articles of Organization is attached hereto as Exhibit B. A copy of GRS' Certificate of Registration to do business in California issued by the Secretary of State is attached hereto as Exhibit C.

III. PROJECT DESCRIPTION.

A. Location and Surface Description.

The Project is located primarily in agricultural areas, where natural gas production has historically occurred, and where some production continues today. In compliance with Rule 3.1(a), following is a description of the proposed Project location and existing surface conditions, both of which are discussed in greater detail in the PEA, in Section 3 and Appendix A.

1. Gill Ranch Storage Field.

The Gill Ranch Storage Field ("Storage Field"), which is within the Gill Ranch Gas Field ("Gas Field"), described in Section III.B below, is located near the geographic center of California, approximately 10 miles east of the town of Mendota and approximately 20 miles west of Fresno. It is approximately 1.5 miles north of Highway 180, and approximately 10 miles east of Highway 33. Most of the Storage Field is located in the County of Madera. The San Joaquin River traverses the southeastern portion of the Storage Field. The small portion of the Storage Field that lies south of the San Joaquin River is located in the County of Fresno. The Storage Field is ideally located near five major interconnects between the PG&E system and several interstate pipelines, as well as Southern California Gas Company's system. The Project's central

California location will diversify the location of storage facilities in California, which presently are focused in northern California.

The land surface within the boundary of the Storage Field is approximately 5,020 acres (“Storage Field Boundary”). The surface of the Storage Field is flat. Other than the San Joaquin River, there are no rivers, streams, or ponds on the surface of the Storage Field. The Storage Field is bisected by local dirt and gravel farm roads, which will provide access to Project facilities from the north and west off of Madera County Avenue 7 and Road 16.

Historically, the Storage Field was used for natural gas production, and some Gas Field infrastructure is still present. Gas production continues from two wells, producing from different formations than those to be used by the Project. As discussed below, GRS proposes to use existing well pads to the extent practicable.

The major land use in the area is agriculture, including annual tomato and cotton crops, pistachio orchards, and grapes. There are agricultural outbuildings in the vicinity of the Storage Field, none of which will be impacted by the Project. There is one occupied residence within the Storage Field Boundary. It is located approximately two miles from the compressor station.

The location of the Storage Field is shown in Figures 1.1-1 and 3.1-1 of the PEA.

2. Central Compressor Station.

A compressor and associated dehydration facilities, the Project operations control center, an electric substation, and other equipment as described in Section III.D.3, below, will be located on a 10-acre parcel near the center of the Storage Field. The 10-acre parcel is located at the corner of two intersecting farm roads, Avenue 3 and Road 16. Land to the west of the parcel is planted in grapes, and there is a pistachio orchard across the farm road to the north.

The compressor station location was selected because it is central to the Project storage reservoirs and well pads. It can be readily accessed by the east-west farm road, which connects to County Road 16, approximately one-half mile to the west. There are no residences or public roads near the central compressor and control center site. The nearest residence is approximately 1.3 miles away from the site.

Additional details relating to the location of the central compressor station are available in Section 3.5, Appendix A, and Figure 3.1-2 of the PEA.

3. Pipelines.

Gathering and distribution pipelines will transport gas between the injection and withdrawal wells and the central compressor site. These pipelines will be located along farm and country roads.

An approximately 27-mile, 30-inch pipeline will connect the compressor station to PG&E's high-pressure backbone natural gas transmission system at PG&E's Line 401, west of the Storage Field at West Lincoln Avenue, near Interstate 5 in the County of Fresno. The pipeline route has been carefully configured to follow existing public rights-of-way to the greatest extent practicable, to follow parcel boundaries to minimize agricultural impacts, and to avoid potentially sensitive environmental areas, including environmental preserves. The pipeline will cross one river, two sloughs, and two irrigation canals. Horizontal directional drilling or other appropriate boring techniques will be used at all waterway crossings.

Land uses along the pipeline route are primarily agricultural. Agricultural impacts will be minimized as set forth in the Agricultural Impact Mitigation Plan, and agricultural production can be resumed along the pipeline route after construction.

The proposed pipeline route is described in Section 3.5, Appendix A, and Figure 3.1-1 of the PEA. A copy of GRS' Agricultural Impact Mitigation Plan for the Project is provided in Appendix B.6 of the PEA.

4. Electric Power Line.

The compressor station, including 45,000 horsepower electric-drive compressor motors, will be powered by electricity. The compressor station will receive electricity from a new approximately 9-mile 115 kV power line, which will be constructed, owned, and operated by PG&E. With the exception of the initial approximately 1-mile segment to connect the compressor station to PG&E's electric system, the new power line will be co-located with existing PG&E distribution lines. Land uses along the power line route are primarily agricultural and there are no residences along the proposed route. The power line will not materially interfere with agricultural production along the route. The proposed electric power line route is shown in Figure 3.1-3 of the PEA.

B. Geology and Production History.

The Gas Field is primarily located in Madera County, in the central San Joaquin Valley, approximately 25 miles west of the City of Fresno. It was originally discovered by Texaco in 1942. Significant gas production continued through the 1990s.

The Gas Field consists of several geologically separate and, for the most part depleted, dry gas reservoirs. Through 2006, the Kreyenhagen Formation, the Domengine Formation, the Moreno Formation, and the First and Second Starkey Formations produced 89.7 Bcf of natural gas. Minimal production continues today at two wells, one of which is producing from the Kreyenhagen Formation, and the other from the Moreno Formation. The Project will use depleted sandstone reservoirs, more than a mile underground, at the top of the First and Second Starkey Formations, which are approximately 2,000 feet below the two producing gas wells.

A detailed description of the geology of the Gas Field is provided in Section 4.6 of the PEA.

C. Surface and Subsurface Rights.

In California, the surface owner has the right to store natural gas in a subsurface geological formation, unless that right has been severed in a deed or other conveyance, subject to an obligation not to unreasonably interfere with a mineral owner's right to explore for and produce oil and gas. Although only storage rights are required for the Project, GRS (on behalf of the Project) is also seeking either the mineral rights to the property or the consent and agreement of the mineral owners to conduct storage operations. Obtaining the mineral rights or consents from any separate mineral owners will preclude such owners from claiming interference by Project operations. Additionally, where mineral rights or consents are obtained, mineral owners will be precluded from drilling into or through the storage reservoirs and causing damage to or recovering stored gas. Obtaining such rights will also preclude others from claiming that recoverable gas reserves exist in the reservoirs (prior to injection of gas).

There are nine parcels within the Storage Field Boundary. GRS (on behalf of the Project) is seeking storage rights from each surface landowner and, where mineral rights have been severed, GRS is negotiating separately with the severed mineral rights owners to either acquire their mineral rights or their consent to the operation of the Project. As of the date of filing of this Application, GRS has entered into 50-year underground storage leases (with a 50-year renewal

option) with the owners of six of the nine Storage Field parcels, accounting for over 75 percent of the total surface area within the Storage Field Boundary. GRS anticipates that it will have obtained nearly all the surface and subsurface rights necessary to construct, own and operate the Project by year-end 2008. Certain of the storage leases entered into with the surface owners allow use of the surface for development of storage facilities, including the compressor station and related facilities.

The gas transmission pipeline will require easements over parcels along the pipeline route. On behalf of the Project, GRS has been in contact with the property owners along the route and will work to negotiate and execute easements with mutually acceptable terms prior to commencement of construction of the pipeline.

D. Description of Facilities.

Following is a description of the Project components. Additional detail is provided in the PEA.

1. Storage Reservoir.

The Storage Field is comprised of several geologically separate and isolated reservoirs. Production at the Storage Field has been from sandstones within the Kreyenhagen Formation, the Domengine Formation, the Moreno Formation, and the First and Second Starkey Formations.

Depleted gas reservoirs from both the First Starkey Formation and, at a lower depth, the Second Starkey Formation, will be converted to storage operations and will provide approximately 20 Bcf of working gas capacity.⁹ There are about 85 feet of claystone from the overlying Moreno Formation above the First Starkey Formation. The average depth to the First Starkey Formation reservoir is 5,700 feet. The Second Starkey Formation reservoir is separated from the First Starkey Formation by approximately 100 feet of basal claystones and siltstones. The average depth to the Second Starkey Formation reservoir is 6,200 feet. The maximum operating pressure of the reservoirs that will be converted to storage is 3,700 pounds per square inch.

The potential for using the reservoirs for storage was evaluated using well data, production history, and geologic mapping. The results of that work demonstrate that the

⁹ GRS will own a 75 percent interest in the 20 Bcf Project storage capacity and PG&E will own a 25 percent interest in the Project storage capacity.

characteristics of the reservoirs within the Storage Field make them suitable for conversion to high deliverability storage.

2. Wells.

Fourteen well sites that have been used for production operations exist within the Storage Field Boundary. Only two wells are currently in production. Gas is currently being produced from shallow formations, located well above the Starkey sands that will be used for gas storage. Well records for each of the previously abandoned wells that penetrated the Starkey sands at the Storage Field will be analyzed to determine whether additional plugging operations are necessary prior to conversion to storage. To the extent such analysis suggests additional well plugging operations are necessary, the Project will comply with applicable California Department of Conservation, Division of Oil, Gas and Geothermal Resource (“DOGGR”) requirements.

The Project includes 12 to 15 injection/withdrawal wells, which will be located on four well pads.¹⁰ Three existing well pads will be expanded and one new well pad will be developed. Each well pad will be approximately two acres and will be graveled and fenced. The surface facilities at each pad will include well heads, gas-water separators, gas and water piping, metering equipment, a small methanol tank, and two small ancillary equipment and metering sheds. Existing roads will be used to access well pads to the greatest extent possible, and new gravel roads will be installed for access where appropriate.

Up to four new observation and monitoring wells will be drilled and up to three existing wells will be reworked within or on the margin of the active working gas portion of the reservoir. Each of these well pads will be approximately 0.7 acres and will be graveled and fenced. These wells will be accessed by existing roads and, where required, new gravel roads. Up to two observation and monitoring wells and well pads will be located south of the San Joaquin River in Fresno County; the others will be in Madera County.

One new salt water disposal well will be drilled to properly dispose of produced water. This well will be located at the central compressor station location or at a new well pad.

The majority of the new Project wells will be directionally drilled horizontal wells to allow access to the reservoir at different positions from a few surface locations, thereby

¹⁰ Four injection and withdrawal well sites are proposed and seven additional alternate sites have been identified. Final site selection will occur upon completion of reservoir studies, data interpretation, and testing.

minimizing the number of well pads. Drilling and completion of each well will be conducted in accordance with applicable DOGGR requirements.

The existing and proposed new injection/withdrawal well pad sites, the proposed observation well pad sites, and the proposed salt water injection well site are shown in Figure 3.1-2 of the PEA. All of the proposed well pad sites are located in agricultural areas where no wetland areas are present.

3. Central Compressor Station.

As noted above, a compressor station, which will include compression and dehydration equipment, will be located on a 10-acre parcel near the center of the Storage Field. The central compressor station site will also include gas metering, pressure and flow control, process control instrumentation, an electric substation, and an office/control building.

The compressor station includes 45,000 horsepower of compression powered by five 9,000 horsepower electric motors. The compression equipment is designed to operate with a reservoir pressure range of approximately 500 to 3,700 pounds per square inch gauge (“psig”) over seasonal injection and withdrawal cycles. The compression equipment will be housed in an insulated metal building with noise attenuation materials, fire and gas monitor and detection equipment, and fire suppression systems.

The site will also include gas dehydration equipment with a capacity of 715 million cubic feet per day. The dehydration equipment consists of two 3.34 million Btu per hour regenerator units, equipped with two contactors. Each unit is capable of handling 357.5 million standard cubic feet per day.

The electric-powered compressor station is designed to meet the air emission standards established by the San Joaquin Valley Air Pollution Control District (“SJVAPCD”), including application of best available control technology.¹¹

Each natural gas injection and withdrawal well will be equipped with a gas/water separator. Separated water will flow through a dedicated steel pipeline to a central collection facility located at the compressor station site. It will be collected in steel tanks prior to injection into a water disposal well at the compressor station site.

¹¹ Gas-fired compression was analyzed, but electric compression was selected in order to minimize air quality effects. The gas-fired compressor alternative similarly meets the standards established by the SJVAPCD.

An electric substation will be located at the central compressor station site. The substation is necessary to step down the voltage of the electricity to be used at the compressor station and other uses at the compressor site.

A prefabricated metal office/control room will also be located at the 10-acre site. Operating and maintenance personnel will be present at the Project during normal daytime workday hours. Operations personnel will be on call after hours and will electronically remain in communication with the control room.

An operations center maintenance workshop will be located in a building adjacent to the control room. The operations center will include office and meeting space, restrooms, and other necessary facilities.

The layout of the central compressor station is shown in Appendix A of the PEA.

4. Pipelines.

The Project gathering and distribution pipelines will be 12 to 16 inches in diameter. They will transport gas between the injection and withdrawal wells and the central compressor site. The pipelines will be located primarily along farm roads, installed using traditional trenching methods, and covered with a minimum of five feet of soil.

An approximately 27-mile, 30-inch bidirectional buried pipeline will connect the compressor station located in Madera County to PG&E's high-pressure backbone natural gas transmission system at PG&E's Line 401. Line 401 is a 36-inch pipeline with a Maximum Allowable Operating Pressure ("MAOP") of 1,040 psig, and a typical operating pressure of 600-1,000 psig. PG&E's Line 401 is an integral part of the backbone system which transports gas throughout the PG&E service territory. The interconnection will be located west of the Storage Field at West Lincoln Avenue near Interstate 5 in the County of Fresno. The Project pipeline will be designed for an MAOP of approximately 1,415 psig to allow free flow into PG&E's backbone transmission system. The Project will be included in, and subject to, the natural gas pipeline allocation mechanism ordered in D.02-07-036 (and adopted in Resolution G-3353), so that the Project will be treated like other independent storage providers.¹²

Most of the approximately 27-mile pipeline will be installed using traditional trenching methods. Horizontal boring and hammering, and directional drilling, will be used as appropriate

¹² D.02-07-036, *mimeo*, at pp. 35-36; Findings of Fact 22, 23; Conclusion of Law 8; Ordering Paragraphs 21, 22.

where the pipeline crosses major sloughs and rivers, and roads. The pipeline will be designed and constructed in accordance with applicable requirements of the U.S. Department of Transportation, Office of Pipeline Safety and Commission General Order 112-E.

Along most of the pipeline route, the construction right-of-way will be approximately 85 to 95 feet wide. A larger construction right-of-way will be required where horizontal boring or directional drilling is used. In agricultural areas, the pipeline will be buried at a depth of five feet, exceeding U.S. Department of Transportation requirements. Agricultural uses along pipeline rights-of-way will be re-established once construction is complete. A 50-foot permanent easement will be used for ongoing operations relating to the pipeline.

5. PG&E Interconnection.

The pipeline will interconnect with PG&E's high-pressure backbone transmission system at Line 401 at a location approximately 27 miles west of the Storage Field, near Interstate 5 at West Lincoln Avenue in Fresno County. GRS is working with PG&E to complete the design of the tie-in facilities. It is expected that these facilities will have a footprint of approximately 100 feet by 100 feet and will be located on land that is currently in agricultural use.

Facilities at the tie-in location include isolation valves, a pressure regulator, gas chromatograph, odorization system, communication equipment, and supporting infrastructure. Gas delivered from PG&E for injection will have previously been odorized, and the odorization level will be tested and corrected if necessary prior to redelivery into any PG&E line.

6. Electric Power Line.

The compressor station, including the 45,000 horsepower electric drive compressor motors, will be powered by electricity from a new, approximately 9-mile, single-circuit 115 kV electric power line which will be constructed, owned, and operated by PG&E.¹³ With the exception of the initial approximately 1-mile segment to connect the compressor station to PG&E's system, the new power line will be co-located with existing PG&E distribution lines. Somewhat taller wood poles will be installed, and the existing distribution facilities will be transferred to the rebuilt power line (often referred to as a distribution underbuild). Except for a steel pole on either side of the Chowchilla Canal water crossing, the power line will be installed

¹³ While other Project facilities will be treated as Project assets, owned by GRS and PG&E in the percentages set forth above, PG&E will be the outright builder, owner, and operator of the new electric power line, and the Project owners will reimburse PG&E for its costs.

on wood poles. The rebuilt power line will tie into PG&E's existing Dairyland-Mendota 115 kV transmission line approximately five miles east of Firebaugh.

The proposed gas transmission meter station, to be located at the PG&E Line 401 tie-in point, will require an electric distribution hook-up to serve the gas meter. This facility will receive electricity from an existing 12 kV electric distribution line located approximately 100 to 200 feet away from the GRS meter.

E. Preliminary Engineering and Design Information.

Pursuant to Public Utilities Code section 1003, preliminary engineering and design information for the Project is included in Appendix A of the PEA.

F. Construction Schedule.

GRS expects Project construction to begin upon receipt of a CPCN from the Commission and all other permits and approvals required for the Project. Currently, construction is scheduled to begin during the summer of 2009, so that the Project may commence operation during the summer of 2010, in time to meet the traditional higher natural gas demand that occurs in the fall and winter.

Construction of the approximately 27-mile pipeline is expected to occur at an average rate of up to one-half mile per day. With the exception of the natural gas injection and withdrawal wells, Project construction activities would occur Monday through Saturday, at times that comply with applicable local requirements. Well drilling is a 24-hour-per-day operation. Each well will take approximately 20 days to construct. Once well drilling commences it will continue until the well is completed.

A detailed construction schedule and description of construction activities is provided in Section 3.7 and Figure 3.7-1 of the PEA.

G. Competitors/Area of Service.

In accordance with Commission Rule 3.1(b), following are the names and addresses of all entities with which GRS is likely to compete in the provision of natural gas storage services:

1. Pacific Gas and Electric Company
Law Department
Attn: Judi K. Mosley
77 Beale Street
San Francisco, CA 94105

2. Southern California Gas Company
Attn: Richard M. Morrow
555 W. Fifth Street, Suite 1400
Los Angeles, CA 90013
3. Lodi Gas Storage, LLC
c/o James W. McTarnaghan
Duane Morris, LLP
One Market, Suite 2000
San Francisco, CA 94105
4. Wild Goose Storage Inc.
c/o Jeanne B. Armstrong
Goodin MacBride Squeri Day & Lamprey LLP
505 Sansome Street, Suite 900
San Francisco, CA 94111
5. El Paso Natural Gas Company
P.O. Box 1087
2 North Nevada Avenue
Colorado Springs, CO 80944
6. Transwestern Pipeline Company
711 Louisiana, Suite 900
Houston, TX 77002
7. Gas Transmission Northwest
1400 SW 5th Avenue, Suite 900
Portland, OR 97201
8. Mojave Pipeline Company
Western Pipelines
P.O. Box 1087
Colorado Springs, CO 80944
9. Kern River Gas Transmission Company
2755 E. Cottonwood Parkway, Suite 300
Salt Lake City, UT 84121
10. Questar Southern Trails Pipeline Company
180 East 100 South
P.O. Box 45360
Salt Lake City, UT 84145

11. Sacramento Natural Gas Storage, LLC¹⁴
c/o Law Office of Alfred F. Jahns
3436 American River Drive, Suite 12
Sacramento, CA 95864

12. Central Valley Gas Storage, LLC¹⁵
c/o Nicor, Inc.
P.O. Box 3014
Naperville, IL 60566-7014

GRS will perform storage services from its 75 percent interest in the Gill Ranch Gas Storage Project facility, which will be located primarily in the County of Madera and partly in the County of Fresno.

The address of the County of Madera is:

County of Madera
Planning Department
2037 W. Cleveland Avenue, M.S. G
Madera, CA 93637

The address of the County of Fresno is:

County of Fresno
Public Works and Planning
2220 Tulare Street, 7th Floor
Fresno, CA 93721

As shown in the certificate of service, all the entities identified above have been served with a copy of this Application, in accordance with Commission Rule 3.1(b). Additionally, all owners of land on which the Project will be located, and owners of land adjacent thereto, will be served with a Notice of Availability of this Application as soon as an application number is assigned by the Commission. A copy of the Notice of Availability that GRS plans to send is attached hereto as Exhibit D. A list of landowners is included in Appendix C of the PEA.

¹⁴ Application for certificate of public convenience and necessity pending before the Commission (A.07-04-013).

¹⁵ Project announced in April 2008. Application for certificate of convenience and necessity has not been filed with the Commission.

H. Map.

As required by Commission Rule 3.1(c), Exhibit E to this Application includes a map showing the proposed Project in relation to other public utilities and entities with which the Project is likely to compete.

I. Regulatory Approvals.

Pursuant to Rule 3.1(d), Exhibit F to this Application identifies the permits and approvals that may be required for the Project, the public authority expected to issue the permit or approval, and the purpose of the permit or approval.

J. PG&E Interconnection Agreements.

In accordance with California's gas storage policy, PG&E is required, upon request, to interconnect independent storage facilities with its gas transmission system as if the storage provider were a gas customer, absent a clear showing that interconnection would impair its ability to serve existing customers.¹⁶ Pursuant to that policy, GRS has been working with PG&E to interconnect with PG&E's Line 401 at a point approximately 27 miles west of the Storage Field, near Interstate 5 in Fresno County, to provide for the receipt and delivery of gas stored in the Project.

PG&E has performed a preliminary study of the proposed interconnection and will next undertake detailed design of the proposed interconnection. The preliminary analysis indicates that PG&E's existing facilities will be able to accommodate the proposed injection and withdrawal volumes for the Project. GRS expects that good faith negotiations between GRS and PG&E will continue and that the parties will enter into an interconnection agreement and an operating and balancing agreement well before Project operations begin.

K. Project Costs.

1. Construction Costs.

Commission Rule 3.1(f) calls for an applicant to submit "[a] statement detailing the estimated cost of the proposed construction . . . and the estimated annual costs, both fixed and operating, associated therewith." The Commission has not previously required that independent storage providers provide cost data to support market-based rates. In D.98-06-083, the Commission did not require Wild Goose to provide the Commission with cost data showing that

¹⁶ Storage Decision, D.93-02-013 (1993 Cal. PUC LEXIS 66, *44-45).

Wild Goose's tariff rates did not fall below its short-run marginal costs.¹⁷ Similarly, in D.00-05-048, the Commission did not require LGS to file cost data in support of market based rates and related tariffs.¹⁸

Like Wild Goose and LGS, GRS will not serve captive ratepayers. As discussed herein, GRS is seeking market-based rate authority for the services it will provide in connection with its 75 percent interest in the Project. GRS will enter the market with a customer base of zero. GRS' shareholders, not ratepayers, will be 100 percent at risk for the economic success of GRS' 75 percent interest in the Project.

Based on all the foregoing, GRS asks that the Commission waive the cost data requirement of Rule 3.1(f) and confirm that cost statements are not required in connection with this application for a CPCN.

GRS recognizes that the Commission needs an estimate of construction costs in order to determine the fee required by Rule 2.5 to reimburse the Commission for environmental review of the proposed Project under the California Environmental Quality Act. For this limited purpose only, GRS estimates that Project construction costs will be in the range of \$200 to 225 million.

2. Cost Cap.

Public Utilities Code section 1005.5(a) provides that where the estimated cost of construction of a utility facility exceeds \$50 million, the Commission is to specify a maximum cost deemed to be reasonable and prudent for the facility in any certificate authorizing the proposed construction. The purpose of this cost cap is to ensure that the utility's rates reflect the reasonable and prudent costs of the construction of the facility.¹⁹

Here, GRS seeks to provide service at market-based rates in connection with its 75 percent interest in the Project. GRS' shareholders are at risk for the Project. GRS does not have captive customers to pay for the Project. Thus, the section 1005.5(a) cost cap should not apply to GRS.

The Commission has not previously applied the cost cap requirement in connection with independent storage. The Commission waived the section 1005.5 cost cap requirement in its decision authorizing the expansion of the Wild Goose facility "[b]ecause Wild Goose does not

¹⁷ D.98-06-083 (1998 Cal. PUC LEXIS 481, *10; Conclusions of Law 6-10; Ordering Paragraphs 6-10).

¹⁸ D.00-05-048, *mimeo*, Conclusions of Law 14 and 15.

¹⁹ Cal. Pub. Util. Code § 1005.5(d).

have captive customers who are financing the expansion project.”²⁰ The Commission also waived the section 1005.5 cost cap requirement in connection with LGS’ Lodi project, because LGS’ rates would be market-based and because ratepayers would not be financing the Lodi project, thereby eliminating concerns regarding cross-subsidization.²¹

Because GRS is seeking market-based rate authority, because ratepayers will not fund GRS’ interest in the Project, and consistent with Commission precedent in the independent storage arena, GRS asks the Commission to waive the section 1005.5 cost cap requirement.

L. Project Financing.

Commission Rule 3.1(g) requires that an application for a CPCN include statements or exhibits showing the financial ability of an applicant to render the proposed service, along with information regarding the manner in which an applicant proposes to finance the cost of the proposed construction.

Information regarding GRS’ financial ability to render the proposed service is included in Exhibit G hereto. This information has been provided under seal pursuant to the Motion of Gill Ranch Storage, LLC for Leave to File Confidential Materials Under Seal that is being filed concurrently with this Application.

GRS’ 75 percent interest in the Project will be funded using project financing. As noted above, GRS is wholly-owned by NW Natural. To date, GRS and GRS’ 75 percent interest in the proposed Project have been funded by NW Natural’s shareholders on a 100 percent equity basis. GRS anticipates that NW Natural’s shareholders will continue to fund GRS and its 75 percent interest in the Project until the CPUC issues GRS a CPCN for the Project. It is also possible that construction financing may be available to GRS prior to issuance of a CPCN.

While the CPUC is considering this Application, GRS will work with potential lenders to identify and analyze construction financing and permanent debt financing alternatives. GRS expects that the eventual debt/equity ratio for its 75 percent interest in the Project will be approximately 60 percent debt and 40 percent equity.

NW Natural’s ratepayers will not contribute to funding GRS or its 75 percent interest in the Project, nor will PG&E’s, prior to or after issuance of a CPCN to GRS.

²⁰ D.02-07-036, *mimeo*, Conclusion of Law 9.

²¹ D.00-05-048, *mimeo*, Conclusion of Law 16.

M. General Order 104-A Requirement.

Commission Rule 3.1(i) requires that when an applicant's capital stock, or that of its parent company, is listed on a national stock exchange, the applicant is to provide a copy of the latest proxy statement sent to stockholders by it or its parent company. The capital stock of NW Natural is listed on the New York Stock Exchange. A copy of the latest proxy statement sent by NW Natural to its shareholders is provided in Exhibit H hereto.

IV. CALIFORNIA NATURAL GAS STORAGE POLICY.

Fifteen years ago, in D.93-02-013 (the "Storage Decision"), the Commission adopted a "let the market decide" policy for gas storage. The Commission found that a competitive storage market would further policies regarding efficient allocation of gas supplies, improve access to diverse gas supplies and lower costs through competition.²² The Storage Decision followed Assembly Bill ("AB") 2744 (1992 Statutes, Chapter 1337), where the California Legislature formally expressed its support for an open and competitive market for natural gas storage services. In AB 2744, the Legislature urged the Commission, among other things, to consider market-based rates for storage services provided by independent storage providers and unbundled investor owned utility storage facilities and services.

By unbundling non-core storage services for utilities, and by issuing CPCNs for the construction and expansion of the storage facilities of Wild Goose (in 1997 and 2002) and LGS (in 2000, 2006, and 2008) and authorizing both to provide competitive natural gas storage services at market-based rates, the Commission has taken important steps to implement its and the Legislature's "let the market decide" policy.²³

Additionally, in recent years, the CPUC and California Energy Commission ("CEC") have continued to recognize the benefits of storage and reiterated their support for increased in-state storage. In the 2005 Energy Action Plan II, the Commission and the CEC identified under Natural Gas Supply, Demand, and Infrastructure, the following Key Actions:

- Provide that the natural gas delivery and storage system is sufficient to meet California's peak demand needs.

²² Storage Decision, D.93-02-013 (1993 Cal. PUC LEXIS 66, *12).

²³ D.97-06-091 (as modified by D.98-06-083) and D.02-07-036 (Wild Goose); D.00-05-048, D.06-03-012, and D.08-02-035 (LGS).

- Encourage the development of additional in-state natural gas storage to enhance reliability and mitigate price volatility.²⁴

In its 2007 Integrated Energy Policy Report (“2007 IEPR”), the CEC affirmed that:

The natural gas infrastructure system is critical to California’s ability to provide a stable and reliable supply of gas since only 15 percent of our natural gas supplies are produced in state. Just as California looks for adequate supplies of natural gas, it must also ensure that its infrastructure can move and store supplies.²⁵

The 2007 IEPR also recognized that “California’s natural gas storage has been instrumental to help guard against interruptions or severe weather changes, ensuring adequate supplies and making some contributions to more stable prices.”²⁶

In sum, the state of California, including the Legislature, the CPUC and the CEC, has long recognized the reliability and economic benefits of natural gas storage. The CPUC has repeatedly affirmed its commitment to an open and competitive market for natural gas storage services as called for in AB 2744 and the Storage Decision by allowing independent storage providers to supply new and expanded storage services at market-based rates. GRS’ application provides another opportunity for the Commission to carry out these critical state policies.

V. PUBLIC CONVENIENCE AND NECESSITY.

A. The Proposed Project is Necessary.

Granting this CPCN application is in the public convenience and necessity.

1. Presumptive Need.

Historically, under Public Utilities Code section 1001 and Commission rules, applicants for CPCNs have been required to demonstrate there is a need for proposed projects. In the Storage Decision, the Commission found that a traditional showing of need is *not* required where the “builders and users” of new storage projects bear “all of the risk of unused capacity.”²⁷ “For new facilities dedicated to noncore customers we rely on the judgment of the market; we will not test utility construction plans for need except to affirm that the utility and customers agree to expanded storage service.”²⁸ In other words, the Storage Decision created a presumptive

²⁴ Energy Action Plan II, Natural Gas Supply, Demand, and Infrastructure (September 21, 2005), Key Actions 3 and 4, p. 10.

²⁵ 2007 IEPR (November 2007), CEC-100-2007-008-CTF, p. 225.

²⁶ *Id.* at 227.

²⁷ Storage Decision, D.93-02-013 (1993 Cal. PUC LEXIS 66, *43).

²⁸ *Id.* and Finding of Fact 37.

showing of need. Where an independent storage provider provides service at market-based rates, without a captive customer base, there is a presumption that sufficient need exists to allow the recovery of investment in the storage operation. Accordingly, a showing of need is not required for competitive gas storage providers under the Commission's "let the market decide" policy.

However, the Commission has determined that a similar showing may be required for other purposes relating to the CPCN process. For example, in approving LGS' storage project in Lodi, California, the Commission stated that reliance on a presumptive showing of need as set forth in the Storage Decision could make it difficult to determine if there is sufficient evidence to support a statement of overriding consideration required under CEQA if significant unmitigable environmental impacts are found.²⁹ Similarly, an assessment whether a particular project is in the public interest is required by Public Utilities Code section 625, which, where applicable, relates to a utility's right of eminent domain. GRS does not anticipate that the Commission will have to make such determinations under CEQA or section 625 in connection with this CPCN application. Nonetheless, because the Project will increase storage competition in California in furtherance of longstanding state policy and because the market has already expressed strong support for GRS' services, GRS demonstrates that the Project is in the public convenience and necessity.

2. Need and Economic Feasibility Demonstrated by Market Conditions.

As noted above, Energy Action Plan II and the 2007 IEPR recognize the need for increased storage as a means of ensuring California's natural gas infrastructure is sufficient to meet California's peak demand requirements, enhance supply reliability, and provide price stability. The Project will help the State achieve its goals by providing important infrastructure improvements in a central location currently without storage.

Potential storage customers desire additional independent storage capacity. GRS conducted an open season for its 75 percent, or 15 Bcf, share of the Project, based on 485,000 Dth/d of withdrawal capacity and 195,000 Dth/d of injection capacity. The open season began on October 15, 2007 and concluded on December 14, 2007 (although GRS continues to accept inquiries). The response to the open season clearly demonstrated that demand exceeds GRS' 15 Bcf capacity in the Project. Ongoing inquiries reiterate that demand for the Project is strong.

²⁹ D.00-05-048, *mimeo*, at p. 26.

Demand for existing independent storage services has also been strong. Both the Wild Goose and LGS projects have been fully subscribed. Each has sought and received permission from the Commission to expand its storage capacity.

In addition to formal expressions of interest from potential customers, and demand for storage services at the Wild Goose and LGS facilities, there are other reasons to conclude the Project is in the public convenience and necessity.

Since 1997, natural gas demand in the electric sector increased more than 50 percent, primarily as a result of the increased reliance on natural gas-fired electric generation.³⁰ This translates to an annual growth rate of over 4 percent.³¹ Looking ahead, natural gas demand for the electric power sector is forecast to have the most robust growth among end use sectors.³² Currently, California's demand for natural gas in the electric power sector is expected to increase by 2.4 percent over the next decade.³³ In PG&E's service area, natural gas demand for the electric power sector is forecast to increase by 4 percent annually.³⁴ Additionally, GRS, like the Commission, recognizes that climate change presents tremendous challenges. It is possible that legislative and regulatory action designed to reduce greenhouse gas emissions will result in increased development of natural gas-fired generation, at least over the short-term. The Project will enhance California's infrastructure, helping to meet the swing demand for gas supplies created by existing and forecast increases in electric generating capacity.

The Project's central California location will make it possible to efficiently and cost-effectively use existing utility gas infrastructure. It also will provide increased reliability and price stability during periods of high demand and during supply interruptions in California resulting from disruptions on the interstate gas delivery system.

Additional storage within California will allow local markets to benefit from future imports of liquefied natural gas (LNG). The ability to store more gas during times of off-peak demand, potentially lowering prices, provides additional opportunities to deliver lower cost gas to California customers. LNG is a world-wide commodity, the price of which fluctuates with

³⁰ 2007 Final Natural Gas Market Assessment, In Support of the 2007 Integrated Energy Policy Report, Final Staff Report (December 2007), CEC-200-2007-009-SF, p. 14.

³¹ *Id.*

³² *Id.* at 37.

³³ *Id.* at 39.

³⁴ *Id.* at 40.

market forces. Parties with access to storage will be in a position to benefit from low-cost LNG when it is available.

A recent report prepared by MRW & Associates for the California Energy Commission (the “MRW Report”) confirms that “there are a number of indicators that suggest that there is room in the market in both Northern and Southern California for additional storage to meet current demand.”³⁵ The MRW Report identifies market and technical indicators of need for additional storage. “Market activity indicates that current storage fields are heavily utilized and that market participants perceive demand for additional noncore capacity.”³⁶ Not only has existing storage capacity been heavily used in recent years, but use of long-term contracts for storage has increased, indicating that market participants may recognize a growing scarcity of storage and desire additional storage to help moderate gas price fluctuations.³⁷

Strong interest by potential GRS customers, projected increases in electric sector demand, the lack of storage in central California, the desire for reliable supply and price stability, and the potential for increased use of LNG all demonstrate the need for and economic feasibility of additional storage.

B. Public Utilities Code Section 1002 Factors.

Public Utilities Code section 1002(a) provides that “[t]he Commission, as a basis for granting any certificate pursuant to Section 1001 shall give consideration to the following factors: (1) Community values. (2) Recreational and park areas. (3) Historical and aesthetic values. (4) Influence on the environment”

The Commission has observed that independent of its obligations under CEQA, it must “include environmental influences and community values in our consideration of a request for a CPCN.”³⁸ GRS addresses each of the section 1002(a) factors below.

1. Community Values.

Section 1002(a) does not specify what standard the Commission must apply in determining whether a proposed project is consistent with community values. The Commission has provided guidance as to the factors that must be considered in this regard:

³⁵ *Barriers to Expansion of Natural Gas Storage Facilities in California*, MRW & Associates (April 2008), CEC-500-2008-036, p. 23.

³⁶ *Id.* at 21.

³⁷ *Id.*

³⁸ D.00-05-048, *mimeo*, at pp. 29-30 (citing Pub. Util. Code § 1002 and quoting *Re Southern California Edison Company*, D.90-09-059, 37 CPUC 2d 413, 453.)

In addressing whether the proposed project is compatible with community values as set forth in Pub. Util. Code § 1002, we give considerable weight to the views of the local community. In addition, we acknowledge the positions of the elected representatives of the area because we believe they are also speaking on behalf of their constituents.³⁹

The following discussion shows that the Project is consistent with community values.

a. Outreach.

From the inception of the Project, GRS and PG&E have appreciated the importance of communicating information regarding the Project to the local community. Project representatives began communicating with local landowners regarding the Project over a year ago. As noted above, GRS (on behalf of the Project) has obtained a majority of the land rights at the Storage Field necessary to construct and operate the Project, and will continue to work to obtain easements along the pipeline route prior to construction. Just over a month before filing this application, GRS and PG&E held several open houses, in the towns of Madera, Mendota, and Kerman to provide information to local community members regarding the Project and the CPUC CPCN and CEQA processes.

GRS and PG&E have also been in contact with state and local agencies and elected officials. Project representatives have had discussions with the Madera County and Fresno County Planning Departments, the California Department of Fish and Game, the United States Fish and Wildlife Service, and the Bureau of Reclamation. GRS and PG&E will continue to work with these and other agencies interested in the Project as the Project moves forward.

Project representatives have met with Madera County Supervisor Frank Bigelow and Fresno County Supervisor Phil Larson to brief them regarding the Project. Also, Project representatives have met with the City Managers of the Cities of Kerman, Mendota, and Firebaugh and made a presentation to the Kerman City Council. Project representatives have met with various state elected officials or their staffs to provide information regarding the Project, including Assemblyman Juan Arambula and Senator Dean Florez. Project representatives have also been in contact with Congressman Jim Costa and Congressman George Radanovich, whose districts encompass the Project area.

³⁹ D.00-05-048, *mimeo*, at p. 30; see also D.06-03-012, *mimeo*, at p. 28.

GRS and PG&E are reaching out to other stakeholders who may be affected by the Project. For example, Project representatives have made presentations to the Boards of Directors of the Madera County and Fresno County Farm Bureaus and the Westlands Water District.

GRS' and PG&E's objective is to make sure local state and federal elected and appointed officials, and other stakeholders, are kept up to date and have opportunity for input regarding progress in developing the Project. To date, the response to the proposed Project has been favorable. GRS and PG&E will continue to make every effort to communicate with the community and local, state, and federal elected and appointed officials, and other stakeholders regarding Project developments, through completion of the CPUC process and during the operation phase.

b. Community Benefits.

The Project will result in benefits to the community. It will create socio-economic benefits for Madera County and Fresno County through employment opportunities and tax revenues. Construction of the Project will require approximately 350 workers over a duration of 10 to 12 months. GRS and PG&E estimate that up to 40 percent of these workers will come from the local labor pool. The remainder will be comprised of workers with relevant technical expertise from outside the Project area. It is anticipated that 10 full-time local employees will operate the Project after construction.

Applying current county tax rates, GRS and PG&E estimate the Project will contribute approximately \$1.2 million per year to fund local services in Madera County and approximately \$600,000 per year to fund local services in Fresno County.

The Project will not result in significant impacts to public facilities or services.⁴⁰

In sum, GRS' and PG&E's diligent ongoing outreach efforts and the favorable response to date, and the local benefits that the Project brings, demonstrate that the Project is consistent with community values.

2. Recreational and Park Areas.

As described in detail in the PEA, construction and operation of the Project will not affect recreation or park areas.⁴¹ All Project components will be located on private lands. There are no

⁴⁰ PEA, Section 4.13.

⁴¹ PEA, Section 4.13.

park and recreation areas in the vicinity of the Project. Construction and operation of the Project will not result in a change in the use of existing parks or other recreation areas.

3. Historical and Aesthetic Values.

As discussed above, historic uses at the Storage Field over the past 50 years included natural gas production and agricultural development. Accordingly, the Project is consistent with historical values in the Storage Field area. No other Project components affect historical values or resources.⁴²

As described in the PEA, the Project will not significantly impact the visual characteristics of the Project area.⁴³ The compressor station and well facilities are remote from residences, not readily visible from nearby roads, and generally consistent with other agricultural buildings present in the Project area. Accordingly, these facilities will not adversely affect the local visual setting. While there will be some temporary agricultural effects during construction of the gas pipeline, following construction, all lands impacted by pipeline construction will, to the maximum extent possible, be restored to their pre-construction condition. Thus, the gas pipeline will not adversely affect local aesthetics. The electric power line will generally replace existing power lines in a rural area and will not result in adverse visual impacts. The gas pipeline interconnection facility and the two mainline valve facilities likewise will not impact visual resources because of their small size and location along existing utility corridors.

4. Influence on the Environment.

GRS is committed to developing a safe Project, with no or less than significant impacts on the environment. The PEA, which has been prepared in compliance with the Commission's requirements and consistent with relevant provisions of CEQA, demonstrates that the Project will not result in significant effects on the environment, after incorporating design features and mitigation measures.

As described above, design features and mitigation measures that will avoid or minimize potential impacts include: (1) a pipeline route that follows existing public rights-of-way to the greatest extent practicable and minimizes environmental and agricultural impacts; (2) use of electric motors instead of natural gas-fired engines for compression of natural gas to minimize air pollutant emissions; (3) use of existing well pads and directional well drilling to the greatest

⁴² PEA, Section 4.5.

⁴³ PEA, Section 4.2.

extent practicable to minimize potential surface impacts; (4) directional drilling at waterway and road crossings to avoid potential impacts to water resources and transportation infrastructure; and (5) an electric power line to the compressor facility that will be co-located with existing PG&E distribution lines for nearly 80 percent of the route.

C. The CPCN is Required by Public Convenience and Necessity.

The Project is consistent with the Commission's "let the market decide policy" and, therefore, presumed necessary. Notwithstanding this presumptive need, market conditions and economic feasibility demonstrate need for the Project. Additionally, applying the factors set forth in Section 1002 of the Public Utilities Code to the Project unambiguously demonstrates that the Project: (1) is consistent with community values and, to date, is receiving a favorable response from the community and elected officials, (2) will not affect or result in a change in the use of existing recreation and park areas, (3) is consistent with historical and aesthetic values in the Project area, and (4) will not result in a significant effect on the environment. In sum, granting this CPCN application is in the public convenience and necessity.

VI. MARKET-BASED RATES.

Rule 3.1(h) requires that applicants for CPCNs provide a statement of the rates to be charged for services. The Commission has consistently approved market-based rates for independent gas storage providers.⁴⁴ GRS requests authority to charge market-based rates for the storage services it provides using its 75 percent interest in the GRS Project, pursuant to the "let the market decide policy" set forth in the Storage Decision and subsequently implemented by the Commission in its decisions approving independent gas storage projects.

A. GRS Neither Has Nor May Exercise Market Power.

In approving market-based rates for the state's two independent storage providers – Wild Goose and LGS – the Commission considered whether either entity had or might be able to exercise market power. Additionally, the CPUC recently found that the southern California regional market is not concentrated and that Southern California Gas Company ("SoCalGas") should be permitted to continue to charge market-based rates, even though SoCalGas is the sole

⁴⁴ D.97-06-091 (as modified by D.98-06-083) and D.02-07-036 (Wild Goose); D.00-05-048, D. 06-03-012, and D.08-02-035 (LGS).

provider of unbundled gas storage services in southern California.⁴⁵ The Commission evaluates the following factors in its market power analysis:

- (1) Whether the applicant is a new entrant to California;
- (2) Whether the proposed project creates risks for core ratepayers;
- (3) Whether the applicant or any of its affiliates owns or controls gas transportation infrastructure or contracts for capacity on major gas pipelines; and
- (4) Whether the applicant or any of its affiliates controls other natural gas facilities.⁴⁶

Applying these factors to the GRS Project shows that GRS neither has, nor will be able to exercise, market power. Therefore, in furtherance of California's "let the market decide policy," and like Wild Goose and LGS, GRS should be granted authority to provide storage services at the Project using market-based rates.

1. First Factor: GRS is a New Market Entrant, With a Customer Base of Zero.

Upon issuance of a CPCN, GRS will become either the third or the fourth independent storage provider to enter California's gas storage market.⁴⁷ As was the case with Wild Goose and LGS, GRS is a new California market entrant proposing to compete with other California storage service providers.⁴⁸ GRS enters the market with a customer base of zero. The Commission relied on similar facts in the initial Wild Goose application proceeding and concluded that "it is highly unlikely that Wild Goose, as a new entrant, could have such a negative impact on the incumbent investor owned utility that it would result in the utility having to exit the gas storage market."⁴⁹ Although Wild Goose was the first independent storage provider and PG&E and SoCalGas had 100 percent of the market share, the same conclusion applies here.

GRS' interest in the Project is approximately 15 Bcf of working gas capacity. Each of the Wild Goose and LGS facilities, at 29 and 28.5 Bcf respectively, has nearly twice the 15 Bcf working gas capacity of GRS – significantly larger gas storage market shares than GRS will

⁴⁵ D.07-12-019, *mimeo*, Findings of Fact 41 and 42.

⁴⁶ See, e.g., D.00-05-048, *mimeo*, at pp. 38-39; D.02-07-036, *mimeo*, at pp. 13-17.

⁴⁷ Wild Goose was the first and LGS was the second. A third potential provider, Sacramento Natural Gas Storage, LLC, currently has an application for a CPCN for a storage project in Sacramento County pending before the Commission (A.07-04-013). The Commission has not yet issued a proposed decision in A.07-04-013.

⁴⁸ As discussed herein, GRS' parent, NW Natural, provides no services in California.

⁴⁹ D.98-06-083 (1998 Cal. PUC LEXIS 481, *8).

have.⁵⁰ PG&E, a competitor of GRS, will be increasing its own market share of storage capacity through PG&E's 25 percent ownership interest in the Project.⁵¹ While GRS' inventory will be less than that of its competitors, the GRS Project will increase competition among the current non-core storage providers, thereby reducing market concentration in California. Further, alternatives to underground storage exist, including pipeline transportation capacity and utility gas balancing services.⁵² As a new market entrant with no customer base and a smaller share of capacity compared to its competitors, GRS simply will not be in a position to force any of its competitors out of the market. The fact that one of GRS' competitors, PG&E, will hold an ownership interest in the Project reinforces this conclusion.

Additionally, GRS will not be in any position to discount storage rates without restraint. GRS' shareholders are entirely at risk for GRS' 75 percent interest in the Project. It is, therefore, shareholders who will be responsible for any revenue shortfalls resulting from GRS rate discounts. GRS will not have the option to turn to ratepayers for rate relief.

Finally, the Commission recently found that the southern California regional market is not concentrated and that SoCalGas should be permitted to continue to charge market-based rates, even though SoCalGas is the sole provider of unbundled gas storage services in southern California.⁵³ The Commission determined that "market-based pricing of unbundled storage assets promotes more economically efficient allocation of those assets."⁵⁴ The Commission also found that cost-based pricing would undermine the flexibility to offer customer-tailored storage services because cost-based rates for some services may be above market price while others may be below, forcing the utility to offer a single product with the same injection and withdrawal ratios to avoid stranding a particular product.⁵⁵ The Commission found that cost-based rates would inhibit development of third-party storage, since independent providers would not be able to compete with SoCalGas' low, cost-based rates.⁵⁶ The Commission also considered the fact

⁵⁰ D.02-07-036, *mimeo*, Finding of Fact 1; D.00-05-048 approved LGS' 12 Bcf Lodi facility. (D.00-05-048, *mimeo*, at p. 69, Finding of Fact 11.) The Lodi facility currently has a working gas inventory of 17 Bcf. (www.lodistorage.com.) D.06-03-012, *mimeo*, at p.9; D.08-02-035, *mimeo*, Finding of Fact 10.

⁵¹ If the Sacramento Natural Gas Storage project is approved, it will add approximately 7.5 Bcf to the state's working gas inventory, further reducing market concentration. (A.07-04-013.)

⁵² D.02-07-036, *mimeo*, at p. 16.

⁵³ D.07-12-019, *mimeo*, Findings of Fact 41 and 42.

⁵⁴ *Id.* at Finding of Fact 41.

⁵⁵ *Id.* at 76-77.

⁵⁶ *Id.*

that because SoCalGas operates in an integrated gas procurement market that covers most of the western United States and Canada, within which producers compete in supplying southern California, SoCalGas would likely not be able to exercise market power.⁵⁷ Each of these considerations applies with even greater force to GRS' proposal, because GRS will be entering a market where other independent storage providers presently offer competitive services.

As a new market entrant, with a customer base of zero, GRS will not have market power, much less the ability to cause a competitor to exit the gas storage market.

2. Second Factor: There is No Risk to Core Ratepayers.

GRS' interest in the Project poses no risk to core ratepayers or of cross-subsidization. GRS' shareholders are 100 percent at risk for unused or discounted capacity in GRS' 75 percent share of the Project. GRS will not provide core service and, therefore, will not have core ratepayers. GRS will receive no monies from the core ratepayers of its parent, NW Natural. Similarly, under no circumstance will PG&E's core ratepayers be at risk for GRS' investment. (As noted above, PG&E and GRS are competitors with respect to the provision of services at the Gill Ranch Gas Storage Project.)

There simply is no risk that any core ratepayers will cross-subsidize GRS' 75 percent interest in the Project or be at risk for that investment.

3. Third and Fourth Factors: GRS Does Not Have Market Power as a Result of Its or NW Natural's Ownership of Other Natural Gas Infrastructure and Interests in Capacity Contracts.

GRS does not own or control gas transportation infrastructure or contracts for capacity on major gas pipelines or own or control any other natural gas industry facilities. Notably, GRS will not control the transportation infrastructure necessary to deliver gas stored in the Project to the market. GRS must rely on a competitor, PG&E, to move gas into and out of the Project. In the Wild Goose expansion application proceeding, the Commission found such a constraint to be a control on the potential of Wild Goose to exercise market power.⁵⁸ Similarly, GRS' unavoidable reliance on PG&E will serve as a control on any potential exercise of market power by GRS.

GRS' parent, NW Natural, does not provide any services in California and does not own or control transportation infrastructure in California or directly connected to California and,

⁵⁷ *Id.* at 20.

⁵⁸ D.02-07-036, *mimeo*, at p. 16.

therefore, has no market presence in California. NW Natural owns pipeline and distribution facilities in Oregon and Washington, which it uses to serve core customers. It also holds contracts for transportation capacity on two major natural gas pipelines in the Pacific Northwest in order to transport gas to its Oregon and Washington citygates: the Northwest Pipeline GP (“Northwest Pipeline”) and Gas Transmission Northwest (“GTN”). Only Northwest Pipeline’s interstate system has direct interconnections with NW Natural’s local distribution systems.

NW Natural owns a small interest in the Kelso-Beaver Pipeline, a FERC-regulated interstate natural gas pipeline that runs approximately 19 miles from the interstate pipeline facilities of Northwest Pipeline in Cowlitz County, Washington, to Columbia County, Oregon, near Portland General Electric Company’s Beaver generating station, through KB Pipeline Company (“KBPC”).⁵⁹ KBPC owns a 10 percent interest in the Kelso-Beaver Pipeline. Under its certificate, KBPC may only use its capacity in the Kelso-Beaver Pipeline to transport up to 19,300 Dth/d of natural gas for NW Natural.⁶⁰ Neither the Kelso-Beaver Pipeline nor the Northwest Pipeline facilities (discussed above) are directly connected with gas transportation facilities in California.

NW Natural is one of the members of Palomar Gas Holdings, LLC, the parent of Palomar Gas Transmission, LLC (“Palomar Pipeline”). Palomar Pipeline proposes to build a new interstate natural gas pipeline in Oregon that would connect the GTN system to NW Natural’s local distribution system.⁶¹

NW Natural also owns and operates the Mist gas storage facility located near the town of Mist in Columbia County, Oregon. In 1989, NW Natural’s Mist storage facility began storage operations for core local distribution customers. Since 2001, NW Natural, through a separate business segment, has made excess and new storage capacity at Mist that was pre-built in advance of core need available to customers in the interstate market pursuant to a limited jurisdiction blanket certificate issued by FERC.⁶² The Mist interstate storage services consist of bundled firm and interruptible storage and related transportation services on NW Natural’s

⁵⁹ KBPC is a wholly-owned subsidiary of NNG Financial Corporation. NNG Financial Corporation is a wholly-owned subsidiary of NW Natural. NNG Financial held various financial investments in the past, but currently holds only an interest in a low-income housing project in Oregon, in addition to KBPC.

⁶⁰ 57 FERC ¶ 61,095, as amended by 57 FERC ¶ 61,258.

⁶¹ The other member of Palomar Gas Holdings, LLC is TransCanada Corporation. Palomar Pipeline has initiated a pre-filing process at FERC (Docket No. PF07-13).

⁶² Northwest Natural Gas Company, 95 FERC ¶ 61,242 (2001); *see also* 111 FERC ¶ 61,406 (2005) (rate settlement).

system to and from the Mist storage facility. However, NW Natural's primary use of Mist is to provide reliable gas supplies to its core customers. As the needs of its core customers grow, NW Natural can reduce the amount of storage capacity, not under contract, that is made available to the interstate market. Currently, the working gas capacity of the Mist facility is approximately 16 Bcf, 9 Bcf of which is dedicated to NW Natural's core customers and 7 Bcf of which is used to serve off-system interstate customers. The Mist facility connects only to NW Natural's local distribution system in Oregon, which in turn only has direct connections with the Northwest Pipeline and the Kelso-Beaver Pipeline, neither of which directly serves California.⁶³ Further, it would be extremely difficult, if not impossible, for NW Natural to exercise market power in California by withholding non-core capacity at its Mist facility.

NW Natural owns two LNG facilities, located in its service territory, that liquefy natural gas during the summer months for storage until the peak winter heating season. These facilities are used in connection with NW Natural's core customer service.

GRS' ownership structure is somewhat analogous to that of Wild Goose, although Wild Goose's parent and upstream owners have a much bigger presence in the natural gas storage industry than does NW Natural. Wild Goose's parent, Niska Gas Storage US, LLC ("Niska"), is "the largest independent natural gas storage company in North America."⁶⁴ Niska owns approximately 169 Bcf of working gas capacity in three facilities: the AECO Hub in Alberta (125 Bcf), Wild Goose (29 Bcf), and Salt Plains in Oklahoma (15 Bcf).⁶⁵ When the Commission authorized the transfer of control of Wild Goose to Niska, it continued to allow Wild Goose to charge market-based rates.

In sum, GRS does not have market power as a result of its or NW Natural's ownership of other natural gas infrastructure and interests in capacity contracts.

4. The Commission Should Authorize Market-Based Rates.

GRS should be authorized to provide the proposed storage services at market-based rates because: (1) GRS is a new market entrant with a customer base of zero, (2) there is no risk to core ratepayers, (3) GRS will have to rely on a competitor, PG&E, to move gas into and out of

⁶³ Mist's out-of-state location, combined with its indirect connection to California, strongly suggests it would be cost prohibitive for a California storage customer to use the Mist facility.

⁶⁴ See, e.g., <http://www.niskags.com>. Niska's upstream owners hold significant investments in the energy sector.

⁶⁵ *Id.* (See also D.02-07-036, *mimeo*, at p. 5 (authorizing expansion of Wild Goose facility to 29 Bcf).)

the Project, (4) NW Natural provides no services in California and neither owns nor controls transportation infrastructure in California or directly connected to California, and (5) NW Natural's Mist storage facility is not connected directly to California.

B. Affiliate Transaction Rules Do Not Apply.

Under the Affiliate Transaction Rules ("Rules"), a utility that was not a respondent to R.97-04-011/I.97-04-012, the proceeding where revisions to the Rules were adopted, is not subject to the Rules.⁶⁶ GRS was not a respondent to R.97-04-011/I.97-04-012 and, therefore, by definition, the Rules do not apply to GRS.⁶⁷

In adopting revisions to the Rules, the Commission confirmed that the objectives of the Rules are to foster competition and protect consumers' interests. The "Rules were designed to neutralize the special advantage of incumbent utilities in the marketplace as we move toward increasing competition."⁶⁸ That "special advantage" includes an exclusive franchise territory, captive customers, regulated rates and rates of return, and other similar benefits of the regulatory compact. "The presence of the investor-owned utility in the same service territory as a utility's affiliate raises market power concerns because of their ownership ties and the preexisting market dominance of the monopoly utility."⁶⁹ Applying the Rules and policies underlying the Rules, the Commission has found that the Rules should not apply where an independent storage provider does not possess market power in the California gas storage market or the ability to cross-subsidize affiliates with ratepayer assets.⁷⁰ Thus, the Commission has found the Rules do not apply, by definition and in accordance Commission policies underlying the Rules, to Wild Goose and LGS.⁷¹

GRS will not have or be able to exercise market power in the California gas storage market for the reasons stated herein. Further, if this Application is approved, GRS will provide

⁶⁶ The Rules apply to "utilities". (Affiliate Rule II.A.) "'Utility' means any public utility named as a respondent to R.97-04-011/I.97-04-012, and any other public utility subject to the jurisdiction of the Commission as an Electrical Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, which the Commission by subsequent decision or order requires to comply with these rules." (Affiliate Rule I.G (as amended by D.99-09-002, 1999 Cal. PUC LEXIS 579).)

⁶⁷ Similarly, the Rules do not apply to Wild Goose and LGS because neither was a respondent to R.97-04-011/I.97-04-012. (D.99-09-002, 199 Cal.PUC LEXIS 579, *1, 17-18, Conclusion of Law 1, Ordering Paragraph 2; D.02-07-036, *mimeo*, Finding of Fact 13; D.00-05-048, *mimeo*, at p. 66.)

⁶⁸ D.99-09-002, Cal. PUC LEXIS 579, *14.

⁶⁹ *Id.* at *15 (*quoting* D.91-12-088, *slip op.* at p. 10).

⁷⁰ D.00-05-048, *mimeo*, at p. 66.

⁷¹ *See* note 67.

storage services to non-core customers at market-based rates. It will not have a captive ratepayer base, paying Commission-approved, cost-of-service rates. GRS and its shareholders are 100 percent at risk for the success or failure of GRS' 75 percent interest in the Project. GRS will not provide Project revenues to NW Natural to subsidize NW Natural's ratepayers. Also as stated above, ratepayers of GRS' parent, NW Natural, will not subsidize GRS' 75 percent interest in the Project, nor will ratepayers of PG&E.

In other words, as was the case with Wild Goose and LGS, GRS' ownership and operation of the Project does not implicate either the market power or the ratepayer cross-subsidization concerns that underlie the Rules. Rather, the Project will foster competition in the provision of storage services and will not harm captive ratepayers.

By definition, the Rules do not apply to GRS, just as they do not apply to Wild Goose and LGS. These results are consistent with Commission policy supporting the Rules. However, in order to "better monitor the evolving gas market," and to minimize the potential for the exercise of market power, the Commission has prohibited both Wild Goose and LGS from engaging in any short- or long-term storage or hub services transactions with their parent companies or their successors, or any other affiliates owned or controlled by their parent companies or their successors.⁷² If the Commission determines that, in order to assist the Commission to "better monitor the evolving gas market," and to minimize the potential for the exercise of market power, it is appropriate to impose the same prohibition on GRS as the Commission imposed on Wild Goose and LGS, GRS would not object.

C. Request for Market-Based Rate Authority.

For all the reasons stated above, GRS requests that the Commission authorize GRS to provide storage services from its 75 percent interest in the Project at market-based rates. After issuance of a CPCN, GRS will file with the Commission rate tariffs and pro forma contracts describing the terms and conditions upon which GRS will offer storage services, including provisions regarding negotiated market-based rates.

VII. STORAGE SERVICE DATA.

CPUC Rule 3.1(k) requires that gas utility applicants seeking to construct a pipeline provide certain information regarding gas transportation service. As described above, the Project storage reservoir will be connected by an ancillary pipeline to PG&E's natural gas transmission

⁷² D.02-07-036, *mimeo*, Finding of Fact 12; D.03-02-071, *mimeo*, at p. 17.

system. The ancillary Project pipeline will only be used for purposes of moving gas to and from the storage reservoir and not for other transportation service. GRS provides the following information regarding the ancillary Project pipeline and related storage service data in accordance with Rule 3.1(k):

(1) The Project is designed to inject gas into and withdraw gas from PG&E's Line 400/401 natural gas transmission system. Maximum average firm injection and withdrawal capacity will be 650 MMcfd.⁷³ Gas injected into and withdrawn from PG&E's transmission system will have to meet PG&E's gas quality requirements.

(2) Copies of summaries of all contracts will be made available to the Commission. All gas storage contracts will be provided on a confidential basis pursuant to Public Utilities Code section 583 and General Order No. 66-C. As provided in Rule 3.1(k)(1)(B), GRS shall not be required to state the terms and conditions of individual contracts in this Application or in the record of this proceeding. If such terms and conditions are provided to the Commission, they shall remain confidential and shall not be made public or available to public inspection.

(3) Based on the knowledge and experience of its officers and management in the development, construction, and operation of gas storage facilities and its consideration of storage service market information, GRS has determined that the proposed Project is economically feasible. Further, GRS' shareholders are entirely at risk for the cost, and success or failure, of GRS' 75 percent interest in the Project. Thus, GRS' interest in the Project satisfies the fundamental criteria of the "let the market decide" policy adopted by the Commission in the Storage Decision and applied in all subsequent decisions to date authorizing independent storage services.⁷⁴ Accordingly, consistent with those Decisions, GRS asserts that no further showing regarding the economic feasibility of the Project is required.

(4) As noted above, the ancillary Project pipeline will only be used for purposes of moving gas to and from the storage reservoir and not for other transportation service. Any storage service provided by GRS will include use of the ancillary pipeline. Such service will be provided pursuant to the terms and conditions of GRS' tariff.

⁷³ It is possible that short-term rates may occasionally reach 715 MMcfd.

⁷⁴ Storage Decision, D.93-02-013 (Cal. PUC LEXIS 66, *11-16, Finding of Fact 7); D. 97-06-091 (as modified by D.98-06-083, *mimeo*, Ordering Paragraphs 5-10); D. 02-07-036, *mimeo*, Ordering Paragraph 2; D.00-05-048, *mimeo*, Conclusions of Law 13-15, Ordering Paragraph 2; D.06-03-012, *mimeo*, Conclusion of Law 5; D.08-02-035, *mimeo*, Conclusion of Law 6.

VIII. REQUEST FOR EXEMPTIONS.

The Commission has found that “Commission authorization of certain financial transactions is unnecessary in competitive industries where projects are not funded by captive ratepayers and where customers have other alternatives for the service being provided by the utility.”⁷⁵ Consistent with GRS’ request for approval to provide service at market-based rates, GRS requests that the Commission determine that GRS is exempt from Public Utilities Code sections 818 and 851 in connection with financing arrangements for its 75 percent interest in the Project. Under Public Utilities Code sections 829 and 853(b), the Commission may exempt a public utility from the provisions of sections 818 and 851 if the Commission finds that the application of those sections to the utility is not necessary in the public interest.

Here, GRS will operate at the complete risk of shareholders; ratepayers will bear no risk. All customers of GRS will have other competitive options. As a new entrant in the California gas storage market, GRS has no market power and no ability to engage in predatory pricing. Thus, it is not necessary to place a “high regulatory burden” on GRS to protect the public interest.⁷⁶

GRS also requests that the Commission find that the Commission’s competitive bidding policies, as modified by Resolution No. F-616, do not apply to GRS, or that GRS’ Project-related financing arrangements are exempt from the policies. This will provide GRS with much needed flexibility to negotiate advantageous financing. This is particularly important in the case of independent storage where the financing structure is uncommon, and where, as here, GRS has no bond rating, making it very difficult, if not impossible, to timely find multiple entities willing to provide bids. In other words, competitive bidding is not “viable or available” in connection with the proposed Project.⁷⁷ As a result, the Commission should confirm that its competitive bidding policies do not apply to GRS.⁷⁸

Alternatively, the Commission should exempt GRS from its competitive bidding policies. The Commission acknowledges that competitive bidding impedes negotiation of favorable financing arrangements and, therefore, has “routinely grant[ed] specific exemptions when utilities represent that granting exemptions will enable the utility to issue debt on advantageous

⁷⁵ D.00-12-026, *mimeo*, at p. 2. *See also*, D.06-07-035, *mimeo*, at pp. 6-7.

⁷⁶ D.00-12-026, *mimeo*, p. 7 (*citing* D.98-06-083, *slip op.* at pp.5-6).

⁷⁷ Resolution No. F-616, Ordering Paragraph (3), p. 2.

⁷⁸ *Id.*, Exhibit A, p. 8.

terms.”⁷⁹ Granting an exemption in this case would allow GRS to negotiate debt pricing in a timely fashion, in a manner advantageous to GRS and its customers, in accordance with the Commission’s prior Commission practice.

IX. PROPONENT’S ENVIRONMENTAL ASSESSMENT.

Pursuant to CPUC Rule 2.4(b), the PEA for the Project, including the 115 kV electric power line that PG&E will construct, own, and operate, is attached hereto as Exhibit A.⁸⁰ The PEA identifies the potential significant environmental impacts associated with construction and operation of the Project, as well as design features and mitigation measures proposed by GRS and PG&E to reduce any such potential impacts to less than significant levels.

In light of the conclusions in the PEA that any potential significant environmental impacts of the Project may be reduced to less than significant levels, GRS respectfully requests that the Commission prepare and adopt a Mitigated Negative Declaration and issue a Notice of Determination for the Project, in accordance with CEQA.

X. RULE 2.1(c) REQUIREMENTS.

CPUC Rule 2.1(c) requires that all applications state the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule.

A. Categorization.

GRS proposes that this Application be categorized as a ratesetting proceeding, because GRS requests, among other things, a Commission order authorizing GRS to provide storage service from its 75 percent interest in the Project at market-based rates, in accordance with the Commission’s adopted policies and precedent for independent gas storage facilities.

B. Need for Hearing.

GRS respectfully offers that this Application, including the PEA and other supporting Exhibits, provides a complete and sufficient record to support a Commission determination that public convenience and necessity require the construction and operation of the proposed Project. Accordingly, GRS, does not perceive a need for evidentiary hearings. Additionally, the PEA provides ample support for the Commission to adopt a Mitigated Negative Declaration without

⁷⁹ D.02-04-058, *mimeo*, at p. 4 (*citing* D.01-02-011 (San Diego Gas & Electric Company); D.01-01-021 (Southern California Edison Company); and D.00-12-064 (PG&E).) *See also*, D.06-07-035, *mimeo*, at pp. 6-7.

⁸⁰ CPUC Rule 2.5 requires that an applicant for a CPCN include a deposit, to be applied to the costs the Commission incurs to prepare a mitigated negative declaration, when the CPUC acts as lead agency pursuant to CEQA. GRS has included the appropriate deposit with this filing.

need for hearings. Nonetheless, the proposed procedural schedule provided below makes provision for hearings, should the Commission determine they are required.

C. Issues to be Considered by Commission.

Through this Application, GRS requests the Commission to address the following issues:

- (1) Whether GRS should be issued, as a public utility gas corporation, a Certificate of Public Convenience and Necessity authorizing it to construct and operate the Project;⁸¹
- (2) Whether GRS should be authorized to charge market-based rates for storage services provided by GRS at the Project;
- (3) Whether, pursuant to CEQA, a Mitigated Negative Declaration should be adopted and a Notice of Determination issued for the Project; and
- (4) Whether the requested exemptions from Public Utilities Code sections 818 and 851 and the Commission's competitive bidding rule should be granted.

D. Proposed Schedule and Request for Timely Relief.

GRS proposes the following schedule for this application:

Application Filed	July 29, 2008
Application Deemed Complete	August 28, 2008
Responses/Protests Due ⁸²	September 2, 2008
Replies to Responses/Protests	September 12, 2008
Prehearing Conference (if required)	September 18, 2008
Evidentiary Hearings (if required)	November 10-14, 2008
Draft MND Issued	February 9, 2009
Public Hearing Regarding Draft MND (if required)	March 4, 2009
Proposed Decision and Final MND Issued	May 4, 2009
Final Commission Decision	June 2009

GRS requests the Commission to issue a decision within the time limits of the schedule proposed by GRS.

⁸¹ Upon issuance of a CPCN by the CPUC, GRS will be a public utility. (D.02-07-036, *mimeo*, at p. 21; (*citing* D.97-06-091, Finding of Fact 11, Conclusion of Law 11, Ordering Paragraph 1).

⁸² This date assumes up to four days may pass between the filing of the Application and the date it is noticed in the Commission's Daily Calendar.

XI. COMPLIANCE WITH PROCEDURAL REQUIREMENTS.

Following is a list of the CPUC Rules applicable to this Application, along with references to the sections of this Application where Applicant has complied with those Rules.

CPUC Rule	Application Reference
Rule 2.1	Page 1 and attached Verification
Rule 2.1(a)	Section II.A
Rule 2.1(b)	Section II.C
Rule 2.1(c)	Section X
Rule 2.2	Exhibits B and C
Rule 2.3	Exhibit G
Rule 2.4	Exhibit A
Rule 3.1(a)	Sections III.A – D
Rule 3.1(b)	Section III.G
Rule 3.1(c)	Exhibit E
Rule 3.1(d)	Exhibit F
Rule 3.1(e)	Section V
Rule 3.1(f)	Sections III.K and V.A
Rule 3.1(g)	Section III.L
Rule 3.1(h)	Section VI
Rule 3.1(i)	Section III.M and Exhibit H
Rule 3.1(k)	Section VII

XII. CONCLUSION AND REQUEST FOR RELIEF.

GRS respectfully requests that the Commission:

- (1) Grant this Application for a Certificate of Public Convenience and Necessity to GRS, as a public utility gas corporation, pursuant to Public Utilities Code section 1001;
- (2) Authorize GRS to construct and operate natural gas storage facilities in Madera and Fresno Counties and to provide storage services in connection with GRS' 75

percent interest in such facilities at market-based rates and in accordance with the other terms and conditions set forth in this Application;

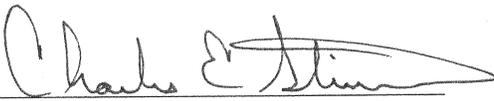
- (3) Adopt a Mitigated Negative Declaration and issue a Notice of Determination pursuant to CEQA for the Project; and
- (4) Determine that GRS' Project-related financing is exempt from the requirements of Public Utilities Code sections 818 and 851 and the Commission's competitive bidding rule.

Dated: July 29, 2008

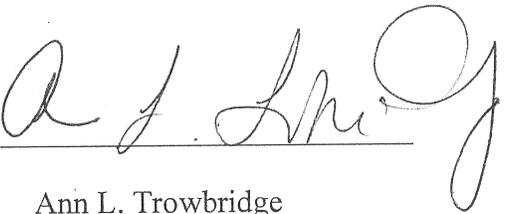
Respectfully submitted,

GILL RANCH STORAGE, LLC

DAY CARTER & MURPHY LLP

By: 

Charles E. Stinson

By: 

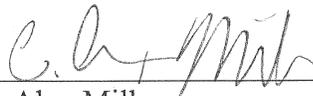
Ann L. Trowbridge

VERIFICATION OF APPLICATION

I, C. Alex Miller, hereby declare that I am Vice President and Treasurer of Gill Ranch Storage, LLC ("GRS") and am authorized to make this verification on behalf of GRS; that I have read the foregoing Application for a Certificate of Public Convenience and Necessity for Construction and Operation of Natural Gas Storage Facilities; and that the information set forth therein is true and correct to the best of my knowledge, information, and belief.

I declare under penalty of perjury that the foregoing is true and correct.

Executed July 28, 2008, at Portland, Oregon.



C. Alex Miller
Gill Ranch Storage, LLC
220 NW Second Avenue
Portland, OR 97029

CERTIFICATE OF SERVICE

I, Paula S. Hefley, hereby certify that I served a copy of the **APPLICATION OF GILL RANCH STORAGE, LLC FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR CONSTRUCTION AND OPERATION OF NATURAL GAS STORAGE FACILITIES** on July 29, 2008, by placing the document(s) listed above in a sealed envelope with postage thereon fully prepaid, in the United States mail at Sacramento, California, addressed as set forth below.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on this 29th day of July, 2008, at Sacramento, California.


PAULA S. HEFLEY

Pacific Gas and Electric Company
Law Department
Attn: Judi K. Mosley
77 Beale Street
San Francisco, CA 94105

Lodi Gas Storage, LLC
c/o James W. McTarnaghan
Duane Morris, LLP
One Market, Suite 2000
San Francisco, CA 94105

El Paso Natural Gas Company
P.O. Box 1087
2 North Nevada Avenue
Colorado Springs, CO 80944

Gas Transmission Northwest
1400 SW 5th Avenue, Suite 900
Portland, OR 97201

Kern River Gas Transmission Company
2755 E. Cottonwood Parkway, Suite 300
Salt Lake City, UT 84121

Sacramento Natural Gas Storage, LLC
c/o Law Office of Alfred F. Jahns
3436 American River Drive, Suite 12
Sacramento, CA 95864

Southern California Gas Company
Attn: Richard M. Morrow
555 W. Fifth Street, Suite 1400
Los Angeles, CA 90013

Wild Goose Storage Inc.
c/o Jeanne B. Armstrong
Goodin MacBride Squeri Day & Lamprey LLP
505 Sansome Street, Suite 900
San Francisco, CA 94111

Transwestern Pipeline Company
711 Louisiana, Suite 900
Houston, TX 77002

Mojave Pipeline Company
Western Pipelines
P.O. Box 1087
Colorado Springs, CO 80944

Questar Southern Trails Pipeline Company
180 East 100 South
P.O. Box 45360
Salt Lake City, UT 84145

Central Valley Gas Storage, LLC
c/o Nicor, Inc.
P.O. Box 3014
Naperville, IL 60566-7014

County of Madera
Planning Department
2037 W. Cleveland Avenue, M.S. G
Madera, CA 93637

Division of Ratepayer Advocates
Attn: Andrew Ulmer
505 Van Ness Avenue
San Francisco, CA 94102

County of Fresno
Public Works and Planning
2220 Tulare Street, 7th Floor
Fresno, CA 93721

The Utility Reform Network
711 Van Ness Ave, Suite 350
San Francisco, CA 94102

EXHIBITS TO APPLICATION

- Exhibit A Proponent's Environmental Assessment [submitted under separate cover]
- Exhibit B Articles of Organization of Gill Ranch Storage, LLC
- Exhibit C Gill Ranch Storage, LLC Certificate of Registration to do Business in California
- Exhibit D Notice of Availability of Application
- Exhibit E Map showing the Gill Ranch Gas Storage Project and its relation to other public utilities and companies with whom Gill Ranch Storage, LLC is likely to compete
- Exhibit F Table of Regulatory Approvals that may be required for the Gill Ranch Gas Storage Project
- Exhibit G Gill Ranch Storage, LLC financial information [filed under seal]
- Exhibit H NW Natural proxy statement

EXHIBIT A

PROPONENT'S ENVIRONMENTAL ASSESSMENT

DATED JULY 2008

[Submitted Under Separate Cover]

EXHIBIT B

461529-917

ARTICLES OF ORGANIZATION
OF
GILL RANCH STORAGE, LLC
An Oregon Limited Liability Company

FILED
SEP - 5 2007
OREGON
SECRETARY OF STATE

ARTICLE I

The name of the limited liability company (the "Company") is Gill Ranch Storage, LLC.

ARTICLE II

The Company shall have perpetual existence.

ARTICLE III

The name of the initial registered agent is Richelle T. Luther and the address of the initial registered office is 220 NW Second Avenue, Portland, Oregon 97209.

ARTICLE IV

The address where the Division may mail notices is 220 NW Second Avenue, Portland, Oregon 97209, Attention: Richelle T. Luther.

ARTICLE V

The Company shall be managed by a manager.

ARTICLE VI

The name and address of the organizer of the Company are Matthew E. Newell, 900 SW Fifth Avenue, Suite 2600, Portland, Oregon 97204.

ARTICLE VII

To the fullest extent the Oregon Limited Liability Company Act, as it exists on the date hereof or may hereafter be amended, permits the limitation or elimination of liability of managers or members, a manager or member shall not be liable to the Company or the other members for monetary damages for conduct as a manager or member. Any amendment to or repeal of this Article VII shall not adversely affect any right or protection of a manager or member for or with respect to any acts or omissions of such manager or member occurring prior to such amendment or repeal.

DATED this 5th day of September, 2007.


Matthew E. Newell, Organizer

EXHIBIT C

State of California
Secretary of State

CERTIFICATE OF REGISTRATION

I, DEBRA BOWEN, Secretary of State of the State of California, hereby certify:

That on the 25th day of September, 2007, GILL RANCH STORAGE, LLC, complied with the requirements of California law in effect on that date for the purpose of registering to transact intrastate business in the State of California; and further purports to be a limited liability company organized and existing under the laws of Oregon as GILL RANCH STORAGE, LLC and that as of said date said limited liability company became and now is duly registered and authorized to transact intrastate business in the State of California, subject, however, to any licensing requirements otherwise imposed by the laws of this State.

IN WITNESS WHEREOF, I execute
this certificate and affix the Great Seal
of the State of California this day of
September 26, 2007.



Debra Bowen

DEBRA BOWEN
Secretary of State

EXHIBIT D

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Gill Ranch Storage, LLC
for a Certificate of Public Convenience
and Necessity for Construction and
Operation of Natural Gas Storage
Facilities.

Application No. 08-07-____
(Filed July 29, 2008)

**NOTICE OF AVAILABILITY OF APPLICATION OF
GILL RANCH STORAGE, LLC FOR A CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY FOR CONSTRUCTION
AND OPERATION OF NATURAL GAS STORAGE FACILITIES**

Ann L. Trowbridge
Ralph R. Nevis
DAY CARTER & MURPHY LLP
3620 American River Drive, Suite 205
Sacramento, California 95864
Telephone: (916) 570-2500, ext. 103
FAX: (916) 570-2525
E-mail: atrowbridge@daycartermurphy.com
Attorneys for Gill Ranch Storage, LLC

August __, 2008

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Gill Ranch Storage, LLC
for a Certificate of Public Convenience
and Necessity for Construction and
Operation of Natural Gas Storage
Facilities.

Application No. 08-07-____
(Filed July 29, 2008)

**NOTICE OF AVAILABILITY OF APPLICATION OF
GILL RANCH STORAGE, LLC FOR A CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY FOR CONSTRUCTION
AND OPERATION OF NATURAL GAS STORAGE FACILITIES**

On July 29, 2008, Gill Ranch Storage, LLC (“GRS”) filed an Application for a Certificate of Public Convenience and Necessity (“CPCN”), and for related determinations, with the California Public Utilities Commission (“Commission”) seeking authorization to construct and operate a natural gas storage facility (“Gill Ranch Gas Storage Project”), to be located primarily in Merced County and partly in Fresno County, California. GRS and Pacific Gas and Electric Company (“PG&E”) signed a Joint Project Agreement setting forth the terms and conditions pursuant to which GRS and PG&E propose to own and develop the Gill Ranch Gas Storage Project. Under the Joint Project Agreement, GRS shall own a 75 percent undivided interest in the proposed Gill Ranch Gas Storage Project and PG&E shall own a 25 percent undivided interest. PG&E is simultaneously filing a separate application for a CPCN for its 25 percent interest in the Gill Ranch Gas Storage Project, and requesting that the Commission issue PG&E a Permit to Construct the Project substation and the 115 kV electric power line that will deliver electricity to the Project’s central compressor and other facilities at the compressor site.

GRS is serving this Notice of Availability of the Application pursuant to Rule 1.9(c) of the Rules of Practice and Procedure of the Commission.

GRS’ Application requests that the Commission: (1) issue a CPCN authorizing GRS to construct and operate the Gill Ranch Gas Storage Project, including ancillary pipeline and other facilities; (2) authorize GRS to charge market-based rates for storage services provided by GRS at the Project; (3) adopt a Mitigated Negative Declaration and issue a Notice of Determination

pursuant to the California Environmental Quality Act (“CEQA”) for the Gill Ranch Gas Storage Project; and (4) determine that GRS’ Project-related financing is exempt from the requirements of Public Utilities Code sections 818 and 851 and the Commission’s competitive bidding rule.

The Gill Ranch Gas Storage Project will provide additional storage capacity to help meet the energy needs of California customers. It consists of four components: (1) a 20 billion cubic feet (“Bcf”) underground natural gas storage field, the Gill Ranch Storage Field, located primarily in Madera County; (2) a compressor station utilizing electric-drive equipment that will be used to inject and withdraw gas into and from the storage reservoirs, and associated dehydration and control facilities; (3) a natural gas pipeline extending approximately 27 miles from the Gill Ranch Storage Field, through Madera and Fresno Counties, to an interconnection with PG&E’s Line 401 near Interstate Highway 5; and (4) an electric substation located at the compressor station that will be connected to an approximately 9-mile 115 kV electric power line extending from PG&E’s Dairyland-Mendota 115 kV power line to the compressor site, which power line will be constructed, owned, and operated by PG&E to serve the compressor and other facilities at the compressor site¹.

Pursuant to Rule 1.9 of the Commission’s Rules of Practice and Procedure, GRS will, upon request, provide a copy of the Application on a compact disc or hard copy. Requests for copies should be submitted in writing by email or facsimile transmission to:

Ralph R. Nevis
Day Carter & Murphy LLP
3620 American River Drive, Suite 205
Sacramento, California 95864
Tel: (916) 570-2500, ext. 109
FAX: (916) 570-2525
Email: rnevis@daycartermurphy.com

The Commission also provides access to project-related documents at its website. Interested parties may access information regarding the project once it is posted by the

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¹ All but approximately 1 mile of the power line will be co-located with an existing PG&E distribution line for nearly 80 percent of the route.

Commission at the web address: <http://www.cpuc.ca.gov/PUC/energy/electric/Environment/>.
Click on "Current Projects" and choose the Gill Ranch Gas Storage Project listed under the
"Other Utilities" heading.

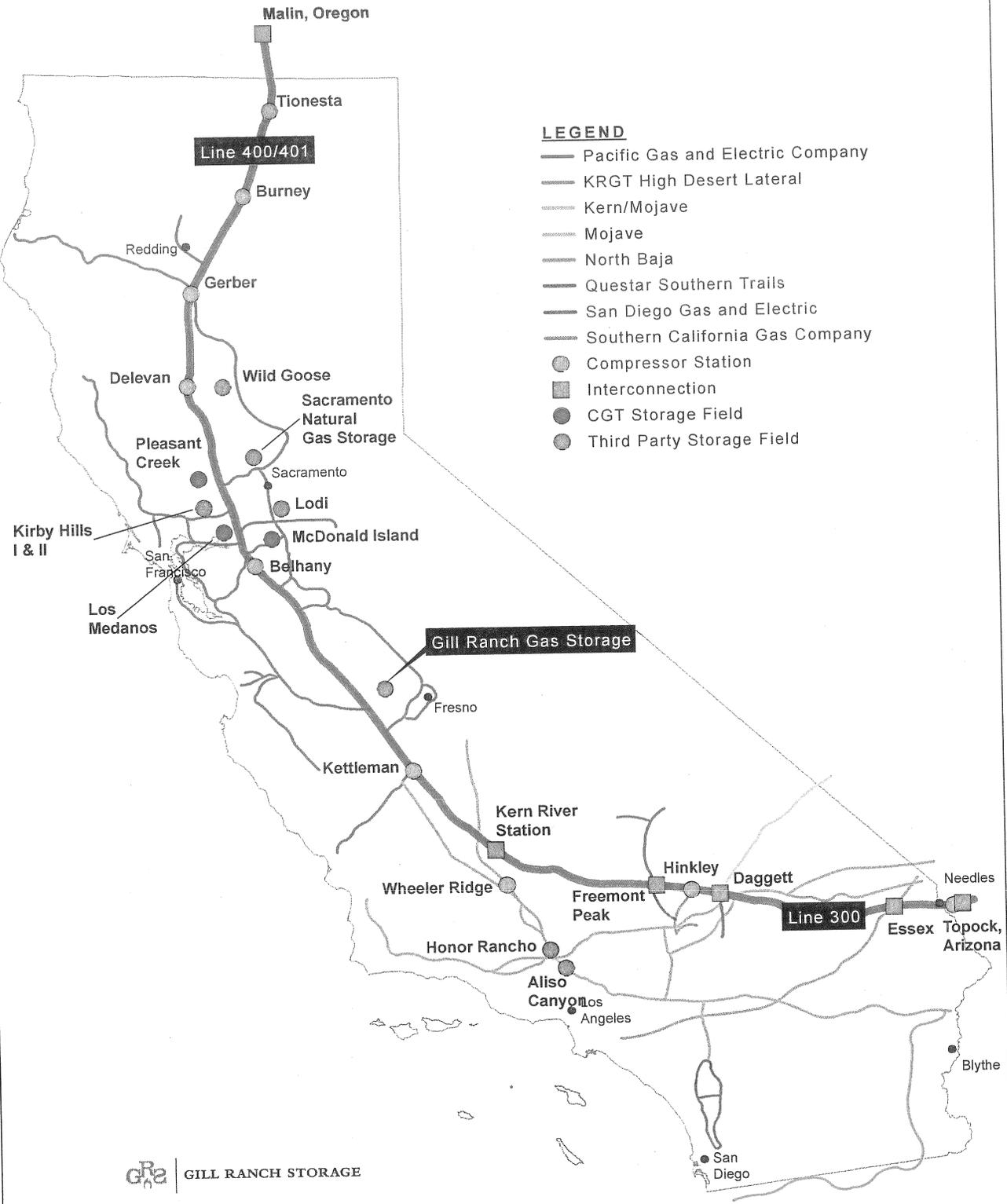
DATED: August __, 2008

DAY CARTER & MURPHY LLP

By: **DRAFT**

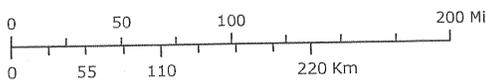
Ann L. Trowbridge

EXHIBIT E



- LEGEND**
- Pacific Gas and Electric Company
 - KRGT High Desert Lateral
 - Kern/Mojave
 - Mojave
 - North Baja
 - Questar Southern Trails
 - San Diego Gas and Electric
 - Southern California Gas Company
 - Compressor Station
 - Interconnection
 - CGT Storage Field
 - Third Party Storage Field

 GILL RANCH STORAGE



Source: California Energy Commission, Systems Assessment & Facilities Siting Division & PG&E, California Gas Transmission Pipe Rater, System Map (http://www.pge.com/pipeline/about/system_maps/statemap.shtml) (March 2007)

EXHIBIT F

***Other Permits and Approvals that May be Required
for the Gill Ranch Gas Storage Project***

<i>Other Project Approvals</i>	<i>Issuing Agency</i>	<i>Purpose/ Covered Activity</i>
1. Federal		
a. Clean Water Act Section 404/Rivers and Harbors Act Section 10: Nationwide Permit (NWP) 12	Army Corps of Engineers	Utility line activities in waters of the U.S.
b. Section 7 Consultation (in connection with NWP 12)/Incidental Take Statement	U.S. Fish and Wildlife Service	Endangered Species Act compliance
c. Special Purpose Permit for Take of Migratory Birds (on a case by case basis if take of protected migratory birds is anticipated)	U.S. Fish and Wildlife Service	Migratory Bird Treaty Act
d. National Historic Preservation Act Section 106 Consultation (in connection with NWP 12)/Memorandum of Agreement	State Historic Preservation Officer	Compliance with National Historic Preservation Act
2. State		
a. Water Quality Certification (required as condition of NWP 12)	Central Valley Regional Water Quality Control Board	Compliance with water quality standards and plans
b. Notice of Intent to Comply with General Order No. 5-00-175 (or its replacement) for Dewatering and Other Low Threat Discharges	State Water Resources Control Board	Construction activities and discharge of hydrotest water
c. General Lease/Right of Way Use	State Lands Commission	Pipeline river crossing
d. Permits to Conduct Well Operations	Division of Oil and Gas	Well drilling and operation
e. Authorization to Inject Produced Water	Division of Oil and Gas	Injection well drilling and operation
f. Encroachment Permits	Department of Transportation	Pipeline highway crossings
g. PRC Section 1601 Streambed Alteration Agreement	Department of Fish and Game	Pipeline river crossing
h. PRC Section 2081 (b) and (c) Incidental Take Permit	Department of Fish and Game	Endangered Species Act compliance
i. Authority to	San Joaquin Valley Air	Compressor emissions

Construct/Permit to Operate	Pollution Control District	
j. National Pollutant Discharge Elimination System General Permit for Discharge of Construction Related Storm Water ¹	State Water Resources Control Board	Management of stormwater during construction
3. Local (Ministerial)		
a. Building and Occupancy Permits	Madera County	Compressor site facilities
b. Grading Permit	Madera County	Compressor site improvement
c. Well Permits	Madera County / Fresno County	Injection and withdrawal wells, observation wells, injection well
d. Encroachment/Other Permits	Madera County / Fresno County	Road crossings
e. Domestic Well Permit	Madera County	Compressor site domestic water supply

¹ It is possible the Project may qualify for an exemption from the requirement to obtain a construction stormwater permit applicable to oil and gas facilities. GRS is monitoring the status of the exemption in light of recent legal developments. Construction-related stormwater will be managed in compliance with applicable requirements.

EXHIBIT G

**GILL RANCH STORAGE, LLC
FINANCIAL STATEMENTS**

[Filed Under Seal]

EXHIBIT H

NWN DEF 14A 5/22/2008

Section 1: DEF 14A (DEFINITIVE PROXY STATEMENT)

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SCHEDULE 14A (RULE 14A-101)

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

NORTHWEST NATURAL GAS COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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220 N.W. SECOND AVENUE
PORTLAND, OR 97209

April 14, 2008

To the Shareholders of Northwest Natural Gas Company:

We cordially invite you to attend the 2008 Annual Meeting of Shareholders of Northwest Natural Gas Company (NW Natural), which will be held in the Hospitality Suite on the Fourth Floor of NW Natural's offices, 220 N.W. Second Avenue, Portland, Oregon, on Thursday, May 22, 2008, commencing at 2:00 p.m., Pacific Daylight Time. We look forward to greeting as many of our shareholders as are able to join us.

At the meeting you will be asked to consider and vote upon: (1) the election of three Class III directors for terms of three years, one Class I director for a term of one year and one Class II director for a term of two years; (2) the amendment of NW Natural's Employee Stock Purchase Plan; (3) the amendment of Article III of NW Natural's Restated Articles of Incorporation; and (4) the ratification of the appointment of PricewaterhouseCoopers LLP as NW Natural's independent registered public accountants for the year 2008. Your Board of Directors unanimously recommends that you vote **FOR** each of Proposals 1, 2, 3 and 4.

In connection with the meeting, we enclose a notice of the meeting, a proxy statement and a proxy card. Detailed information relating to NW Natural's activities and operating performance is contained in our 2007 Annual Report, which is also enclosed.

It is important that your shares are represented and voted at the meeting. Whether or not you plan to attend, please vote your shares in one of three ways: via Internet, telephone or mail. Instructions regarding Internet and telephone voting are included on the proxy card. If you elect to vote by mail, please sign, date and return the proxy card in the enclosed postage-paid envelope. Your proxy may be revoked at any time before it is exercised in the manner set forth in the proxy statement.

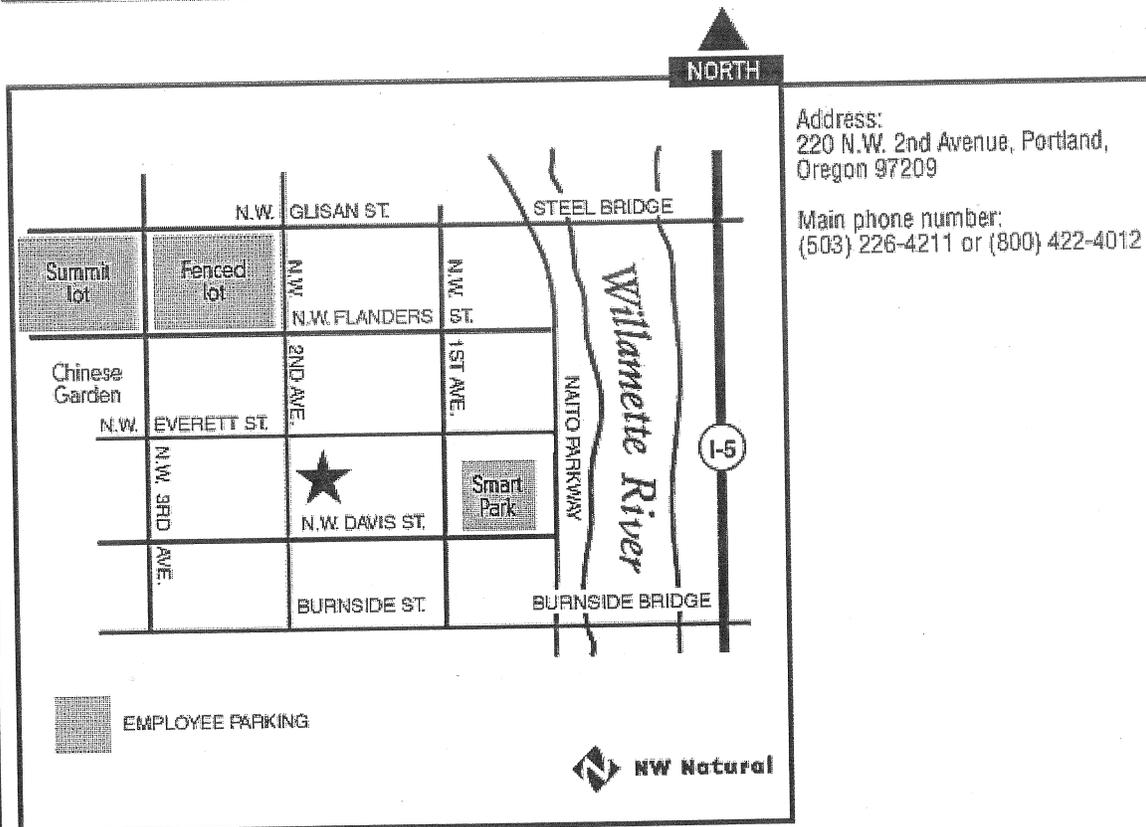
Sincerely,

/s/ Richard G. Reiten
Richard G. Reiten
Chairman of the Board

/s/ Mark S. Dodson
Mark S. Dodson
Chief Executive Officer

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Portland/One Pacific Square



Directions to One Pacific Square:

We encourage Shareholders to use Portland's light rail system (MAX). A MAX stop is located immediately in front of One Pacific Square at N.W. 1st Avenue (Old Town/China Town). Tickets will be dispensed at the meeting.

From the south:

- Take I-5 north to Portland.
- At the I-5/I-405 split, stay left going towards City Center/Naito Parkway.
- Turn right on Naito Parkway (second light). Follow Naito Parkway north through downtown.
- Turn left on Davis Street. Parking is available in the Smart Park facility on the right (the entrance is on Davis between N.W. 1st Avenue and Naito Parkway). Parking will be validated at the meeting.
- One Pacific Square is located across the street from the Smart Park facility between N.W. 1st Avenue and N.W. 2nd Avenue and between Davis and Everett.

From the north:

- Take I-5 south to the Coliseum/Rose Quarter Exit.
- Follow the signs to cross the Steel Bridge.
- Turn left on N.W. 3rd Avenue.
- Turn left on Davis.
- Proceed to parking in the Smart Park lot; entrance on Davis between N.W. 1st Avenue and Naito Parkway. Parking will be validated at the meeting.
- One Pacific Square is located across the street from the Smart Park facility between N.W. 1st Avenue and N.W. 2nd Avenue and between Davis and Everett.

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NORTHWEST NATURAL GAS COMPANY
ONE PACIFIC SQUARE
220 N.W. SECOND AVENUE
PORTLAND, OREGON 97209
(503) 226-4211

NOTICE OF 2008 ANNUAL MEETING OF SHAREHOLDERS

Portland, Oregon, April 14, 2008

To our Shareholders:

The 2008 Annual Meeting of Shareholders of Northwest Natural Gas Company (NW Natural) will be held in the Hospitality Suite on the Fourth Floor of NW Natural's offices, 220 N.W. Second Avenue, Portland, Oregon, on Thursday, May 22, 2008, at 2:00 p.m. Pacific Daylight Time, for the following purposes:

1. to elect three Class III directors for terms of three years, one Class I director for a term of one year, and one Class II director for a term of two years;
2. to amend NW Natural's Employee Stock Purchase Plan;
3. to amend Article III of NW Natural's Restated Articles of Incorporation;
4. to ratify the appointment of PricewaterhouseCoopers LLP as NW Natural's independent registered public accountants for the year 2008; and
5. to transact such other business as may properly come before the meeting or any adjournment thereof.

Holders of record at the close of business on April 3, 2008 are entitled to vote upon all matters properly submitted to shareholder vote at the meeting.

Our Board of Directors is soliciting the proxies of all holders of NW Natural Common Stock who may be unable to attend the meeting in person. These proxies also will instruct the relevant fiduciary under NW Natural's Dividend Reinvestment and Direct Stock Purchase Plan or Retirement K Savings Plan to vote any shares held for shareholders' benefit under those plans, as indicated on the proxies. A proxy and a stamped return envelope are enclosed for your use. No postage is needed if mailed in the United States. Instructions regarding Internet and telephone voting also are included on the enclosed proxy card.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 22, 2008

This proxy statement and our 2007 Annual Report are available on our website at www.nwnatural.com.

Your vote is very important to us.

We urge you to vote by promptly marking, signing, dating and returning the enclosed proxy card, or by granting a proxy by telephone or the Internet in accordance with the instructions on the enclosed proxy card, as soon as possible. Your prompt vote will save us the additional expense of further requests to ensure the presence of a quorum. You may vote in person at the meeting whether or not you previously have returned your proxy.

By Order of the Board of Directors,

/s/ Richelle T. Luther
Richelle T. Luther
Corporate Secretary

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PROXY STATEMENT
NORTHWEST NATURAL GAS COMPANY
April 14, 2008

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NORTHWEST NATURAL GAS COMPANY
ONE PACIFIC SQUARE
220 N.W. SECOND AVENUE
PORTLAND, OREGON 97209
(503) 226-4211

**2008 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 22, 2008**

PROXY STATEMENT

The Board of Directors of Northwest Natural Gas Company (NW Natural) is soliciting the proxies of all holders of NW Natural Common Stock who may be unable to attend in person the Annual Meeting of Shareholders to be held in the Hospitality Suite on the Fourth Floor of our offices, 220 N.W. Second Avenue, Portland, Oregon, on Thursday, May 22, 2008, at 2:00 p.m. Pacific Daylight Time. We request that you sign and return the enclosed proxy promptly. Alternatively, you may grant your proxy by telephone or the Internet.

NW Natural's Annual Report for the fiscal year ended December 31, 2007, including audited financial statements, is being mailed to all shareholders, together with this proxy statement and the accompanying proxy card, commencing April 14, 2008.

The close of business on April 3, 2008 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

VOTING BY PROXY AND HOW TO REVOKE YOUR PROXY

You may vote your shares either in person or by duly authorized proxy. You may use the proxy card accompanying this proxy statement if you are unable to attend the meeting in person or you wish to have your shares voted by proxy even if you do attend the meeting. If you are a registered shareholder, you may vote by telephone, Internet or mail, or you may vote your shares in person at the meeting. To vote:

By telephone (do not return your proxy card)

- On a touch-tone telephone, call the toll-free number indicated on your proxy card. Telephone voting is available 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on May 21, 2008.
- Have your proxy card available when you call.
- Follow the simple recorded instructions. You will be prompted to enter your 12-digit Control Number located on your proxy card.

By Internet (do not return your proxy card)

- Go to www.proxyvote.com. Internet voting is available 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on May 21, 2008.
- Have your proxy card available.
- Follow the simple instructions. You will be prompted to enter your 12-digit Control Number located on your proxy card.

By mail

- Mark your choice on your proxy card. If you properly execute your proxy card but do not specify your choice, your shares will be voted "FOR" Proposals 1, 2, 3 and 4, as recommended by NW Natural's Board of Directors.
- Date and sign your proxy card.

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- Mail your proxy card in the enclosed postage-paid envelope. If your envelope is misplaced, send your proxy card to Northwest Natural Gas Company, c/o Broadridge, Proxy Services, 51 Mercedes Way, Edgewood, NY 11717.

You may revoke your proxy at any time before the proxy is exercised: (1) by delivering a written notice of revocation; (2) by filing with the Corporate Secretary a subsequently dated, properly executed proxy; (3) by voting after the date of the proxy by telephone or the Internet; or (4) by attending the meeting and voting in person. Your attendance at the meeting, by itself, will not constitute a revocation of a proxy. You should address any written notices of proxy revocation to:

Northwest Natural Gas Company
220 NW Second Ave.
Portland, OR 97209
Attention: Corporate Secretary

If your shares are held in nominee or street name by a bank or broker, you should follow the directions on the instruction form you receive from your bank or broker as to how to vote, change your vote, or revoke your proxy.

If an adjournment of the meeting occurs, it will have no effect on the ability of shareholders of record as of the record date to exercise their voting rights or to revoke any previously delivered proxies.

VOTING YOUR SECURITIES

The 26,411,248 shares of Common Stock outstanding on March 17, 2008 were held by 7,823 shareholders residing in 50 states, the District of Columbia and a number of foreign countries.

Each holder of Common Stock of record at the close of business on April 3, 2008 will be entitled to one vote for each share of Common Stock so held on all matters properly submitted at the meeting. Such holder will be entitled to cumulative voting for directors; that is, to cast as many votes for one candidate as shall equal the number of shares held of record multiplied by the number of directors to be elected, or to distribute such number of votes among any number of the candidates.

A majority of the shares of Common Stock outstanding at the close of business on April 3, 2008 must be represented at the meeting, in person or by proxy, to constitute a quorum for the transaction of business.

It is important that your shares be represented at the meeting. You are urged, regardless of the number of shares held, to sign and return your proxy. Alternatively, you may grant your proxy by telephone or the Internet as described above.

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PROPOSAL 1—ELECTION OF DIRECTORS

NW Natural's Restated Articles of Incorporation provide that the Board of Directors be composed of not less than nine nor more than 13 directors, with the exact number of directors to be determined by the Board. The Board has fixed the number of directors at 12.

Our Chairman of the Board, Mr. Richard G. Reiten, has announced his plans to retire from Board service at the end of his current term, which expires at the 2008 Annual Shareholders Meeting. Mr. Reiten will chair the 2008 Annual Shareholders Meeting. Mr. Reiten has been a director since 1996 and served as NW Natural's President and Chief Executive Officer (CEO) from 1997 through 2002 and as President and Chief Operating Officer from 1995 to 1997. Mr. Reiten became Chairman of the Board in 2000. After his retirement as President and CEO of NW Natural in 2002, Mr. Reiten continued to serve as a director and, through February 2005, as non-employee Chairman. Mr. Reiten was reelected as Chairman of the Board in December 2006. The Board of Directors thanks Mr. Reiten for his extensive and valued service to NW Natural. The Board does not expect to fill the vacancy on the Board of Directors created by Mr. Reiten's retirement.

The Restated Articles also provide that the Board of Directors be divided into three classes and that the number of directors in each class be as nearly equal in number as possible. Members of each class are elected to serve a three-year term with the terms of office of each class ending in successive years. The term of Class III directors expires with this year's Annual Meeting. Ms. Martha L. "Stormy" Byorum and Messrs. John D. Carter and C. Scott Gibson are nominees for election to the Board as Class III directors to serve until the 2011 Annual Meeting or until their successors have been duly qualified and elected. All were elected by the shareholders at the 2005 Annual Meeting. Mr. George J. Puentes and Ms. Jane L. Peverett were elected to the Board of Directors to fill vacancies on July 27, 2007. Mr. Puentes is nominated for election to the Board as a Class I director to serve until the 2009 Annual Meeting or until his successor has been duly elected and qualified and Ms. Peverett is nominated for election to the Board as a Class II director to serve until the 2010 Annual Meeting or until her successor has been duly elected and qualified. Both Mr. Puentes and Ms. Peverett were recommended to the Governance Committee by the Chairman of the Board. In case any of the nominees should become unavailable for election for any reason, the persons named in the proxy will have discretionary authority to vote for a substitute. Management knows of no reason why any of the nominees would be unable to serve if elected.

Vote Required

Under Oregon law, if a quorum of shareholders is present at the Annual Meeting, the five nominees who receive the greatest number of votes cast at the meeting shall be elected directors. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote for directors.

The Board of Directors recommends the election of the nominees listed below.

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**INFORMATION CONCERNING NOMINEES
AND CONTINUING DIRECTORS**

NOMINEES FOR ELECTION TO BOARD OF DIRECTORS

**Class III
(For a term ending in 2011)**



Martha L. "Stormy" Byorum
Senior Managing Director, Stephens Cori Capital Advisors, New York, New York
Age: 59
Director since: 2004
Board Committees: Audit, Finance

In January 2005, Ms. Byorum became Senior Managing Director of Stephens Cori Capital Advisors, a division of Stephens, Inc., a private investment banking firm founded in 1933. From 2003 to 2004, Ms. Byorum served as Chief Executive Officer of Cori Investment Advisors, LLC, which was spun off from Violy, Byorum & Partners (VB&P) in 2003. VB&P was the leading independent strategic advisory and investment banking firm specializing in Latin America. Prior to co-founding VB&P in 1996, Ms. Byorum had a 24-year career at Citibank, where, among other things, she served as Chief of Staff and Chief Financial Officer for Citibank's Latin American Banking Group from 1986-1990, overseeing \$15 billion of loans and coordinating activities in 22 countries. She later was appointed the head of Citibank's U.S. Corporate Banking Business and a member of the bank's Operating Committee and Customer Group with global responsibilities. A graduate of Southern Methodist University and the Wharton School at the University of Pennsylvania, she is a Life Trustee of Amherst College, a Trustee Emeritus of the Folger Shakespeare Library and a board member of Aeterna-Zentaris Laboratories, Inc., a biopharmaceutical company, and M&F Worldwide Corp.



John D. Carter
President and Chief Executive Officer, Schnitzer Steel Industries, Inc., Portland, Oregon
Age: 62
Director since: 2002
Board Committees: Audit (Chair), Finance, Governance

Mr. Carter has served as President and Chief Executive Officer of Schnitzer Steel Industries Inc. since May 2005. From 2002 to May 2005, Mr. Carter was engaged in a consulting practice focused primarily on strategic planning in transportation and energy for national and international businesses, as well as other small business ventures. From 1982 to 2002, Mr. Carter served in a variety of senior management capacities at Bechtel Group, Inc., including Executive Vice President and Director, as well as President of Bechtel Enterprises, Inc., a wholly owned subsidiary of Bechtel Group, Inc., and other operating groups. Prior to his Bechtel tenure, Mr. Carter was a partner in a San Francisco law firm. He is a director of Schnitzer Steel Industries, FLIR Systems, Inc., and Kuni Automotive in the U.S. In the United Kingdom, he served as a director of London & Continental Railways until February 2006, and, until December 2005, served as a director of Cross London Rail Links, Ltd. He is a graduate of Stanford University and Harvard Law School.

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C. Scott Gibson

President, Gibson Enterprises, Portland, Oregon

Age: 55

Director since: 2002

Board Committees: Public Affairs and Environmental Policy (Chair), Organization and Executive Compensation, Strategic Planning

Mr. Gibson has been President of Gibson Enterprises, a venture capital firm, since its formation in 1992. In 1983, Mr. Gibson co-founded Sequent Computer Systems and served as its President from 1988 until March 1992. Before his tenure at Sequent, Mr. Gibson served as General Manager for the Memory Components Division of Intel Corporation. Mr. Gibson serves as Chairman of the Board of Radisys Corporation and as a director of TriQuint Semiconductor, Pixelworks, Electroglas, Inc. and Verigy Pte. He also serves as a member of the Board of Trustees of the Oregon Community Foundation, the OHSU Foundation and the Franklin W. Olin College of Engineering, and is Vice Chair of the Oregon Health and Science University governing board. Mr. Gibson earned a Bachelor of Science degree in electrical engineering and a Masters in Business degree from the University of Illinois.

Class I

(For a term ending in 2009)



George J. Puentes

President, Don Pancho Authentic Mexican Foods, Inc., Salem, Oregon

Age: 60

Director since: 2007

Board Committees: Public Affairs and Environmental Policy, Finance

Mr. Puentes serves as President of Don Pancho Authentic Mexican Foods, Inc., a manufacturer of tortillas and other foods, which he founded in Salem, Oregon in 1979. Mr. Puentes serves on the board of directors of the Federal Reserve Bank of San Francisco, Portland branch. He also serves as a trustee of the Meyer Memorial Trust and on the community Board for Regence Blue Cross Blue Shield. Mr. Puentes earned a Bachelor of Science degree in business management from San Jose State University.

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Class II
(For a term ending in 2010)



Jane L. Peverett
President and Chief Executive Officer, British Columbia Transmission Corporation, Vancouver, British Columbia, Canada
Age: 49
Director since: 2007
Board Committees: Audit, Strategic Planning

Since 2005, Ms. Peverett has served as President and Chief Executive Officer of British Columbia Transmission Corporation (BCTC), an electric utility in Vancouver, British Columbia. Between 2003 and 2005, she served as Chief Financial Officer of BCTC. Prior to joining BCTC, from 1988 through 2003, Ms. Peverett held various senior positions with Union Gas Limited of Toronto, Ontario, including serving as its President and Chief Executive Officer between 2001 and 2003. Ms. Peverett serves on the board of directors of EnCana Corporation, the B.C. Business Council and the Canadian Electricity Association. Ms. Peverett earned a Bachelor of Commerce degree from McMaster University and a Master of Business Administration degree from Queen's University. She is a certified management accountant.

MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE

Class I
(Term ending in 2009)



Timothy P. Boyle
President and Chief Executive Officer, Columbia Sportswear Company, Portland, Oregon
Age: 58
Director since: 2003
Board Committees: Finance, Organization and Executive Compensation, Strategic Planning

Since 1989, Mr. Boyle has served as President and Chief Executive Officer of Columbia Sportswear Company, an active outdoor apparel and footwear company headquartered in Portland, Oregon. He began working with Columbia Sportswear Company in 1970. Mr. Boyle is a member of the boards of directors of Columbia Sportswear Company, Widmer Brothers Brewing and Oregon Trout and is a trustee of Reed College, the Youth Outdoor Legacy Fund and a past member of the Young Presidents' Organization. He also is a past trustee of the University of Oregon Foundation and vice chairman of its capital campaign committee. He earned a Bachelor of Science degree in Journalism from the University of Oregon.

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Mark S. Dodson
Chief Executive Officer, NW Natural, Portland, Oregon
Age: 63
Director since: 2003
Board Committees: None

Mr. Dodson became President and Chief Executive Officer of NW Natural on January 1, 2003, where he previously served as President, Chief Operating Officer and General Counsel since 2001. He relinquished the position of President in 2007. He joined NW Natural in 1997 as Senior Vice President of Public Affairs and General Counsel, following a 17-year career with the Portland law firm Ater Wynne Hewitt Dodson & Skerritt LLP. Mr. Dodson is currently on the board of directors of the American Gas Association and the Oregon Business Council and serves on the board of directors of Energy Insurance Mutual. He also has worked on affordable housing issues as a board member and chairman of the Neighborhood Partnership Fund. Mr. Dodson was formerly the Chair of the Portland Business Alliance and the Oregon State Board of Higher Education. He currently serves as a member of the board of directors of Waseda University USA, and headed the Oregon Governor's Task Force on Scholarship and Student Aid. He earned an undergraduate degree from Harvard University and a law degree from Boalt College of Law at the University of California, Berkeley.



Randall C. Papé
President and Chief Executive Officer, The Papé Group, Inc., Eugene, Oregon
Age: 57
Director since: 1996
Board Committees: Governance, Finance (Chair), Public Affairs and Environmental Policy

Since 1981, Mr. Papé has served as President, Chief Executive Officer and a director of The Papé Group, Inc., a holding company for Papé Machinery, Inc., Flightcraft, Inc., Papé Material Handling, Ditch Witch Northwest, Papé Properties, Inc., Papé Trucks, Inc. and Papé Truck Leasing, Inc. He also is President, Chief Executive Officer and a director of Liberty Financial Group, a holding company for LibertyBank, and its subsidiary, Commercial Equipment Lease Corporation. He is an owner and director of Sanipac, Inc. and its subsidiary, Eco Sort LLC, and a partner in Papé Investment Company. Mr. Papé serves as a member and past chair of the Oregon Business Council. He is a former director and past president of Mt. Bachelor, Inc. and a trustee emeritus and past president of the University of Oregon Foundation. He earned a Bachelor of Science degree in Finance from the University of Oregon.

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Class II (Term ending in 2010)



Tod R. Hamachek

Former Chairman and Chief Executive Officer, Penwest Pharmaceuticals Company, Seattle, Washington
Age: 62
Director since: 1986
Board Committees: Governance, Audit, Strategic Planning (Chair)

Mr. Hamachek served as Chairman and Chief Executive Officer of Penwest Pharmaceuticals Company from October 1997 to February 2005. Penwest, which was spun off from Penford Corporation in 1998, is located in Danbury, Connecticut and is engaged in the research, development and commercialization of novel drug delivery products and technologies. From 1985 until 1998, Mr. Hamachek served as President and Chief Executive Officer of Penford Corporation, a diversified producer of specialty paper, food starches and pharmaceutical ingredients. He is a director of The Seattle Times Company and The Blethen Corporation (the majority owner of The Seattle Times Company). Mr. Hamachek is a member of the board of directors of Virginia Mason Medical Center and Virginia Mason Hospital System in Seattle, Washington. He is a graduate of Williams College and Harvard Business School.



Kenneth Thrasher

Chairman and Chief Executive Officer, Compli Corporation, Portland, Oregon
Age: 58
Director since: 2005
Board Committees: Organization and Executive Compensation, Audit, Public Affairs and Environmental Policy

Since 2002, Mr. Thrasher has served as Chairman and Chief Executive Officer of Compli Corporation, a software solution provider for management of compliance in employment practices and corporate governance. Prior to joining Compli, Mr. Thrasher served 19 years in executive positions with Fred Meyer, Inc., including serving as President and Chief Executive Officer from 1999 to 2001 and as Executive Vice President and Chief Administrative Officer from 1997 to 1999. In addition to serving on the NW Natural Board of Directors, Mr. Thrasher serves on the boards of directors of Compli Corporation, The Jensen Fund, Friends of the Children, Oregon Mentors, the Children's Institute, the Portland State University Foundation, the Leaders Roundtable and the Oregon Coast Aquarium, and is a senior director on the Oregon Business Council. In 2001, he was appointed by the Oregon Governor as Chairperson of the Quality Education Commission, a position he held until his term expired in 2005. He also served as a co-chair of Portland State University's capital endowment campaign through June 2005. Mr. Thrasher earned a Bachelor of Science degree in Business Administration from Oregon State University.

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Russell F. Tromley
Chairman and Chief Executive Officer, Tromley Industrial Holdings, Inc., Tualatin, Oregon
Age: 68
Director since: 1994
Board Committees: Audit, Governance, Organization and Executive Compensation (Chair)

Mr. Tromley became Chairman and Chief Executive Officer of Tromley Industrial Holdings, Inc. in 2005 after having served as President and Chief Executive Officer since the company's formation in 1990. Tromley Industrial Holdings is involved in nonferrous metals alloying and distribution, the manufacture and sale of equipment for the foundry and steel industry, industrial equipment leasing and industrial and retail business property investments. Mr. Tromley is a past President of the Casting Industry Suppliers Association and of the Arlington Club, and is a non-lawyer arbitrator for, and a member of the House of Delegates of, the Oregon State Bar Association. He was a founding director of The Bank of the Northwest, and served on the advisory board of Pacific Northwest Bank of Oregon and as a director emeritus of the Evans Scholars Foundation and the Western Golf Association. Mr. Tromley attended the University of Washington and Harvard Business School.

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CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Annual Meeting Attendance

The Board of Directors conducts its annual organization meeting on the same date as the Annual Meeting of Shareholders, which all of the directors are encouraged to attend. In 2007, all of our directors attended the Annual Meeting of Shareholders.

Independence

The Board of Directors has adopted Director Independence Standards to comply with New York Stock Exchange (NYSE) rules. The Director Independence Standards, amended as of December 16, 2004, are available on our website at www.nwnatural.com and are available in print to any shareholder who requests them. No director is deemed independent unless the Board affirmatively determines that the director has no material relationship with NW Natural either directly or as a partner, shareholder or officer of an organization that has a relationship with NW Natural. The Board applies NW Natural's Director Independence Standards as well as additional qualifications prescribed under the listing standards of the NYSE and applicable state and federal statutes. Annually the Board determines whether each director meets the criteria of independence. In 2008, the Board determined that eleven of the twelve directors met the independence criteria. They are directors Boyle, Byorum, Carter, Gibson, Hamachek, Papé, Peverett, Puentes, Reiten, Thrasher and Tromley. For a discussion of transactions considered by the Board in determining independence, see "Transactions with Related Persons," below.

In determining that Mr. Reiten is deemed independent, in February 2007, the Board of Directors considered Mr. Reiten's prior service as an executive officer of NW Natural. Mr. Reiten joined NW Natural as President and Chief Operating Officer in 1995 and was appointed President and Chief Executive Officer (CEO) in 1997 and Chairman of the Board in 2000. Mr. Reiten retired as President and CEO of NW Natural in 2002, continuing to serve as a director and, through February 2005, as non-employee Chairman. Mr. Reiten was again elected non-employee Chairman in December 2006, a position which he continues to hold. The Board also considered the compensation and benefits that Mr. Reiten has received since retiring and concluded that Mr. Reiten has received no compensation from NW Natural since his retirement as CEO, other than director and committee fees and pension and other forms of deferred compensation for prior services (which compensation was not contingent in any way on continued service). The Board considered the changes in the management team and company policies and initiatives that had occurred since Mr. Reiten's retirement as CEO and Mr. Reiten's activities in respect of NW Natural since his retirement and concluded that, since his retirement as CEO, Mr. Reiten had only acted as a director and, through February 2005 and from December 2006 to the present, only as non-employee Chairman. In reaching its determination that Mr. Reiten is independent, the Board considered these relevant facts and circumstances and affirmatively determined that Mr. Reiten has no material relationship with NW Natural, either directly or as a partner, shareholder or officer of an organization that has a relationship with NW Natural.

Other than with respect to Mr. Papé as described below under "Transactions with Related Persons," for each other director who is deemed independent, there were no other significant transactions, relationships or arrangements that were considered by the Board in determining that the director is independent.

Board Nominations

The Board is responsible for selecting candidates for Board membership and the Governance Committee has been assigned the responsibility of recommending to the Board of

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Directors nominees for election as directors. The Governance Committee has not used a third party to assist in finding candidates. The Governance Committee, with recommendations and input from the Chairman of the Board, the CEO and other directors, evaluates the qualifications of each director candidate in accordance with the Director Selection Criteria established by the Board. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of NW Natural, the existing and prospective business environment faced by NW Natural and the long-term interests of shareholders. In conducting its assessment, the Governance Committee considers a variety of criteria, including the following:

- **Integrity.** Directors should have proven integrity and be of the highest ethical character and share NW Natural's values.
- **Reputation.** Directors should have reputations, both personal and professional, consistent with NW Natural's image and reputation.
- **Judgment.** Directors should have the ability to exercise sound business judgment on a broad range of issues.
- **Knowledge.** Directors should be financially literate and have a sound understanding of business strategy, business environment, corporate governance and Board operations.
- **Experience.** Directors should be or have been in a generally recognized position of leadership in the nominee's field of endeavor and have a proven track record of excellence in their field.
- **Maturity.** Directors should value Board and team performance over individual performance, possess respect for others and facilitate superior Board performance.
- **Commitment.** Directors should be able and willing to devote the required amount of time to NW Natural's affairs, including preparing for and attending meetings of the Board and its committees, and should not be over-committed by service on multiple other boards. Directors should be actively involved in the Board and its decision-making.
- **Skills.** Directors should be selected so that the Board has an appropriate mix of skills in core areas such as: accounting, finance, government relations, technology, management, compensation, crisis management, strategic planning and industry knowledge.
- **Diversity.** Directors should be selected so that the Board of Directors is a diverse body. "Diversity" in this context includes considerations of geographic location, gender, race and professional background.
- **Age.** In accordance with NW Natural's Bylaws, the Board's mandatory retirement age is 70. As such, directors must be able, and should be committed, to serve on the Board for an extended period of time.
- **Independence.** Directors should neither have, nor appear to have, a conflict of interest that would impair the director's ability to represent the interests of all NW Natural's shareholders and to fulfill the responsibilities of a director.
- **Ownership stake.** Directors should be committed to having a meaningful, long-term equity ownership stake in NW Natural and be willing to comply with our stock ownership guidelines.

Shareholder Nominations

Shareholders' recommendations for director-nominees may be submitted to NW Natural's Corporate Secretary for consideration by the Governance Committee. In evaluating shareholder recommendations for director-nominees, the Governance Committee applies the same Director Selection Criteria discussed above. NW Natural's Restated Articles of

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Incorporation provide that no person, except those nominated by the Board, shall be eligible for election as a director at any annual or special meeting of shareholders unless a written request that his or her name be placed in nomination, together with the written consent of the nominee, shall be received from a shareholder of record entitled to vote at such election by the Corporate Secretary of NW Natural on or before the later of (a) the thirtieth day prior to the date fixed for the meeting, or (b) the tenth day after the mailing of the notice of that meeting.

Committees

There are six standing committees of the Board: Audit, Governance, Organization and Executive Compensation, Finance, Public Affairs and Environmental Policy and Strategic Planning. Each of the committees operates according to a formal written charter, all of which are reviewed annually and are available on our website at www.nwnatural.com. Copies of the charters are also available in print to any shareholder upon request. The performance of each committee is reviewed annually. Each committee may obtain advice and assistance from internal or external legal, accounting or other advisors, when appropriate.

Audit Committee

The Audit Committee is composed of directors Byorum, Carter, Hamachek, Peverett, Thrasher and Tromley, each of whom is an independent director as defined under current NYSE listing standards and NW Natural's Director Independence Standards. Ms. Peverett was appointed to the Audit Committee in July 2007. Based on its review of relevant information, the Board has determined that Mr. Carter is an "audit committee financial expert" and "independent" as those terms are defined under applicable Securities and Exchange Commission (SEC) rules. Mr. Carter chairs the committee.

The Audit Committee is responsible for overseeing matters relating to accounting, financial reporting, internal control and auditing. The Audit Committee is also responsible for the appointment, compensation, oversight and review of the independent registered public accounting firm, and reviews the corporate audit and other internal accounting control matters with the independent auditor. A more detailed description of the Audit Committee's responsibilities is included in the "Report of the Audit Committee," below. The Audit Committee reports regularly to the Board. The Audit Committee held seven meetings during 2007. Mr. Carter presides at all executive sessions of the Audit Committee.

Governance Committee

The Governance Committee is empowered, during intervals between Board meetings, to exercise all of the authority of the Board in the management of NW Natural, except as otherwise may be provided by law. The committee, which serves as the nominating committee, makes recommendations to the Board regarding nominees for election to the Board, establishes criteria for Board and committee membership and policies that govern the Board's activities, including the Corporate Governance Standards discussed below, and evaluates Board and individual director performance. It also considers any questions of possible conflicts of interest of Board members and senior executives and, jointly with the Organization and Executive Compensation Committee, considers CEO succession plans. This committee is composed of directors Carter, Hamachek, Papé, Reiten and Tromley, each of whom is an independent director as defined under current NYSE listing standards and NW Natural's Director Independence Standards. The committee held five meetings in 2007. Mr. Reiten chairs the committee. Mr. Reiten presides at all executive sessions of the Governance Committee and executive sessions of the non-management directors of the Board.

Public Affairs and Environmental Policy Committee

The Public Affairs and Environmental Policy Committee reviews NW Natural's policies and practices relating to significant public and political issues that may have an impact on our

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business operations, financial performance or public image. It oversees our programs and policies relating to civic, charitable and community affairs, safety and equal employment opportunities. The committee also develops and recommends to the Board appropriate environmental policies and advises the Board concerning the status of NW Natural's compliance with environmental regulations. The committee makes recommendations to the Board to ensure that we fulfill our objectives in a manner consistent with the responsibilities of good corporate citizenship. The committee is composed of directors Gibson, Papé, Puentes, Reiten and Thrasher. Mr. Puentes was appointed to the committee in July 2007. Mr. Gibson serves as Chair of the committee. The committee held three meetings in 2007.

Finance Committee

The Finance Committee is responsible for reviewing strategies and making recommendations to the Board with respect to our financing programs, financial policy matters and material regulatory issues. The Finance Committee is composed of directors Boyle, Byorum, Carter, Papé, Puentes and Reiten. Mr. Papé chairs the committee. Mr. Puentes was appointed to the committee in July 2007. The Finance Committee held three meetings in 2007.

Strategic Planning Committee

The Strategic Planning Committee is responsible for reviewing and making recommendations to management and the Board with respect to our long-term strategic goals, objectives and plans for the purpose of creating and maintaining long-term shareholder value. The Strategic Planning Committee is composed of directors Boyle, Gibson, Hamachek, Peverett and Reiten. Ms. Peverett was appointed to the committee in July 2007. Mr. Hamachek chairs the committee, which met three times in 2007.

Organization and Executive Compensation Committee

The Organization and Executive Compensation Committee is composed of directors Boyle, Gibson, Thrasher and Tromley, each of whom is an independent director as defined under current NYSE listing standards and NW Natural's Director Independence Standards. Each member of this committee also meets the criteria for a "non-employee director" under applicable SEC rules and the criteria for "outside directors" under Section 162(m) of the Internal Revenue Code of 1986, as amended (Internal Revenue Code). Mr. Tromley chairs the committee.

The committee reviews the performance of the CEO and other executive officers, considers executive compensation survey data in making recommendations to the Board relating to our executive compensation programs and benefit plans, and oversees the administration of the Restated Stock Option Plan, the Long-Term Incentive Plan, the Executive Deferred Compensation Plan, the Executive Annual Incentive Plan, the Directors Deferred Compensation Plan, the Deferred Compensation Plan for Directors and Executives and the Non-Employee Directors Stock Compensation Plan. This committee also makes recommendations to the Board regarding Board compensation and organization and executive succession matters. Six meetings of this committee were held during 2007.

Purpose of the Committee. The committee operates pursuant to a written charter that provides that the purposes of the committee are to:

- discuss and review the management of the affairs of NW Natural relating to its organization and to executive personnel and their compensation;
- produce an annual report on executive compensation for inclusion in NW Natural's proxy statement; and

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- provide input and guidance to management in the preparation of the Compensation Discussion and Analysis also included in NW Natural's proxy statement.

The committee is responsible for discharging the responsibilities of the Board of Directors relating to the compensation of executives by ensuring that the CEO and other senior executives of NW Natural are compensated appropriately and in a manner consistent with the stated compensation strategy and the requirements of the appropriate regulatory authorities. The committee's policies and decisions applicable to the compensation of all of the Named Executive Officers (defined below in the "Compensation Discussion and Analysis" section) are generally similar in all material respects. The committee's current charter is available on our website and may be accessed at www.nwnatural.com.

Delegation of Authority. The Board of Directors has delegated to the committee its full authority to grant stock options under the terms of the Restated Stock Option Plan and to grant awards under the terms of the Long-Term Incentive Plan. Both of these plans have been approved by our shareholders. With respect to other components of the Named Executive Officers' compensation, the committee submits its recommendations to the Board for approval. Day-to-day administration of certain director and executive plans has been delegated, under the terms of the plans, to certain officers, with oversight provided by the committee.

Management's Role. Management provides support to the committee in a number of ways to facilitate executive compensation decisions, including working with outside counsel on plan design changes, preparing reports and materials, communicating with outside advisors, administering plans and implementing the committee's decisions. The senior vice president responsible for human resources is the primary contact for the committee and the CEO makes recommendations to the committee regarding plan design, salary increases, incentive awards and other executive compensation decisions for executives other than himself.

Use of Consultants. The committee has engaged Towers Perrin, an independent compensation consulting firm (the consultant), to assist in the evaluation of the competitiveness of our executive compensation programs and to provide overall guidance to the committee in the design and operation of these programs. The consultant reports directly to the committee chair and the chair approves all invoices submitted by the consultant. At the direction and under the guidance of the committee chair, the consultant works with management, principally the senior vice president responsible for human resources, in developing recommendations with respect to executive compensation and executive programs for submission to the committee for its consideration.

Succession Planning. The committee periodically reviews with the CEO and the senior vice president responsible for human resources, NW Natural's succession planning process. Our succession planning process includes the identification of potential internal and external candidates, the use of various assessment tools which have included multi-rated feedback and emotional intelligence and personality assessments. The plan is updated on a periodic basis.

The Report of the Organization and Executive Compensation Committee is included on page 21.

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CORPORATE GOVERNANCE STANDARDS

The Board of Directors maintains Corporate Governance Standards that are intended to provide NW Natural and its Board of Directors with guidelines designed to ensure that business is conducted with the highest level of integrity. These Corporate Governance Standards are reviewed annually by the Governance Committee to determine if changes should be recommended to the Board of Directors. The Corporate Governance Standards, amended as of July 26, 2007, are available on our website at www.nwnatural.com and are available in print to any shareholder who requests a copy. Among other matters, the Corporate Governance Standards include the following:

- A substantial majority of the Board should be independent and the Board annually assesses the independence of each Board member in accordance with NW Natural's Director Independence Standards.
- The Governance Committee, the Audit Committee and the Organization and Executive Compensation Committee consist entirely of independent directors, as that term is defined by NYSE listing standards and NW Natural's Director Independence Standards.
- Director nominees are recommended by the Governance Committee to the full Board in accordance with the Director Selection Criteria established by the Board.
- Directors must retire from the Board at the first annual meeting of shareholders after reaching age 70.
- The Board and Committee structure and function, including expected Board meeting attendance and review of materials.
- Board members have complete access to NW Natural's senior management and all committees have access to independent counsel, accountants or other advisors, as appropriate.
- The Governance Committee oversees the annual assessment of the performance and effectiveness of the Board, including Board committees, and provides the results to the full Board for discussion. In addition, the Governance Committee annually conducts peer reviews of directors prior to the end of their term of office.
- Annually the Board reviews and approves the strategic plan and one-year operating and capital expenditure plans.
- Committee members are recommended by the Governance Committee for appointment by the Board and committee membership is rotated from time to time.
- The Board provides for an executive session of non-management directors at the end of each Board meeting. The chair of the Governance Committee presides at these executive sessions.
- Succession planning and management development are reported at least annually by the CEO to the Board. The Organization and Executive Compensation Committee, in consultation with the Governance Committee, is responsible for planning for succession and submitting its recommendations to the Board of Directors with respect to CEO selection.
- The Organization and Executive Compensation Committee recommends to the Board reasonable director compensation. Directors who are also employees of NW Natural receive no additional compensation for their service as directors.
- Within five years after joining the Board, each Board member shall own NW Natural shares (including shares credited to the directors' deferred compensation accounts and

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vested and unvested shares awarded under the Non-Employee Directors Stock Compensation Plan) valued at the lesser of \$300,000 or five times the Board member's annual retainer fee.

- Stock ownership guidelines for executives. See "Compensation Discussion and Analysis—Stock Ownership Guidelines," below.
- Director orientation and continuing education programs are provided which are designed to familiarize new directors with the full scope of our business and key challenges and to develop and maintain skills necessary or appropriate for the performance of their duties.
- Incentive compensation plans link pay directly and objectively to measured financial and other goals set in advance by the Board.
- The Code of Ethics and Financial Code of Ethics policies, both of which are available on our website at www.nwnatural.com, are maintained by the Board. Copies are also available in print to any shareholder who requests a copy.

In addition, the Board of Directors has adopted procedures for the receipt, retention and treatment of concerns of our employees, shareholders, customers and other interested parties regarding accounting, financial reporting, internal controls, auditing or other matters. Concerns may be submitted in writing to the non-management directors of NW Natural, c/o the Corporate Secretary, 220 N.W. Second Avenue, Portland OR 97209, or by calling 1-800-541-9967 or sending an e-mail to directors@nwnatural.com. Employees may also submit concerns anonymously pursuant to the Code of Ethics' hotline, located on our internal website. Our Director of Internal Auditing handles matters reported on the internal hotline and provides a regular report to the Audit Committee on hotline activity.

Concerns relating to accounting, financial reporting, internal accounting controls or auditing matters will be referred by the Corporate Secretary to the chair of the Audit Committee and the chair of the Governance Committee. Other concerns will be referred by the Corporate Secretary to the chair of the Governance Committee. The Corporate Secretary provides a regular report to the Governance Committee on all contacts.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires NW Natural's directors and executive officers to file reports of ownership and changes in ownership of NW Natural Common Stock with the SEC. We are required to disclose in this proxy statement any late or missed filings of those reports made by our directors and executive officers during 2007. One report was filed late for Lea Anne Doolittle, our senior vice president, relating to the indirect beneficial ownership of a stock option grant made to her spouse, an employee of NW Natural, in 2007. Based solely upon a review of the copies of reports furnished to us and written representations that no other such reports were required, we believe that during 2007 all other directors and executive officers timely filed all such required reports.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

There are no "Compensation Committee interlocks" or "insider participation" which SEC regulations or NYSE listing standards require to be disclosed in this proxy statement.

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TRANSACTIONS WITH RELATED PERSONS

The written charter of the Audit Committee designates responsibility for reviewing related person transactions with the Audit Committee. The Board has adopted a written policy on the review of related person transactions (which is available on our website at www.nwnatural.com) that specifies that certain transactions involving directors, nominees, executive officers, significant shareholders and certain other related persons in which NW Natural is or will be a participant and are of the type required to be reported as a related person transaction under Item 404 of SEC Regulation S-K shall be reviewed by the Audit Committee for the purpose of determining whether such transactions are in the best interest of NW Natural. The policy also establishes a requirement for directors, nominees and executive officers to report transactions involving a related party that exceed \$5,000 in value. We are not aware of any transactions entered into since the adoption of the policy in December 2006 that did not follow the procedures outlined in the policy.

The Papé Group

From time to time, NW Natural conducts business with affiliates of The Papé Group, Inc., of which director Randall C. Papé is President, Chief Executive Officer and a major shareholder.

In May 2007, in accordance with the policy described above, NW Natural entered into a lease extension with Papé Properties Inc. for NW Natural's Coos Bay resource center for a term ending May 31, 2008. The original term of the lease expired May 31, 2007. The original base rent for the lease was \$5,500 per month, with escalations equal to the change in the Consumer Price Index beginning the 25th month of the term of the lease. NW Natural paid \$73,194 in connection with the lease in 2007. The lease includes an option to purchase which may be exercised within 10 days after a 60-day notice period and upon payment of a refundable escrow deposit of 5 percent of the purchase price. NW Natural is currently considering whether to further extend the lease or exercise the option to purchase. The Board of Directors has pre-approved exercising the option, subject to obtaining market appraisals consistent with the terms of the proposed transaction.

From time to time, we also purchase equipment from and employ the services of certain affiliates of The Papé Group. In 2007, we paid \$150,591 for such equipment and services, none of which were subject to installment payments. Although we are not aware of Mr. Papé having a direct interest in these transactions, we have assumed that, as a major shareholder of The Papé Group, the dollar value of the amount of his interest in the transactions approximates the amount of NW Natural's payments. Based upon a review of the transactions, including independent determinations that the aggregate amount of the transactions represented less than one percent of The Papé Group's consolidated revenue for 2007, the Board of Directors has affirmatively determined that these transactions were arm's length transactions entered into in the ordinary course of business and not material. The Board considered these transactions in assessing Mr. Papé's independence and determined that these transactions did not affect Mr. Papé's designation as an independent director.

Fund Contribution in Recognition of Service of CEO, Mark Dodson

In December 2007, NW Natural contributed \$150,000 to the Oregon Community Foundation to establish the NW Natural Mark S. Dodson Fund in honor of CEO and director, Mark S. Dodson. The fund is for general charitable purposes and Mr. Dodson and his family members will advise the Oregon Community Foundation on the fund's use. Directors Reiten and Gibson are members of the Board of Trustees of the Oregon Community Foundation. The Board approved this transaction in September 2007. The Board considered this transaction in assessing Messrs. Reiten's and Gibson's independence and determined that it did not affect their designation as independent directors.

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Employment of Spouse of a Named Executive Officer

Mr. Ted Smart, the husband of Lea Anne Doolittle, Senior Vice President, has been an employee of NW Natural since February 2006. In November 2006, Mr. Smart moved from his position as a senior auditor to purchasing manager. Ms. Doolittle was not involved in decisions regarding Mr. Smart's hiring or promotion. Total compensation paid to Mr. Smart in 2007 was approximately \$122,000 and is expected to be approximately \$135,000 in 2008. Mr. Smart reports to David Anderson, Senior Vice President and Chief Financial Officer.

For further discussion regarding director independence, see "The Board of Directors and Its Committees—Independence," above.

SECURITY OWNERSHIP OF COMMON STOCK OF CERTAIN BENEFICIAL OWNERS

The following table shows ownership of Common Stock of NW Natural on March 1, 2008 by each person who, to our knowledge, owned beneficially more than 5 percent of NW Natural Common Stock:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Barclays Global Investors, NA ¹ Barclays Global Fund Advisors 45 Fremont St. San Francisco, CA 94105	1,722,292	6.51

¹ Based on information set forth on Form 13G filed February 6, 2008, with the SEC by Barclays Global Investors, NA. These shares are held as follows: Barclays Global Investors, NA holds 839,828 shares, of which it holds sole voting power as to 710,389 shares and sole dispositive power as to 839,828 shares; Barclays Global Fund Advisors holds 843,141 shares, of which it holds sole voting power as to 622,865 shares and sole dispositive power as to 843,141 shares; Barclays Global Investors, LTD holds sole voting and dispositive power as to 27,063 shares; and Barclays Global Investors Australia Limited holds sole voting and dispositive power as to 12,260 shares.

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**BENEFICIAL OWNERSHIP OF COMMON STOCK BY DIRECTORS
AND EXECUTIVE OFFICERS**

Set forth below is certain information with respect to beneficial ownership of NW Natural's Common Stock as of March 4, 2008 by all directors and nominees, each of the Named Executive Officers named in the Summary Compensation Table below and all directors and executive officers as a group.

<u>Name of Beneficial Owner</u>	<u>Number of Shares</u> ¹	<u>Percent of Outstanding Common Stock</u>
Officers		
Mark S. Dodson (also a director)	98,755 ²	*
Gregg S. Kantor	26,462 ³	*
David H. Anderson	40,652 ⁴	*
Lea Anne Doolittle	14,780 ⁵	*
Margaret D. Kirkpatrick	11,185 ⁶	*
Directors		
Timothy P. Boyle	380 ⁷	*
Martha L. "Stormy" Byrum	229 ⁸	*
John D. Carter	12,490 ⁹	*
C. Scott Gibson	1,200 ¹⁰	*
Tod R. Hamachek	4,738 ¹¹	*
Randall C. Papé	9,645 ¹²	*
Jane L. Peverett	0 ¹³	*
George J. Puentes	1,000 ¹⁴	*
Richard G. Reiten	36,341 ¹⁵	*
Kenneth Thrasher	4,000 ¹⁶	*
Russell F. Tromley	6,440 ¹⁷	*
All directors and officers as a a group (21 in number)	334,839 ¹⁸	1.3†

* The total for each individual is less than 1.0 percent.

† Based on the total number of shares and exercisable stock options outstanding on March 4, 2008.

¹ Unless otherwise indicated, beneficial ownership includes both sole voting power and sole investment power. Certain shares under the Non-Employee Directors Stock Compensation Plan (NEDSCP), the Directors Deferred Compensation Plan (DDCP), the Executive Deferred Compensation Plan (EDCP) and the Deferred Compensation Plan for Directors and Executives (DCP) are not included in the table as they represent, under the terms of the plans, rights to receive shares that would not be distributed until the year following termination of service with NW Natural.

² Includes 3,308 shares held jointly with his wife, 47,250 shares which Mr. Dodson has the right to acquire within 60 days through the exercise of options under the Restated Stock Option Plan (Restated SOP) and 498 shares held indirectly under the Retirement K Savings Plan (RKSP).

³ Includes 11,250 shares which Mr. Kantor has the right to acquire within 60 days through the exercise of options under the Restated SOP and 2,578 shares held indirectly under the RKSP.

⁴ Includes 21,750 shares which Mr. Anderson has the right to acquire within 60 days through the exercise of options under the Restated SOP and 1,900 restricted Long-Term Incentive Plan shares that are subject to forfeiture. Does not include 3,065 shares credited to stock accounts under deferred compensation plans.

⁵ Includes 5,635 shares held indirectly under the RKSP, 5 shares held indirectly under the RKSP by her spouse, 5,250 shares which Ms. Doolittle has the right to acquire within 60 days through the exercise of options under the Restated SOP and 150 shares which Ms. Doolittle's spouse has the right to acquire within 60 days through the exercise of options under the Restated SOP. Does not include 385 shares credited to a stock account under a deferred compensation plan.

⁶ Includes 9,500 shares which Ms. Kirkpatrick has the right to acquire within 60 days through the exercise of options under the Restated SOP and 135 shares held indirectly under the RKSP.

⁷ Does not include 11,100 shares credited to deferred compensation plans, of which 542 shares are subject to forfeiture under the NEDSCP.

⁸ Does not include 5,001 shares credited to deferred compensation plans, of which 571 shares are subject to forfeiture under the NEDSCP.

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- ⁹ Does not include 14,476 shares credited to deferred compensation plans, of which 542 shares are subject to forfeiture under the NEDSCP.
- ¹⁰ Includes 110 shares held by Mr. Gibson's wife. Does not include 7,701 shares credited to deferred compensation plans, of which 542 shares are subject to forfeiture under the NEDSCP.
- ¹¹ Does not include 18,641 shares credited to deferred compensation plans, of which 542 shares are subject to forfeiture under the NEDSCP.
- ¹² Does not include 10,536 shares credited to a stock account under a deferred compensation plan.
- ¹³ Does not include 931 shares credited to a stock account under a deferred compensation plan.
- ¹⁴ Does not include 1,125 shares credited to a stock account under a deferred compensation plan.
- ¹⁵ Includes 24,048 shares held indirectly by Mr. Reiten under the RKSP. Does not include 11,214 shares credited to deferred compensation plans, of which 542 shares are subject to forfeiture under the NEDSCP.
- ¹⁶ Shares held jointly with Mr. Thrasher's wife and shares secure a personal line of credit.
- ¹⁷ Includes 27 shares held by Mr. Tromley's wife. Does not include 5,838 shares credited to a stock account under a deferred compensation plan.
- ¹⁸ Includes 66,542 shares held by executive officers not named above, of which 6,828 shares are held jointly with spouse or are held as custodian for children, 6,109 shares are held indirectly under the RKSP and 39,125 shares which the executive officers not named above have the right to acquire within 60 days through the exercise of options under the Restated SOP.

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EXECUTIVE COMPENSATION

REPORT OF THE ORGANIZATION AND EXECUTIVE COMPENSATION COMMITTEE

The Organization and Executive Compensation Committee of the Board of Directors (the committee) is responsible for discharging the responsibilities of the Board of Directors relating to the compensation of executives by ensuring that the Chief Executive Officer (CEO) and other senior executives are compensated appropriately and in a manner consistent with the stated compensation philosophy of NW Natural and the requirements of the appropriate regulatory authorities.

The committee is responsible for producing a report on executive compensation for inclusion in the Annual Report on Form 10-K and proxy statement and for providing input and guidance to management in the preparation of the Compensation Discussion and Analysis also included in this proxy statement. In fulfilling its responsibilities, the committee has reviewed and discussed the Compensation Discussion and Analysis section of this proxy statement with management.

The committee, in reliance on the reviews and discussions referred to above, recommended to the Board of Directors (and the Board has approved and directed) that the Compensation Discussion and Analysis be included in Northwest Natural Gas Company's Annual Report on Form 10-K for the year ended December 31, 2007 and its 2008 proxy statement for filing with the Securities and Exchange Commission.

Respectfully submitted on February 27, 2008 by the Organization and Executive Compensation Committee of the Board of Directors:

Russell F. Tromley, Chair
C. Scott Gibson

Timothy P. Boyle
Kenneth Thrasher

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

Our Named Executive Officers

For purposes of this report, our Named Executive Officers include the following individuals:

<u>Name</u>	<u>Title</u>
Mark S. Dodson	Chief Executive Officer
Gregg S. Kantor	President and Chief Operating Officer
David H. Anderson	Senior Vice President and Chief Financial Officer
Lea Anne Doolittle	Senior Vice President
Margaret D. Kirkpatrick	Vice President and General Counsel

Effective January 1, 2008, Ms. Doolittle was promoted to Senior Vice President from the position of Vice President.

2007 Changes to the Compensation Program

In December 2007, the Organization and Executive Compensation Committee (the committee) reviewed its Compensation Philosophy statement and made several minor amendments that:

- clarify that the committee is not limited to reviewing utility industry compensation or remuneration data for certain positions found in multiple industries and that general industry data may be considered in the committee's analysis for setting executive compensation;
- eliminate specific executive perquisites (e.g., auto allowances, club membership dues and supplemental disability benefits); and
- clarify the purpose of base salary and executive benefits.

Also, the committee reviewed certain elements of our executive compensation program in 2007. As a result of these reviews, the committee:

- established a severance guideline that permits not-for-cause severance benefits only in limited cases during an executive's first five years of employment, provided that the severance benefit would not exceed one times base salary plus target bonus, and provided that the benefit is reduced on a prorated basis as the executive's service nears five years;
- established a guideline that will reduce the amount an executive may receive from a change-in-control severance agreement as an executive nears age 65;
- eliminated specific executive perquisites (see "Compensation Programs—Perquisites," below);
- added return on invested capital (ROIC) as a new measure to the Executive Annual Incentive Plan and re-weighted the other goals;
- limited the change-in-control provisions related to the 2007 Long-Term Incentive Plan Performance Share grants to provide prorated awards upon a change-in-control and use of actual total shareholder return performance for the portion of the cycle completed to date instead of paying the full three year target award upon a change-in-control; and
- revised the approach for identifying alternate peer companies to replace existing peer companies which might be acquired or combined with another company during the 2007-2009 Long-Term Incentive Plan award cycle.

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Further, upon the recommendation of the committee, the Board of Directors approved numerous changes to the current deferred compensation plans and supplemental retirement plans to comply with Section 409A of the Internal Revenue Code.

Pay for Performance—2007

In 2007, NW Natural produced record net income and cash flow from operations. Mr. Dodson earned annual and long-term incentives totaling \$1,323,800 or 1.1 percent of our pre-tax net income. The annual incentive portion of \$400,000 was an increase of 7.2 percent over 2006. In 2007, our net income grew by 17 percent and our total return to shareholders was 18 percent. The total earned annual and long-term incentives for our Named Executive Officers in 2007 was \$2,800,600, which represents 2.4 percent of our 2007 pre-tax net income. Of this amount, \$1,847,600 (66 percent of the total) was earned under the Long-Term Incentive Plan by four of the five Named Executive Officers and it includes Mr. Dodson's long-term incentive payment in Common Stock and accumulated dividends, valued at \$923,800. Over that 2005-2007 timeframe, total shareholder return was 64 percent based on an increase of \$15.27 in the average price per share of our Common Stock and \$4.15 per share in dividends, which are assumed to be reinvested. During this period, earnings per share grew by 48 percent and net income grew by 47 percent. Ms. Kirkpatrick commenced employment subsequent to the start of the recently completed award period and therefore was not eligible for a long-term incentive award.

Our Compensation Philosophy

The committee has adopted a total compensation philosophy to guide its decisions with respect to executive compensation. The guiding principles of this philosophy are to design executive compensation programs that:

- ensure that we have the ability to attract, retain and motivate talented and qualified executives critical to the achievement of our annual goals, our long-term business strategy and objectives, and the enhancement of shareholder value by providing total remuneration, including base salary, incentive compensation, benefits and retirement income, at a level that is competitive with that of other energy service and general industry companies of comparable size and circumstances;
- motivate high levels of performance by linking a portion of each executive's total direct compensation opportunity (base salary, annual and long-term incentives) to the achievement of previously-established annual and long-term performance goals and by delivering compensation opportunity that is at risk subject to the achievement of established performance criteria; and
- promote creation of shareholder value by aligning executives' long-term interests with those of our shareholders by requiring meaningful stock ownership by officers (see "Stock Ownership Guidelines," below) and by providing a significant component of compensation that is based on earnings growth and stock price performance (see "Compensation Programs—Long-Term Incentives," below).

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Elements and Objectives of our Executive Compensation Program

The elements and objectives of the executive compensation program for the Named Executive Officers are as described below:

<u>Element</u>	<u>Objective(s)</u>
<i>Base salaries</i>	<ul style="list-style-type: none">• Reflect the value of the executive's position to the business;• Reflect the executive's performance in executing leadership accountabilities; and• Recognize that many important aspects of the executive's job (such as customer service, employee, regulatory and government relations, etc.) are difficult to include in incentive pay programs based on objective performance measures.
<i>Annual incentive awards</i>	<ul style="list-style-type: none">• Focus executives on the achievement of desired annual business results.
<i>Long-term incentive awards</i>	<ul style="list-style-type: none">• Focus executives on long-term performance and the achievement of desired long-term business results.
<i>Perquisites</i>	<ul style="list-style-type: none">• Facilitated the accomplishment of NW Natural's business and aided in attracting and retaining executives; however, the committee eliminated certain perquisites effective January 1, 2008 after determining that these goals could be achieved through the use of other compensation alternatives.
<i>Executive health, welfare and retirement benefits</i>	<ul style="list-style-type: none">• Provide executives reasonable and competitive benefits;• Allow for attraction of mid-career hires; and• Overcome constraints of the limits imposed by the Internal Revenue Code on qualified plan benefits.
<i>Change-in-control arrangements</i>	<ul style="list-style-type: none">• Encourage continued attention and dedication to executives' assigned duties without distraction due to a potential change in control of NW Natural.

Market Position

The committee has engaged Towers Perrin, an independent compensation consulting firm (the consultant), to assist in the evaluation of the competitiveness of our executive compensation programs and to provide overall guidance to the committee in the design and operation of these programs. The consultant reports directly to the committee chair. At the direction and under the guidance of the committee chair, the consultant works with

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management, principally the CEO and the senior vice president responsible for human resources, in developing recommendations with respect to executive compensation and executive programs for submission to the committee for its consideration.

The committee seeks to achieve the program's objectives by positioning total executive compensation, consisting of annual base salary, annual incentives, long-term incentives and benefits, at or near the 50th percentile of the competitive market. The committee has determined that using the 50th percentile of competitive market surveys, for establishing compensation for executives, will provide us with the ability to attract and retain executive talent without paying more than required. Although the total remuneration program is designed to pay compensation at the middle of the competitive market, the program contains several variable components, which allow compensation to exceed median competitive pay levels when the performance expectations of the committee are exceeded; conversely, the program provides less than median competitive compensation when performance does not meet those expectations.

Generally, we are likely to attract candidates for executive positions from the energy service market, specifically, from gas and electric companies of similar size in terms of revenue in the United States, although for some executive positions that can be found in any industry, general industry market information may be considered. The committee reviews all components of executive compensation and compares them to the market every two years, and the direct compensation components (salary and annual and long-term incentives) are compared to the market annually. The market data used in these comparative analyses are generally obtained from salary survey databases compiled by the consultant, industry associations or general industry sources.

In preparing its competitive market assessment of total direct compensation, the consultant employs a methodology that focuses on energy service companies with annual revenues of \$500 million to \$2.0 billion. The consultant also provides data for similar-sized general industry companies. At the committee's request, the consultant collects and updates 50th percentile data from compensation surveys for base salaries, annual incentives and long-term incentives. The committee relies upon the judgment of the consultant to select the most appropriate market comparisons and to synthesize the data. Named Executive Officers' positions are matched to survey benchmarks based on functional responsibilities, with premiums or discounts applied where a Named Executive Officer's position has greater or lesser responsibility than the positions included in the survey benchmarks.

In addition to looking at survey data to understand competitive market pay, the consultant also provides the committee with supplementary data for the most senior executives from the following 24 natural gas industry companies, as reported in their most recent proxy statements:

AGL Resources Inc.
Atmos Energy Corp.
Cascade Natural Gas Corp.
Chesapeake Utilities Corp.
Delta Natural Gas Co. Inc.
Energen Corp.
Energy West Inc.
Equitable Resources Inc.
KeySpan Corp.
Kinder Morgan Inc.
Laclede Group Inc.
Integrus Energy Group, Inc. (formerly Peoples Energy)

National Fuel Gas Co.
New Jersey Resources Corp.
Nicor Inc.
ONEOK Inc.
Piedmont Natural Gas Company Inc.
Questar Corp.
SEMCO Energy Inc.
South Jersey Industries Inc.
Southwest Gas Corp.
Southwestern Energy Co.
UGI Corp.
Washington Gas Light Co.

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While the committee considers data from these natural gas industry companies, it is not the primary focus for their competitive analysis. Some of these companies may also be included in the market survey data if their annual revenues are comparable to ours.

Tally Sheets

Every year the committee reviews the total remuneration of executives in the form of a tally sheet prepared by our human resources department and reviewed by outside consultants (legal, actuarial and compensation) which shows each executive's current total compensation from all sources, including potential compensation from equity awards not yet earned as well as retirement benefits, along with possible compensation from any severance arrangements, including change in control compensation. The committee also uses tally sheets to review the impact of any significant plan change. In its most recent review of tally sheets, the committee determined that each executive's compensation remained consistent with the committee's expectations and no changes were recommended based upon its review.

Every two years, at the committee's request, the consultant conducts a complete review of the total remuneration paid or provided to our executives in comparison to the total remuneration paid or provided to executives in similar positions with a group of comparable energy and gas utility companies. This review includes salary, annual incentives, equity and long-term incentive compensation, health, welfare and other benefits, and the dollar value and cost of all benefits under our qualified and non-qualified deferred compensation and supplemental retirement plans.

Based upon the consultant's review in early 2008, the committee determined that the total remuneration for the Named Executive Officers, including the CEO, was reasonable and aligned with the executive compensation principles discussed above. In 2008, the committee plans to review the compensation of the CEO relative to other executive officers, management, and the average NW Natural employee.

Stock Ownership Guidelines

Stock ownership objectives, contained in our Corporate Governance Standards, provide the following ownership guidelines for executive officers, expressed as a multiple of each executive officer's base salary:

<u>Position</u>	<u>Dollar Value of Stock Owned as Multiple of Base Salary</u>
Chief Executive Officer	2x
President and Senior Vice Presidents	1.5x
All other executive officers	1x

It was determined that these ownership objectives would provide executives with a meaningful stake in the ownership of NW Natural and, as a result, fully align their interests with those of our shareholders. Further, these ownership multiples represent two to three times the after-tax expected value of the CEO's annual equity grants (performance shares and stock options) and over two times for other NEOs. The stock ownership objectives generally are to be attained within five years of being appointed an officer. The committee annually reviews the progress made by executives against these objectives. This progress is measured using both shares owned directly by executives as well as shares credited to their 401(k) and non-qualified deferred compensation plan accounts and is determined using the average daily closing price for the Common Stock over the preceding calendar year. The committee last

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reviewed the progress of the Named Executive Officers in achieving these stock ownership objectives in February 2008 and concluded that all of the Named Executive Officers have achieved stock ownership goals or, for newer officers, have made satisfactory progress in achieving these goals given the time they have served in their respective executive positions.

Compensation Programs

How Compensation Decisions Are Made

Competitive data are used as a guide, with other relevant considerations including corporate and individual performance, an executive's experience and contribution as well as the relative relationship to other executive roles. Our executive compensation programs include sufficient flexibility that pay relative to the market median can vary by individual position if warranted by special circumstances. These special circumstances might include strong individual performance, marketability of skills or retention considerations that could allow certain executives to receive higher than average compensation increases or incentive awards in recognition of these special considerations. The CEO considers this type of information prior to recommending salary and annual and long-term incentive compensation levels for the other Named Executive Officers to the committee. The committee considers these recommendations as well as the competitive data prepared by the consultant when making final compensation decisions.

The committee considers the consultant's advice, including information obtained from the competitive analysis and survey prepared by the consultant, in determining:

- the inclusion of the various compensation program elements;
- policies for allocating between long-term and currently paid out compensation;
- policies for allocating between cash and non-cash compensation, and among the different forms of non-cash compensation; and
- the basis for allocating to each of the two primary types of long-term compensation award opportunity.

The committee's policy is to establish the allocations between long-term and currently paid out compensation and between cash and non-cash compensation (including the allocation among different forms of non-cash compensation) in approximately the same manner as the median of our competitive market for comparable executive positions.

Current vs. At-Risk Compensation

An executive's base salary is intended to reflect the value of the executive's position to our company and provide a competitive foundation for the work being performed. The remainder of total direct compensation opportunity (target annual incentive and expected value of long-term incentives, excluding perquisites, health and welfare benefits and retirement benefits) is at risk and must be earned based upon the achievement of short-term and long-term performance goals, which represent shareholder performance expectations. See "Long-Term Incentives" below for a brief description of how we determine the "expected value" of long-term incentives. The portion of total direct compensation designed to be paid in base salary versus variable pay depends upon the executive's position and the ability of that position to influence outcomes, as well as market factors. The CEO has the largest portion of pay at risk. In 2007 for the CEO, the percentage of total direct compensation opportunity at risk or earned by achieving performance goals was approximately 64 percent and, for the other Named Executive Officers, the average percentage of such compensation at risk was approximately 51 percent. The remaining portion of direct compensation is delivered in the form of base salary.

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2007 Base Salaries

Base salaries paid to executives are established by the Board of Directors based upon the value of the position to the business, the performance of the individual and consideration of the market salary analyses prepared by the consultant. As described above, these analyses include salary survey and proxy data for comparable positions at similar-sized energy service and general industry companies. Salaries are typically adjusted March 1 of each year.

Mr. Dodson's salary increased from \$515,000 to \$550,000 on March 1, 2007, an increase of 6.8 percent. Factors considered for Mr. Dodson's salary increase included NW Natural's overall performance, strong leadership and the desire to maintain his salary at the 50th percentile of the energy service company survey data. Mr. Kantor's salary increased by 28 percent effective March 1, 2007 due to his promotion to Executive Vice President in December 2006 and the committee's determination of the appropriate 50th percentile comparison within the energy service company survey data for his enhanced position and role in our business. Percentage salary increases effective March 1, 2007 were 6 percent for Mr. Anderson, 13 percent for Ms. Doolittle, and 6 percent for Ms. Kirkpatrick. For Mr. Anderson and Ms. Doolittle, the committee targeted salaries at a 5-8 percent premium to the 50th percentile of the survey data for energy service companies, because it determined that salaries for these two positions needed to be closer to and therefore more competitive with the higher median salaries paid by general industry companies.

Name	Salary Before Adjustment	Salary Adjustment Effective March 1, 2007
Mark S. Dodson	\$ 515,000	\$ 550,000
Gregg S. Kantor	184,000	235,000
David H. Anderson	287,000	305,000
Lea Anne Doolittle	182,000	205,000
Margaret D. Kirkpatrick	217,000	230,000

From time to time the committee reviews and adjusts salaries if warranted to reflect changes in responsibilities or competitive market conditions. Such an adjustment was made to Mr. Kantor's salary upon his promotion from Executive Vice President to President and Chief Operating Officer on May 1, 2007. Mr. Kantor's salary was adjusted from \$235,000 to \$325,000, an increase of 38 percent, reflecting the significant increase in his responsibilities.

In consideration of the elimination of executive perquisites, effective January 1, 2008, as discussed below under "Perquisites," the Board approved one-time salary adjustments for the Named Executive Officers as follows:

Name	Salary Before Adjustment	Salary After Adjustment Effective January 1, 2008
Mark S. Dodson	\$ 550,000	\$ 587,000
Gregg S. Kantor	325,000	354,000
David H. Anderson	305,000	333,000
Lea Anne Doolittle	205,000	233,000
Margaret D. Kirkpatrick	230,000	254,000

Further, the annual salary adjustments for 2008 became effective March 1, 2008.

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2007 Special Bonus

Based on the committee's recommendation and NW Natural's overall outstanding performance in 2007, Mr. Dodson was awarded an additional discretionary, special bonus of \$16,000 by the Board.

The following discussion and analysis contains statements regarding individual and corporate performance targets and goals. The measures and goals included in the Key Goals described below, except for the Additional Goal, were used for purposes of an incentive program that is for the most part applicable to all employees and designed to include measures that may be directly influenced by employees. The established method for calculating the Key Goal measures may include or exclude factors as appropriate for the incentive purposes of the measure, as determined by a committee of NW Natural and union management. Accordingly, these targets and goals are disclosed in the limited context of NW Natural's compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance for the periods covered. NW Natural specifically cautions investors not to apply these statements to other contexts.

Executive Annual Incentive Plan

The Executive Annual Incentive Plan is designed to drive key executives to achieve our annual goals, including financial, operating and individual performance goals. Awards are paid by March 15th of the following year if the committee determines the goals are achieved. To date, the committee has not used its discretion to reduce performance-based awards.

We believe this program supports our compensation objective of motivating executives to achieve high levels of performance. Participation in the plan currently is limited to 14 participants selected by the committee, including the Named Executive Officers.

Target awards for executives vary as a percent of base salary based on position. These target award levels remained unchanged in 2007, other than an increase in the target award for Mr. Kantor to reflect his increase in responsibility upon his promotion to President and Chief Operating Officer. Target and actual awards as a percent of base salary (in effect on December 31, 2007) were as follows:

Named Executive Officer	Target Award	Actual Award
Mark S. Dodson	50%	70%
Gregg S. Kantor	45%	63%
David H. Anderson	40%	56%
Lea Anne Doolittle	30%	42%
Margaret D. Kirkpatrick	30%	40%

The amounts to be paid if these goals are achieved, when added to base salaries, are intended to place executives' compensation at the 50th percentile of total cash compensation for comparable positions included in the consultant's survey data and analyses. When goals are exceeded, it is expected that executives' compensation will be above the 50th percentile. For information on the performance-based portion of specific awards granted to each Named Executive Officer, see the "Grants of Plan-Based Awards During 2007" table, below. Actual amounts paid to the Named Executive Officers for 2007 performance are reflected in columns (d) and (g) of the Summary Compensation Table, below.

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The committee has given considerable attention to what performance measures are appropriate for the executive incentive plans and reviews these measures at least annually. Changes may be made to the measures at the start of new performance periods when the committee determines that changes are appropriate. For 2007, the amounts of the awards under the Executive Annual Incentive Plan reflect an allocation of 75 percent to corporate performance goals (earnings per share, return on invested capital and key operating goals) and the remaining 25 percent to individual performance criteria established for each executive. The formula for the total incentive award is as follows:

$$\left[\begin{array}{l} \text{Corporate Performance} \\ \text{Factor} \end{array} \right] \times 75\% + \left[\begin{array}{l} \text{Individual} \\ \text{Performance Factor} \end{array} \right] \times 25\% \times \text{Target Award} = \text{Total Annual Incentive Award}$$

Corporate Performance Goals. In 2007, the corporate performance goals established by the committee for the Executive Annual Incentive Plan were designed to reward improvement in operating results by emphasizing the achievement of increased earnings per share, the attainment of several key operating goals shared with all employees and a new measure for maintaining or improving return on invested capital.

The corporate performance factor is determined using the following formula:

$$\left[\begin{array}{l} \text{Earnings} \\ \text{Per Share} \\ \text{Factor} \end{array} \right] \times 33\frac{1}{3}\% + \left[\begin{array}{l} \text{Key} \\ \text{Goals} \\ \text{Factor} \end{array} \right] \times 33\frac{1}{3}\% + \left[\begin{array}{l} \text{Return on} \\ \text{Invested} \\ \text{Capital Factor} \end{array} \right] \times 33\frac{1}{3}\% = \text{Corporate Performance Factor}$$

Earnings per share factor. The committee concluded that earnings per share would be accorded a weight of 33 1/3 percent to align executives' interests with shareholders' interests and in recognition of the importance earnings have in influencing our future stock price. For 2007, the earnings per share performance goal consisted of a range of diluted earnings per share results from \$2.22 per share to \$2.60 or above, corresponding to payout factors ranging from 0 percent to 150 percent. The target level of diluted earnings per share was \$2.35 per share, corresponding to a 100 percent payout factor. Actual earnings per share results are interpolated to determine the corresponding performance factor.

Actual 2007 diluted earnings per share were \$2.76, a 21 percent increase over 2006, resulting in an earnings per share factor equal to the maximum for this factor of 150 percent.

Key Goals factor. Operating goals of significant importance to the enhancement of our overall profitability and productivity were selected by the committee to comprise the Key Goals factor, which accounts for 33 1/3 percent of the weighting for corporate performance. The operating goals are substantially aligned with the Key Goals incentive program for all employees. Each goal could contribute between 0 percent to 150 percent of the assigned goal weight based on actual results. Actual results are interpolated to determine the performance factor for the particular goal.

The Key Goals factor was determined using the following formula:

$$\text{Sum of [Goal Performance Factor} \times \text{Goal Weight]} \text{ for each of 8 Key Goals} = \text{Key Goals Factor}$$

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A summary of the key operating goals for 2007 and the weighting of each goal to the overall factor is set forth in the following table:

Key Goals	Goal Description	Goal Performance Range	Target (100%) Performance	Goal Weight in Key Goal Performance Factor
Earnings per share (utility only)	Earnings per share for utility operations (excludes earnings per share contributions from certain non-utility activities)	\$2.22 – \$2.40	\$ 2.34	40%
Overall customer satisfaction	On a survey scale of 1-10 (10 as highest), percent of customers rating overall satisfaction at a 9 or 10	56.65% – 60.02%	58.9%	3%
Customer satisfaction—employee interaction	Customers who had interactions with service technicians and/or construction crew members rating satisfaction at a 9 or 10	74.5% – 79.75%	78.0%	7%
Total customer additions	Total new meter sets	19,771 – 21,571	20,971	10%
Expense per customer	Measures reduction in total expense per customer	\$172.96 – \$166.36	\$ 168.56	10%
Capital expenditures per customer	Measures reduction in capital expenditures per customer	\$168.11 – \$161.51	\$ 163.71	15%
Construction cost per meter	Measures construction costs to install service to each new customer	\$1,525 – \$1,330	\$ 1,395	5%
Return on invested capital	Net income plus net interest, divided by average long-term capital (shareholders' equity plus long-term debt, including current portion)	8.6% – 9.4%	9.1%	10%

In July 2007, the committee agreed to exclude from the above calculations certain expenses related to specified strategic initiatives that were incurred earlier than scheduled based upon the strong earnings and cash flow outlook for 2007. These expenses were excluded from expense per customer and construction cost per meter goals for all employees and were excluded for executive officers up to the amount of the cost estimate provided in advance to the committee. However, the actual expense of such items was not excluded from any earnings per share or return on invested capital goals.

Our operating performance in 2007 resulted in a Key Goals factor of 108.4 percent. While some operating goals target levels were exceeded (e.g. utility earnings per share and return on invested capital were equal to the maximum of 150 percent and the customer satisfaction goals averaged 127 percent), others were not achieved (e.g. total customer additions and construction cost per meter were equal to 0 percent). The goals not achieved were primarily due to a slowdown in the new construction market and higher than planned costs for new customer additions.

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Return on Invested Capital. Return on invested capital was added in 2007 as a component of our Key Goals incentive program for non-union employees, and the committee decided to further emphasize it for executives by making the same goal a new measure for the corporate performance factor. The weighting assigned to this factor also was 33 1/3 percent. The committee added this measure because there is a significant amount of capital deployed to build and maintain the gas distribution and storage businesses and they wanted to hold the executives accountable for ensuring that the company is getting a fair return on the capital being deployed into the business.

This goal consisted of a range of results from 8.6 percent to 9.4 percent, corresponding to payout factors ranging from 0 to 150 percent. The target level of return on invested capital was set at 9.1 percent, corresponding to a 100 percent payout factor, and equal to the return on invested capital achieved in 2006. The threshold performance level for a payout under this measure is 8.6 percent which is slightly above NW Natural's cost of capital as established in its most recent Oregon rate case.

Actual 2007 return on invested capital was 9.9 percent, resulting in a return on invested capital factor equal to the maximum 150 percent.

For 2007, the combination of the Key Goals factor, the return on invested capital factor and the earnings per share factor produced an overall corporate performance factor equal to 136.1 percent of target.

Individual Performance Goals. Twenty-five percent of each Named Executive Officer's annual incentive target award is based on individual performance goals. In the case of the CEO, this is determined at the discretion of the committee and is, in large part, based on the committee's qualitative assessment of the CEO's performance. The other Named Executive Officers' individual performance goals are designed to be aligned with the CEO's goals and supportive of our strategic plan in the belief that the accomplishment of the strategic goals, along with the strong operation and management of our day-to-day business, will create success for our customers, employees and shareholders. NW Natural's 2007 annual priority goals shared by all of the Named Executive Officers were to:

- execute operational changes by year end 2007;
- complete implementation of the first phase of an integrated information system on time and on budget;
- significantly advance NW Natural's business development initiatives for key gas infrastructure projects;
- achieve overall customer satisfaction consistent with the Key Goal target;
- achieve earnings per share growth and return on invested capital targets; and
- accomplish these goals in a manner consistent with NW Natural's core values.

In addition to the above goals, the CEO's performance goals included continued progress on succession planning, leadership development and involvement in policy matters related to climate change.

Other than the CEO, each Named Executive Officer was evaluated as to 2007 individual performance by the CEO, ranging on a scale from 0 to 150 percent, based on performance and peer ratings. Recommendations from the CEO as to individual performance are reviewed and approved by the committee and considered as it reviews the overall performance of

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management against the operating goals. The committee uses this same method of assessment to establish the year-end performance rating for the CEO. The committee determined that management had met or exceeded these goals and assigned a rating of 150 percent for the CEO's individual performance. Performance of the other Named Executive Officers ranged from 149 percent to 129 percent.

On average, the awards for the CEO and the other Named Executive Officers were 38 percent above the target awards for the year, primarily due to higher than targeted earnings per share and return on invested capital performance for the year and significant advancement of NW Natural's business development activities.

Long-Term Incentives

The long-term incentive portion of our executive compensation program consists of two components: stock options and performance shares. The consultant provides the committee with annual compensation survey data based on the total expected value of long-term incentives, which is defined for stock options to be the grant-date Black Scholes value of options granted during the year, and is defined for performance share awards to be the grant-date market price of the target number of performance shares covered by awards during the year discounted by 5 percent for each year of the performance period. The committee does not time its equity grants in coordination with the release of material non-public information and it does not release material non-public information to affect the value of executive compensation.

Each year, approximately 25 percent of the expected value of long-term incentives to be granted to each Named Executive Officer is granted in the form of stock options and approximately 75 percent of such expected value of long-term incentives is granted as performance share awards. While both stock options and performance shares provide incentives to executives to work toward increasing the price of our Common Stock in order to more closely align executives' interests with those of our shareholders, the performance share program rewards relative stock price performance to a peer group and also focuses the executives on key long-term objectives that align with the creation of shareholder value; therefore, a greater emphasis is placed on performance shares. The committee believes that these two components (options and performance shares) in combination provide a balanced performance focus for executives.

For 2007 compensation, the expected value of long-term incentives represented approximately 45 percent of the target total direct compensation for the CEO and approximately 32 percent on average for the other Named Executive Officers.

Stock Options. Since 2006, the committee has made stock option grants under the Restated Stock Option Plan annually, rather than every two years as was our prior practice. The smaller annual stock option awards vest equally over four years rather than three years. Except in cases of grants of options made to attract new employees, option and performance share grants are made by the committee at its meeting each February. This is the same time the committee considers and approves changes in all of the other components of executive compensation, thus having the benefit of considering the relative value of all components of pay (base salary and short- and long-term incentives) at once, as well as reviewing the consultant's annual updated competitive compensation analysis. The exercise price for stock options is set at 100 percent of the closing market price of our Common Stock quoted on the NYSE on the date of grant. The committee uses the same practice to establish stock option exercise prices for all employees receiving options. Option repricing is specifically prohibited under our Corporate Governance Standards and the committee has confirmed that there have never been any instances of back-dating stock options.

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It is the committee's policy to grant non-statutory stock options under the Internal Revenue Code and the related regulations so that any such compensation recognized upon the exercise of options will be tax deductible by NW Natural. The shareholders have previously approved the Restated Stock Option Plan to comply with the performance-based compensation requirements of Section 162(m) of the Internal Revenue Code, and the plan provisions are designed to satisfy the other requirements for performance-based compensation so that compensation related to the exercise of options granted under this Plan would not be subject to the \$1 million limitation on tax-deductible compensation.

Among the factors the committee considers in determining the number of options to be granted to the CEO, and the CEO considers when making recommendations for the other Named Executive Officers, are:

- the total long-term competitive market compensation data provided by the consultant;
- the executive's relative position and level of responsibility within NW Natural;
- the performance of the executive during the prior period;
- the number of options needed to ensure that executives are focused on absolute share price appreciation over the long-term; and
- the executive's target ownership of NW Natural Common Stock (see "Stock Ownership Guidelines," above).

Considering these factors, the grants were made to the Named Executive Officers in 2007 as shown in the "Grants of Plan-Based Awards During 2007" table, below. Mr. Kantor's option grant increased from 3,000 shares in 2006 to 7,000 shares in 2007 primarily due to an increase in his operational accountabilities. Option grant levels in 2007 for Mr. Dodson and Ms. Doolittle were unchanged from 2006. Option grant levels for each of Mr. Anderson and Ms. Kirkpatrick decreased by 1,000 shares reflecting that due to the appreciation of our stock price between 2006 and 2007, fewer shares were needed to deliver the expected target value based on median market data from the consultant.

Outside of the regular schedule for stock option grants, from time to time the committee grants a limited number of stock options to newly-hired executives and senior managers. No such new hire grants occurred in 2007.

Performance Shares. The second component of our executives' long-term compensation program is provided through a performance share program under our Long-Term Incentive Plan. The purpose of the performance share program is to provide a means for rewarding executives for their success in driving long-term performance results which increase shareholder value. This component is also designed to encourage ownership of our stock by our executives. All of the Named Executive Officers participate in the performance share program. However, since Ms. Kirkpatrick's participation commenced in 2006, she was not eligible for an award for the 2005-2007 performance period.

In February 2007, each Named Executive Officer received a performance share award to be earned over a three-year performance period (2007-2009). The threshold (minimum award other than no award), target and maximum performance share awards approved by the committee for the Named Executive Officers in 2007 were primarily based on the consultant's analysis considering competitive opportunities for comparable executive positions and consideration of the level of expected value provided by the program as a percentage of the participant's total direct compensation opportunity. In 2007 Mr. Dodson's performance share

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award decreased by 2,000 shares compared to his award in 2006 and Mr. Anderson's award decreased by 500 shares compared to his award in 2006. In these instances, market data demonstrated that the size of these grants could be reduced because the market value of our Common Stock had increased and therefore fewer shares were needed to deliver the expected target value. Mr. Kantor's performance share award increased from 3,000 shares in 2006 to 4,500 shares in 2007, reflecting his promotion to Executive Vice President, the corresponding increase in his operational responsibilities and the related change in the market survey data considered to reflect those changes. The portion of the award related to the total shareholder return component, described below, is included in the "Grants of Plan-Based Awards During 2007" table, below.

The performance criteria used for the three most recent three-year performance cycles, 2005-2007, 2006-2008 and 2007-2009, were based on two primary factors: total shareholder return (weighted 75 percent of the total award) and performance milestones relative to our core and non-core strategic plan goals (weighted 25 percent of the total award).

Total Shareholder Return Component. Seventy-five percent of the award is based on total shareholder return relative to a peer group of 10 gas utility companies. The committee selected the peer group companies because of their comparability to us both in terms of size and the nature of their business. This peer group differs from the group included in the total shareholder return table appearing in our 2007 Annual Report to shareholders in that it focuses on local gas distribution companies instead of a broader group of energy companies. The peer group consists of AGL Resources Inc., Atmos Energy Corporation, South Jersey Industries, Inc., The Laclede Group Inc., New Jersey Resources Corporation, Nicor Inc., Vectren Corporation, Piedmont Natural Gas Company Inc., Southwest Gas Corporation and WGL Holdings, Inc. This peer group is used exclusively for this program, but some or all of these companies may also be included in the survey data used by the consultant and in the total shareholder return table included in our 2007 Annual Report. If over the course of the cycle a peer company ceases to exist, an alternative peer company is substituted from a pre-established alternate peer list. Total shareholder return is the return a shareholder earns over a specified period of time, in this case the three-year performance period. Total shareholder return, expressed as an annual percentage, measures the change in share price, assuming dividends are reinvested, and is what we might expect a shareholder to receive from his or her ownership in NW Natural. The value at the end of the period is determined based on the three-month average daily closing price prior to the end of the performance period compared to the three months immediately prior to the start of the performance period. This measure was determined by the committee to best align the interests of management with those of the shareholders. We must achieve a minimum average of 6 percent total shareholder return per year (a cumulative total of 19.1 percent for the three-year cycle) over the three-year period before any awards can be earned under this component and must perform on par with the fourth ranked peer company to earn the target award.

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The following table shows the total shareholder return component factors we use to determine NW Natural's factor for total shareholder return compared to rankings for companies in the peer group:

<u>Total Shareholder Return Ranking</u>	<u>Total Shareholder Return Component Factor</u>
10	0%
9	0%
8	25%
7	25%
6	50%
5	75%
4	100%
3	125%
2	150%
1	200%

For the 2005 to 2007 cycle, our total shareholder return performance exceeded all of the companies in the peer group, resulting in a maximum total shareholder return component factor of 200 percent.

Strategic Component. The remaining 25 percent of any performance share award is subjective and determined at the discretion of the committee at the end of the three-year performance cycle. Among other things, the committee considers actual performance relative to strategic milestones set forth in our strategic plan and approved by the committee prior to the beginning of the cycle. Factors considered by the committee include, but are not limited to:

- financial measures, including the earnings per share contribution of new residential and commercial customers, return on invested capital and return on equity;
- non-core growth measures relating to acquisition opportunities, gas storage and pipeline and gas supply projects; and
- workforce development and succession planning matters.

The following formula is used to determine the performance share factor at the end of the three-year performance period. This factor is then applied to the target awards for each award recipient.

$$\left[\begin{array}{l} \text{Strategic Component} \\ \text{Factor} \\ (0-200\%) \end{array} \right] \times 25\% + \left[\begin{array}{l} \text{Total Shareholder Return} \\ \text{Component Factor} \\ (0-200\%) \end{array} \right] \times 75\% = \text{Performance Share Factor}$$

At the end of the 2005-2007 program term, the committee determined the degree to which the strategic goals were achieved and assigned a strategic component factor of 200 percent, indicating that the strategic component factor was exceeded based on its subjective assessment of earnings per share performance, management's business development activities and milestones achieved in workforce development and succession planning over the three years being assessed. Further, in the committee's decision to assign the maximum level to the strategic component, the committee considered management's performance in executing its business process redesign, which was considered to be instrumental in achieving NW Natural's 5 percent annual earnings growth targets, outstanding customer service as recognized by J.D. Powers & Associates and the regulatory leadership and achievements of NW Natural. The portion of the award related to the Strategic Component is not included in the "Grants of Plan-Based Awards During 2007" table because this amount of the award is largely based on the committee's subjective determinations rather than the achievement of specific performance targets.

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Because the committee's determination as to the achievement of this portion of the award is discretionary, amounts paid to the Named Executive Officers may not be tax deductible under Section 162(m) of the Internal Revenue Code (see "Regulatory, Tax and Accounting Considerations," below).

Total 2007 Performance Shares. The combination of the total shareholder return component factor (at 200 percent, weighted 75 percent) and the strategic component factor (at 200 percent, weighted 25 percent) for the 2005-2007 cycle resulted in a total performance share factor of 200 percent of target. For actual 2007 award amounts, see the "Option Exercises and Stock Vested During 2007" table, below.

Perquisites

During 2007, all executives, including the Named Executive Officers, received an automobile allowance. In addition, some of the executives were provided social club memberships. These perquisites had been common to the industry and were designed to aid in our ability to attract executives and provide additional compensation through the availability of benefits that are convenient for executives to use when faced with the demands of their positions.

In December 2007, the committee reviewed its perquisite policy and decided to eliminate executive perquisites. The committee acknowledged that while most utilities continue to provide some level of perquisites, many general industry companies are moving away from this practice as these benefits are not provided to all employees. The committee recognized the value of perquisites, but determined to instead provide more direct forms of compensation. Further, the committee considered the challenges associated with the administrative effort associated with tracking perquisites for disclosure purposes.

At the time of the elimination of perquisites, the Board, upon the committee's recommendation, approved a one-time increase in base salaries, beginning in 2008, to assist executive officers with the transition away from perquisites. At that time the committee considered our executives' total compensation relative to executives at peer companies with similar responsibilities. The committee also acknowledged that the perquisites had assisted the executives in carrying out the business requirements of the job and that there would be a financial loss during this transition away from perquisites. The increase in base salary, which varied by the level of the executive, generally represented the approximate amount of financial loss to each executive including consideration for taxes on a portion of the increase (See "Compensation Programs—2007 Base Salaries," above). In addition, Mr. Kantor, Mr. Anderson and Ms. Doolittle were asked to join certain social clubs to remain connected with the business community and were compensated for the purpose of satisfying their initial membership fees.

The committee acknowledges that certain benefits incidental to other business-related activities may continue, but the aggregate annual value of such benefits is not expected to exceed \$10,000 for any one Named Executive Officer.

Executive Health and Welfare Benefits

Executives are entitled to the same health and welfare benefits offered to all non-bargaining unit employees. In addition, in 2007 we provided a supplemental disability benefit and an accidental death and dismemberment travel insurance benefit, and we reimbursed executives for out-of-pocket expenses relating to annual physical exams. These supplemental benefits have been eliminated effective January 1, 2008.

Qualified and Non-Qualified Retirement (Defined Benefit) Plans

In general, when compared to non-utilities, the utility industry has historically provided a greater percentage of total remuneration in the form of retirement benefits, particularly in the

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form of defined benefit plans, rather than current cash compensation. All executives participate in the Retirement Plan for Non-Bargaining Unit Employees, our qualified defined benefit pension plan, on the same terms as other salaried employees. We maintain non-qualified defined benefit plans, supplemental retirement plans for executives, the Executive Supplemental Retirement Income Plan and the Supplemental Executive Retirement Plan. These plans are more fully described below under the "Pension Benefits as of December 31, 2007" table and the related narrative discussion.

Qualified and Non-Qualified Deferred Compensation (Defined Contribution) Plans

We also maintain both tax-qualified and non-tax-qualified defined contribution plans in which the Named Executive Officers are eligible to participate. Our Retirement K Savings Plan (401K Plan) is a tax-qualified defined contribution plan and our Deferred Compensation Plan for Directors and Executives is a non-tax-qualified deferred compensation plan. For further discussion of Named Executive Officer participation in non-qualified deferred compensation plans in 2007, see the "Non-Qualified Deferred Compensation in 2007" table, below.

Change in Control Severance Agreements

The Board considers the establishment and maintenance of a sound and vital management team to be essential to protecting and enhancing the best interests of our company. In recognition of the possibility of a change in control of NW Natural and that such possibility, and the uncertainty and questions which it could raise among management may result in the departure or distraction of management personnel to our detriment, the Board has approved our entry into severance agreements with all of the Named Executive Officers. See "Potential Payments Upon Termination or Change in Control," below.

In 2007, the committee reviewed all of the change in control features for the executive and director compensation plans and determined that the plan provisions and the protections in place were reasonable. After the numerous changes made in 2006, the only additional changes made by the committee were to establish a guideline that would reduce change in control severance benefits as an executive approaches age 65. This guideline has not yet been implemented in the agreements with officers.

Other Severance Agreements

In general, the committee prefers not to enter into non-change in control severance agreements. Accordingly, in February 2007, the committee established a guideline that severance benefits may only be provided following a termination without cause in the first five years of employment or after a change in control. The benefit for termination without cause absent a change in control is reduced over the term of the agreement, which cannot exceed five years. Currently, no executive officer has a non-change in control severance agreement.

Clawback Provisions

On two occasions in 2007 the committee considered the value of adopting a clawback policy or adding clawback provisions to its compensation plans or agreements in order to recapture compensation in the event of fraud, financial restatement or other malfeasance. The committee considered issues of enforceability of the provisions, how much discretion would need to be exercised, if any, the challenges of fairly documenting the provisions, and the value of such a provision. The committee concluded that protections beyond those provided by the Sarbanes-Oxley Act of 2002 were not necessary at this time but it intends to review the appropriateness of such provisions again in 2008.

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Regulatory, Tax and Accounting Considerations

Regulatory Treatment

We fully assess the accounting and tax treatment of each form of compensation paid to the Named Executive Officers for both NW Natural and the individual executive. This is particularly important in a regulated business where we are allowed to recover costs of service in rates (salaries, qualified pensions and health and welfare benefit costs), while other elements of executive compensation, such as annual incentive awards and long-term performance shares, are typically shareholder expenses because the programs are designed to meet shareholder objectives. However, our incentive compensation programs benefit customers by including performance incentives that:

- encourage efficient customer service;
- encourage management of construction, capital and operational costs, which helps to abate the need for future rate increases; and
- focus on customer satisfaction.

See "Corporate Performance Goals," above. Actual amounts currently recovered in rates are based on amounts determined in our general rate cases approved by the Oregon Public Utility Commission in 2003 and by the Washington Utilities and Transportation Commission in 2004. The following table shows the current rate recovery treatment for categories of compensation expenses for various elements of our executive compensation program:

<u>Expenses Recovered in Rates</u>	<u>Expenses Not Recovered in Rates</u>
Salaries	Stock Options
Qualified pension plan benefits	Executive Annual Incentive Plan
Qualified Retirement K Savings Plan matching contribution	Long-Term Incentive Plan
Health and welfare benefits	Interest paid and matching contributions on Deferred Compensation Plan for Directors and Executives
	Interest paid on Executive Deferred Compensation Plan
	Executive Supplemental Retirement Income Plan
	Supplemental Executive Retirement Plan
	Supplemental disability benefits
	Change-in-control severance benefits
	Non-change-in-control severance benefits
	Perquisites (<i>eliminated effective January 1, 2008</i>)

Tax Deductibility of Compensation

In developing the executive compensation programs, the committee takes into consideration the tax deductibility of the various components of compensation under the Internal Revenue Code. Section 162(m) of the Internal Revenue Code generally limits to \$1 million per person the amount that may be deducted for compensation paid in any year to our CEO and certain other Named Executive Officers. Certain exceptions to this limitation apply to "performance-based compensation." We have obtained shareholder approval of the Restated Stock Option Plan and the Long-Term Incentive Plan to qualify the exercise of non-statutory stock options

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and the payment of the non-discretionary portion of long-term incentive awards under the Long-Term Incentive Plan as performance-based so that compensation received would not be subject to the \$1 million limitation. It is the committee's policy to grant options that meet the requirements of the Internal Revenue Code and related regulations so that any such compensation recognized by an optionee will be fully-deductible, performance-based compensation. The non-discretionary portion of performance share long-term incentive awards granted by the committee is also generally intended to meet the "performance-based compensation" requirements of the Internal Revenue Code and related regulations so that any compensation paid under the non-discretionary portion of those awards should be fully deductible. Other than a nominal amount of compensation paid to our CEO, we do not expect any amounts paid to our Named Executive Officers in or for performance in 2007 to be considered non-deductible under Section 162(m).

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COMPENSATION TABLES

Summary Compensation Table

The following is a summary of the compensation for our Named Executive Officers in 2007 and 2006. Only a portion of the executive compensation shown in this table is included for purposes of establishing regulatory rates charged to customers. Although most of our compensation programs are designed to promote shareholder objectives, our customers also directly benefit because many of the programs include performance incentives that are designed to improve service to our customers. For further discussion regarding amounts excluded from rate recovery, see "Compensation Discussion and Analysis—Regulatory, Tax and Accounting Considerations—Regulatory Treatment," above.

NAME AND PRINCIPAL POSITION (a)	YEAR (b)	SALARY (\$) (c)	BONUS ¹ (\$) (d)	STOCK	OPTION	NON-	CHANGE IN	ALL	TOTAL
				AWARDS ² (\$) (e)	AWARDS ³ (\$) (f)	EQUITY INCENTIVE PLAN COMPENSATION ¹ (\$) (g)	PENSION VALUE AND NON-QUALIFIED DEFERRED COMPENSATION ⁴ (\$) (h)		
Mark S. Dodson	2007	\$ 544,167	\$ 119,232	\$ 798,958	\$ 286,933	\$ 280,768	\$ 2,746,717	\$ 117,664	\$4,894,439
Chief Executive Officer	2006	512,499	96,735	567,968	93,197	276,265	762,143	67,726	2,376,533
Gregg S. Kantor	2007	286,500	54,682	240,590	18,504	149,318	255,807	124,628	1,130,029
President and Chief Operating Officer	2006	183,083	22,907	161,075	16,285	69,093	91,237	39,407	583,087
David H. Anderson	2007	302,000	45,441	341,726	26,532	124,559	11,024	56,925	908,207
Senior Vice President and Chief Financial Officer	2006	285,542	40,834	167,451	53,117	123,166	16,690	49,086	735,886
Lea Anne Doolittle	2007	201,167	23,210	132,952	10,682	62,790	104,840	95,013	630,654
Senior Vice President	2006	181,067	20,421	107,384	14,306	58,579	83,618	36,666	502,041
Margaret D. Kirkpatrick	2007	227,833	22,553	152,281	35,797	70,447	22,512	25,827	557,250
Vice President and General Counsel	2006	215,833	22,156	18,630	27,314	69,844	24,967	37,822	416,566

- 1 The total bonus paid to each Named Executive Officer under our Executive Annual Incentive Plan for performance in 2007 is equal to the sum of the amounts shown in column (d) and column (g). Amounts constituting the discretionary portion of bonuses under the plan are included as bonuses in column (d). Mr. Dodson received an additional discretionary special bonus of \$16,000 in recognition of outstanding performance, which is included in column (d). Amounts constituting the performance-based, non-discretionary portion of bonuses under the plan are included as non-equity incentive plan compensation in column (g).
- 2 Amounts shown in column (e) represent the amount of compensation expense recognized under Statement of Financial Accounting Standards (SFAS) No. 123R, "Share Based Payment" (FAS 123R) in 2007 with respect to performance share awards granted in 2007, 2006 and 2005, and in 2006 with respect to performance share awards granted in 2006, 2005 and 2004, disregarding estimated forfeitures. However, because her employment commenced after the beginning of certain award periods, the amount shown for Ms. Kirkpatrick reflects only the expense recognized under FAS 123R in 2006 and 2007 related to the 2006 and 2007 awards. The issuance of the shares under these awards is contingent upon meeting certain performance criteria, so the shares may or may not be earned. The portion of each performance share award based on relative total shareholder return (75 percent of target award) is considered to be subject to a market condition under FAS 123R, so the fair value of this portion of each award as of each applicable measurement date was calculated using a binomial pricing model. For the remaining portion of each performance share award subject to strategic performance milestones (25 percent of target award), the amount of expense is based on the estimated number of shares to be issued multiplied by the sum of the closing market price of the Common Stock on the applicable measurement date plus the estimated dividends to be paid on a share over the three-year performance period. The performance share awards granted in 2006 and 2007 were classified as liability awards under FAS 123R as of December 31, 2007, because recipients could elect to defer such shares into cash accounts under our deferred compensation plan. Accordingly, the amounts expensed for these awards in 2007 are based on the fair values of these awards as of December 31, 2007. The deferral election under our deferred compensation plan for the performance share awards granted in 2005 was required to be completed at December 31, 2006. Accordingly, the portions of such performance share awards for which deferral to a cash account was not elected were classified as equity awards under FAS 123R at January 1, 2007 with the amounts expensed in 2007 for these awards being based on their fair value as of that

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measurement date. The performance share awards granted in 2005 that were elected to be deferred into cash accounts continued to be classified as liability awards, and amounts expensed in 2007 were based on fair value as of December 31, 2007.

For Mr. Anderson, the amount in column (e) also includes expense related to his restricted stock award granted in 2004. Total compensation expense for restricted stock is equal to the grant date fair value of the shares and is recognized ratably over the five-year vesting period. The assumptions used in determining the grant date fair values of awards under FAS 123R are disclosed in Note 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007.

- 3 Amounts shown in column (f) represent the amount of compensation expense recognized under FAS 123R with respect to options, disregarding estimated forfeitures. Total compensation expense for an option award is equal to the grant date fair value of the option estimated using the Black-Scholes option pricing model, which is recognized ratably over the four-year vesting period. In 2007, Mr. Dodson became eligible for accelerated vesting of his options upon retirement and, accordingly, recognition of all compensation expense related to his options was accelerated into 2007. The assumptions used in determining the grant date fair values of options under FAS 123R are disclosed in Note 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007.
- 4 The amounts included in column (h) as the aggregate change in the actuarial present value of the Named Executive Officers' accumulated benefits under all defined benefit pension plans during 2007 were: \$2,734,506 for Mr. Dodson, \$254,432 for Mr. Kantor, \$10,979 for Mr. Anderson, \$103,010 for Ms. Doolittle and \$22,512 for Ms. Kirkpatrick. The large change in the actuarial present value for Mr. Dodson is primarily due to the terms of his employment agreement under which he received a substantial increase in his benefit under our Executive Supplemental Retirement Income Plan by remaining employed through December 31, 2007. See "Pension Benefits as of December 31, 2007—Executive Supplemental Retirement Income Plan." Amounts of above-market interest included in column (h) that were credited to the non-qualified deferred compensation plan accounts of the Named Executive Officers during 2007 were: \$12,211 for Mr. Dodson, \$1,375 for Mr. Kantor, \$45 for Mr. Anderson, \$1,830 for Ms. Doolittle and \$0 for Ms. Kirkpatrick. For this purpose, interest credited each quarter is considered above-market to the extent such interest exceeds 120 percent of the applicable long-term federal rates, with quarterly compounding, for the three months in the prior quarter. The amounts included in column (h) as the aggregate change in the actuarial present value of the Named Executive Officers' accumulated benefits under all defined benefit pension plans during 2006 were: Mr. Dodson, \$753,093; Mr. Kantor, \$90,328; Mr. Anderson, \$16,277; Ms. Kirkpatrick, \$24,967; and Ms. Doolittle, \$82,383. Amounts of above-market interest included in column (h) that were credited to the non-qualified deferred compensation plan accounts of the Named Executive Officers during 2006 were: Mr. Dodson, \$9,050; Mr. Kantor, \$909; Mr. Anderson, \$413; Ms. Kirkpatrick, \$0; and Ms. Doolittle, \$1,235.
- 5 All Other Compensation includes: (i) perquisites, (ii) tax gross up amounts for club initiation fees, (iii) the employee portion of the Medicare Hospital Insurance Tax liability paid by NW Natural on the present value increase of participants' benefits under the Executive Supplemental Retirement Income Plan, together with an additional payment relating to income tax payable by such officers in respect of the payments made by NW Natural and (iv) matching contributions under the qualified and non-qualified defined contribution plans. See the "All Other Compensation" table, below.

All Other Compensation (column (i)) in the Summary Compensation Table for 2007 consists of the following:

All Other Compensation

Name	Perquisites ¹	Tax Gross Up on Selected Perquisites ²	Medicare Tax on Present Value Increase in ESRIP Benefit	Matching Contributions under Qualified Deferred Compensation Plans (401K)	Matching Contributions under Non-Qualified Deferred Compensation Plans	Total
Mark S. Dodson	\$ 33,051	\$ —	\$ 51,595	\$ 8,100	\$ 24,918	\$117,66
Gregg S. Kantor	74,904	30,205	2,826	8,100	8,593	124,62
David H. Anderson	34,099	5,492	—	8,100	9,234	56,92
Lea Anne Doolittle	59,088	23,066	647	7,884	4,328	95,01
Margaret D. Kirkpatrick	17,727	—	—	8,100	—	25,82

- 1 Amounts for the year 2007 include: (i) car allowances; (ii) social club dues; (iii) membership initiation fees (\$57,112 for Mr. Kantor, \$15,182 for Mr. Anderson and \$44,005 for Ms. Doolittle); (iv) spousal travel, attendance at company-sponsored events and incidental gifts; (v) supplemental disability insurance premiums; and (vi) accidental death and dismemberment insurance premiums.
- 2 Amounts consist of tax gross up payments related to amounts paid to the executive to cover one-time social and recreational club initiation fees.

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GRANTS OF PLAN-BASED AWARDS DURING 2007

The following table includes grants of annual incentive awards, stock options and long-term incentive awards granted to our Named Executive Officers during 2007:

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ¹			Estimated Future Payouts Under Equity Incentive Plan Awards ²			All Other Option Awards: Number of Securities Underlying Options ³ (j)	Exercise or Base Price of Option Awards (\$/Sh) (k)	Grant Date Fair Value of Equity Award (\$) ⁴ (l)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)			
Mark S. Dodson	2/21/07	—	—	—	—	—	—	23,000	\$ 44.48	\$ 176,157
	2/21/07	—	\$206,250	\$309,375	—	—	—	—	—	—
	2/21/07	—	—	—	2,470	13,000	26,000	—	—	414,655
Gregg S. Kantor	2/21/07	—	—	—	—	—	—	7,000	44.48	53,613
	2/21/07	—	109,688	164,531	—	—	—	—	—	—
	2/21/07	—	—	—	855	4,500	9,000	—	—	143,535
David H. Anderson	2/21/07	—	—	—	—	—	—	7,000	44.48	53,613
	2/21/07	—	91,500	137,250	—	—	—	—	—	—
	2/21/07	—	—	—	855	4,500	9,000	—	—	143,535
Lea Anne Doolittle	2/21/07	—	—	—	—	—	—	3,000	44.48	22,977
	2/21/07	—	46,125	69,188	—	—	—	—	—	—
	2/21/07	—	—	—	380	2,000	4,000	—	—	63,793
Margaret D. Kirkpatrick	2/21/07	—	—	—	—	—	—	4,000	44.48	30,636
	2/21/07	—	51,750	77,625	—	—	—	—	—	—
	2/21/07	—	—	—	570	3,000	6,000	—	—	95,690

- Threshold level estimated payouts cannot be determined because the minimum performance level for payout under each component of the formula in the Executive Annual Incentive Plan is interpolated down to a zero payout. See "Executive Annual Incentive Plan Awards" following this table and "Compensation Discussion and Analysis—Compensation Programs—Executive Annual Incentive Plan," above, for a complete discussion of the terms of the awards. Amounts above include only the portion of the award subject to performance metrics, constituting 75 percent of the annual incentive opportunity. The remaining 25 percent of the annual incentive opportunity is awarded based on discretionary criteria and is reflected as a bonus in column (d) of the Summary Compensation Table. The actual non-equity incentive plan portion of the awards earned in 2007 and paid in 2008 are reflected in column (g) of the Summary Compensation Table.
- Share amounts represent potential performance share awards granted pursuant to the terms of the Long-Term Incentive Plan (LTIP). See "Long-Term Incentive Plan Awards" following this table and "Compensation Discussion and Analysis—Compensation Programs—Long-Term Incentives—Performance Shares," above, for a complete discussion of the terms of the awards. Share amounts do not include an estimate of an additional \$4.15 per share dividend equivalent also payable pursuant to the terms of the awards. Threshold level estimated future payouts assume the minimum award payable other than no payout for each component of the formula in the LTIP. Portions of the expense related to these grants are included in column (e) of the Summary Compensation Table.
- Stock options granted on February 21, 2007 pursuant to the Restated Stock Option Plan vest in four equal installments on February 21, 2008 and January 1, 2009, 2010 and 2011. Vesting will be accelerated upon death, disability or retirement as described below under "Potential Payments upon Termination or Change in Control." Each option has a maximum term of 10 years and seven days, subject to earlier termination in connection with a termination of the optionee's employment.
- Amounts shown in column (l) for option awards represent the grant date fair value of the options calculated using a Black-Scholes option pricing model. The portion of each performance share award under the LTIP based on relative total shareholder return (75 percent of target award) is considered to be subject to a market condition under FAS 123R, so the amounts shown for that portion represent the fair value as of the grant date calculated using a binomial pricing model. Amounts shown for the remaining portion of each performance share award subject to strategic performance milestones (25 percent of target award) represent the target number of shares multiplied by the sum of the closing market price of the Common Stock on the grant date plus the estimated dividends to be paid on a share over the three-year performance period. The values used for option awards are the same as those used under FAS 123R. The assumptions used in determining option values are described in Note 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007. The performance share awards were classified as liability awards under FAS 123R as of December 31, 2007, and therefore the fair values of such awards used for determining expense under FAS 123R are updated at each reporting period.

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Compensation and Award Table Discussion

Executive Annual Incentive Plan Awards

Payment of awards under the Executive Annual Incentive Plan is contingent upon meeting predetermined individual and corporate performance goals. Depending upon position, performance and the other factors considered by the committee, the Named Executive Officers may earn from 30 percent to 50 percent of base salary if the prescribed corporate and individual performance goals are met, or up to 45 percent to 75 percent of base salary if these goals are exceeded. At the beginning of each year, weighted performance goals are established and, at year-end, performance is measured against these goals. Actual results are considered by the committee in determining the amounts to be awarded, if any. For further discussion regarding the Executive Annual Incentive Plan, including the components of corporate and individual performance, see "Compensation Discussion and Analysis—Compensation Programs—Executive Annual Incentive Plan," above.

Long-Term Incentive Plan Awards

The committee makes annual performance share awards under the Long-Term Incentive Plan payable in Common Stock based on our performance over three-year performance cycles. Target awards are determined by the committee for each participant. Executives are limited to a maximum performance share award equal to 200 percent of the target award.

The committee establishes corporate performance measures based on total shareholder return relative to our peer group, with a minimum required return of 6 percent per year for the cycle (75 percent of award) and performance milestones relative to our core and non-core strategic plans (25 percent of award). At the end of the cycle, the committee determines whether the strategic performance milestones were achieved and assigns a factor ranging between 0 percent and 200 percent. As a general guideline, if we achieve the targets as stated, each component factor would be 100 percent. A participant generally must be employed by NW Natural at the end of the performance period to receive an award payout, although pro-rated awards will be paid if employment terminates earlier on account of death, disability or retirement. Awards will be paid in Common Stock as soon as practicable after the end of the performance period. Participants will also receive dividend equivalent cash payments on the number of shares of Common Stock received on the award payout multiplied by the aggregate cash dividends paid per share by NW Natural during the performance period. For further discussion regarding the terms of the performance shares, see "Compensation Discussion and Analysis—Compensation Programs—Long-Term Incentives—Performance Shares," above.

Restricted Stock Grants. The Long-Term Incentive Plan also provides the committee the ability to grant restricted stock awards. Typically, restricted stock awards are used in special, limited circumstances such as new hire grants and retention or special recognition awards. The committee infrequently makes restricted stock grants since our long-term incentive program is heavily-weighted to performance shares under the Long-Term Incentive Plan, which provides stock incentives that are linked to performance. The committee believes that, in many cases, restricted stock would be a redundant incentive.

Two restricted stock awards are outstanding under the Long-Term Incentive Plan which have not fully vested, including one previously made to a retired executive. In September 2004, a grant of 5,000 restricted shares was made to Mr. Anderson in connection with his joining NW Natural as Chief Financial Officer. The award, which vests over a five-year period, is contingent upon Mr. Anderson's continued employment with NW Natural. Restricted stock award recipients receive dividends on the full number of restricted shares awarded prior to vesting. Dividends paid on unvested shares are treated as ordinary income for tax purposes.

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Employment Agreements

On July 2, 1997, NW Natural entered into an employment agreement with Mr. Dodson for a term extending until December 31, 2002, with an option for Mr. Dodson to renew for an additional term through December 31, 2007. Effective January 1, 2003, the agreement was extended to December 31, 2007 and modified to reflect his appointment as President and CEO. Under this agreement, we modified the service requirements applicable to Mr. Dodson for purposes of the Executive Supplemental Retirement Income Plan (the ESRIP). Accordingly, Mr. Dodson became vested and eligible under the ESRIP for supplemental benefits at the 65 percent of final annual compensation level upon termination of his employment for any reason on or after December 31, 2007. Other terms of Mr. Dodson's employment agreement have lapsed or are incorporated into the terms of the other plans or agreements with Mr. Dodson. On September 27, 2007, Mr. Dodson's employment agreement was further amended to extend the term of the agreement indefinitely.

None of the other Named Executive Officers have written employment agreements. The committee prefers not to enter into employment contracts and has not authorized an executive employment contract since Mr. Dodson's agreement in 1997. The committee will attempt to avoid establishing employment contracts for new executive officers and will utilize other methods as necessary to attract new executives.

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OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2007

The following table includes all of the outstanding equity awards held by our Named Executive Officers at December 31, 2007:

Name (a)	Option Awards				Stock Awards			
	Number of Securities Underlying Exercisable Options (#) (b)	Number of Securities Underlying Unexercised Options (#) (c)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares That Have Not Vested (#) (g)	Market Value of Shares That Have Not Vested (\$) ¹ (h)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#) ² (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested (\$) ¹ (j)
Mark S. Dodson	—	23,000 ³	\$ 44.48	2/28/2017	—	—	—	—
	5,750	17,250 ⁴	34.29	2/29/2016	—	—	—	—
	30,000	—	31.34	3/04/2014	—	—	28,000	\$ 1,362,480
	—	—	—	—	—	—	—	—
Gregg S. Kantor	—	7,000 ⁵	44.48	2/28/2017	—	—	—	—
	750	2,250 ⁶	34.29	2/29/2016	—	—	—	—
	6,000	—	31.34	3/04/2014	—	—	—	—
	2,000	—	26.30	3/05/2012	—	—	7,500	364,950
David H. Anderson	—	7,000 ⁵	44.48	2/28/2017	—	—	—	—
	2,000	6,000 ⁷	34.29	2/29/2016	—	—	—	—
	16,000	—	32.02	9/27/2014	2,000	\$ 97,320	—	—
	—	—	—	—	—	—	9,500	462,270
Lea Anne Doolittle	—	3,000 ⁸	44.48	2/28/2017	—	—	—	—
	750	2,250 ⁶	34.29	2/29/2016	—	—	—	—
	3,000	—	31.34	3/04/2014	—	—	4,000	194,640
	—	—	—	—	—	—	—	—
Margaret D. Kirkpatrick	—	4,000 ⁹	44.48	2/28/2017	—	—	—	—
	1,250	3,750 ¹⁰	34.29	2/29/2016	—	—	—	—
	4,000	2,000 ¹¹	38.30	8/03/2015	—	—	6,000	291,960
	—	—	—	—	—	—	—	—

Column (d) was deleted as it is not applicable.

¹ Amounts are calculated based on the price of \$48.66, the closing market price on the NYSE on December 31, 2007.

² All share amounts are based on target level awards of performance shares eligible to be earned under the Long-Term Incentive Plan (LTIP) upon achievement of performance objectives, which is determined to be the most probable level of payout other than no award. The actual number of shares issuable will be determined by the committee at the end of the three-year performance cycle ending December 31, 2008 and 2009. Amount does not include an estimate for the accumulated cash dividends also payable pursuant to the terms of the awards. For a complete description of performance objectives, see "Compensation Discussion and Analysis—Compensation Programs—Long-Term Incentives," above.

³ Option vests over four years. Option on 5,750 shares becomes exercisable on each of February 21, 2008 and January 1, 2009, 2010 and 2011.

⁴ Option vests over four years. Option on 5,750 shares became exercisable on February 22, 2007 and options on an additional 5,750 shares will become exercisable on each of January 1, 2008, 2009 and 2010.

⁵ Option vests over four years. Option on 1,750 shares becomes exercisable on each of February 21, 2008, January 1, 2009, 2010 and 2011.

⁶ Option vests over four years. Option on 750 shares became exercisable on each of February 22, 2007 and an additional 750 shares becomes exercisable on each of January 1, 2008, 2009 and 2010.

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- 7 Option vests over four years. Option on 2,000 shares became exercisable on each of February 22, 2007 and an additional 2,000 shares becomes exercisable on each of January 1, 2008, 2009 and 2010.
- 8 Option vests over four years. Option on 750 shares becomes exercisable on each of February 21, 2008, January 1, 2009, 2010 and 2011.
- 9 Option vests over four years. Option on 1,000 shares becomes exercisable on each of February 21, 2008, January 1, 2009, 2010 and 2011.
- 10 Option vests over four years. Option on 1,250 shares became exercisable on February 22, 2007 and options on an additional 1,250 shares will become exercisable on each of January 1, 2008, 2009 and 2010.
- 11 Remaining shares will become exercisable on January 1, 2008.

OPTION EXERCISES AND STOCK VESTED DURING 2007

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting ¹ (#)	Value Realized on Vesting ¹ (\$)
(a)	(b)	(c)	(d)	(e)
Mark S. Dodson	—	—	20,000	\$ 1,056,200
Gregg S. Kantor	2,500	123,828	6,000	316,860
David H. Anderson	—	—	11,000	573,800
Lea Anne Doolittle	—	—	4,000	211,240
Margaret D. Kirkpatrick	—	—	—	—

¹ Amounts represent performance share awards earned by the Named Executive Officers for the three-year award cycle 2005-2007 under the Long-Term Incentive Plan (LTIP), but unpaid as of the fiscal year-end and are based on a price of \$48.66, the closing market price on the NYSE on December 31, 2007. The award paid at 200 percent of the target level incentive based upon total shareholder return performance and strategic results. See "Compensation Programs—Long-Term Incentives—Performance Shares," above. Ms. Kirkpatrick was not employed by us at the beginning of this award cycle and therefore was not eligible for receipt of an award. The number of shares actually paid was determined by the committee on February 27, 2008. Value realized includes cash for dividend equivalents of \$4.15 per share based on dividends per share paid by us during the performance period as follows: Dodson, \$83,000; Kantor, \$24,900; Anderson, \$41,500; and Doolittle, \$16,600. Receipt of the following amounts under performance share awards was deferred pursuant to elections under our Deferred Compensation Plan for Directors and Executives: Mr. Kantor, 1,500 shares valued at \$63,165 and \$6,225 of dividend equivalents; Mr. Anderson, 1,000 shares valued at \$42,110 and \$4,150 of dividend equivalents; Ms. Doolittle, 600 shares valued at \$25,266 and \$0 of dividend equivalents. See "Non-Qualified Deferred Compensation in 2007" for a discussion of the terms of this plan. For Mr. Anderson, the amount also includes 1,000 restricted stock shares that vested on October 1, 2007. The closing market price of NW Natural Common Stock on the NYSE on September 28, 2007, the last business day preceding the vesting date of October 1, 2007, was \$45.70. Mr. Anderson elected to defer receipt of 100 shares valued at \$4,570 under our Deferred Compensation Plan.

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PENSION BENEFITS AS OF DECEMBER 31, 2007

<u>Name</u>	<u>Age</u>	<u>Plan Name</u>	<u>Number of Years Credited Service</u>	<u>Present Value of Accumulated Benefit¹</u>
Mark S. Dodson	62	Retirement Plan for Non-Bargaining Unit Employees	10.25	\$ 608,764
		Executive Supplemental Retirement Income Plan	10.25	5,224,284
		Deferred Compensation Plan Supplemental Annuity	10.25	0
Gregg S. Kantor	50	Retirement Plan for Non-Bargaining Unit Employees	11.25	267,077
		Executive Supplemental Retirement Income Plan	9.92	361,975
		Deferred Compensation Plan Supplemental Annuity	11.25	2,082
David H. Anderson	46	Retirement Plan for Non-Bargaining Unit Employees	3.25	46,780
		Supplemental Executive Retirement Plan	3.25	0
		Deferred Compensation Plan Supplemental Annuity	3.25	0
Lea Anne Doolittle	52	Retirement Plan for Non-Bargaining Unit Employees	7.17	152,483
		Executive Supplemental Retirement Income Plan	7.17	176,043
		Deferred Compensation Plan Supplemental Annuity	7.17	3,874
Margaret D. Kirkpatrick	53	Retirement Plan for Non-Bargaining Unit Employees	2.50	58,492
		Supplemental Executive Retirement Plan	2.50	0
		Deferred Compensation Plan Supplemental Annuity	2.50	0

¹ The Present Value of Accumulated Benefit in the above table represents the actuarial present value as of December 31, 2007 of the pension benefits of the Named Executive Officers under the respective pension plans calculated based on years of service and final average compensation as of that date but assuming retirement at the earliest age at which benefits were unreduced under the respective plans (or immediately if already at or over such age). Mr. Kantor's years of service under the Executive Supplemental Retirement Income Plan are based on his years of service since becoming eligible to participate under the plan. The actuarial present value was calculated assuming all participants are fully vested, and using the RP-2000 Combined Healthy mortality table and a discount rate of 6.87 percent for the Supplemental Executive Retirement Plan and 6.76 percent for the other pension plans, the same assumptions used in the pension benefit calculations reflected in our audited balance sheet as of December 31, 2007.

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Retirement Plan for Non-Bargaining Unit Employees

The Retirement Plan for Non-Bargaining Unit Employees (NBU Plan) is our qualified pension plan covering all regular, full-time employees not covered under a labor agreement whose employment commenced prior to January 1, 2007 (when the NBU Plan was closed to new participants). Eligible employees commence participation in the NBU Plan after one year of service and become 100 percent vested after five years of service. Final average earnings for purposes of calculating benefits consist of the participant's highest average total annual compensation for any five consecutive years in the last ten years of employment, with total annual compensation for this purpose generally consisting of salary and annual incentive, excluding long-term incentives and any amounts deferred under our non-qualified deferred compensation plans. In addition, as of December 31, 2007, the Internal Revenue Code limited the amount of annual compensation considered for purposes of calculating benefits under the NBU Plan to \$225,000.

A normal retirement benefit is payable upon retirement at or after age 62 and consists of (a) an annuity benefit equal to 1.8 percent of final average earnings for each of the participant's first 10 years of service, and (b) a lump sum benefit equal to 7.5 percent of final average earnings for each year of service in excess of 10 years. In addition, for participants hired before January 1, 2000 and under age 60 on that date (including Messrs. Dodson and Kantor), a supplemental annuity is provided under the NBU Plan equal to the participant's total years of service multiplied by the sum of (x) a varying percentage (based on the participant's hire age and age on January 1, 2000, and which is 0.635 percent for Mr. Dodson and 0.295 percent for Mr. Kantor) of total final average earnings, and (y) 0.425 percent of the excess of final average earnings over an amount referred to as Covered Compensation, which generally consists of the average of the Social Security maximum taxable wage bases over the 35 years preceding the participant's retirement.

Employees who have attained age 55, if age plus accredited years of service totals 70 or more, are eligible for early retirement benefits. Annuity benefits are reduced by 1/3 percent per month (4 percent per year) for each month that the benefit commencement date precedes age 62. The lump sum benefit is not subject to reduction on early retirement. At December 31, 2007, Mr. Dodson was eligible for normal retirement benefits, but no other Named Executive Officer was eligible for early or normal retirement benefits under the NBU Plan.

The basic benefit form for annuity benefits is a monthly single life annuity. The participant may choose among different annuity forms that are the actuarial equivalent of the basic benefit.

Deferred Compensation Plan Supplemental Annuity

As discussed above, final average earnings for purposes of calculating benefits under the NBU Plan excludes amounts deferred under our non-qualified deferred compensation plans, consisting of our Executive Deferred Compensation Plan (EDCP) and Deferred Compensation Plan for Directors and Executives (DCP), which are described below under "Non-qualified Deferred Compensation Plans." Accordingly, deferral of compensation under these plans during a participant's last ten years of employment may result in a reduction in benefits payable under the NBU Plan unless the participant's total annual compensation in each of those years is over the limit (\$225,000 in 2007) imposed by the Internal Revenue Code. In recognition of this possible loss of NBU Plan benefits, the DCP provides for payment of a supplemental annuity generally payable in the same form and for the same period of time as the annuity payable under the NBU Plan, subject to certain requirements for the timing of commencement of benefits. The supplemental annuity is equal to the difference between the

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actual benefit under the NBU Plan assuming the participant had elected to receive the lump sum benefit in the form of an annuity and the corresponding benefit that otherwise would have been payable under the NBU Plan if the participant had not deferred compensation under the EDCP and/or the DCP.

Executive Supplemental Retirement Income Plan

The Executive Supplemental Retirement Income Plan (ESRIP) is a non-qualified pension plan providing supplemental retirement benefits to persons who were executive officers prior to September 1, 2004, including all of the Named Executive Officers other than Mr. Anderson and Ms. Kirkpatrick. Under the ESRIP, a target annual retirement benefit is determined for each participant, which is then reduced by the participant's (a) NBU Plan benefit (with the lump sum portion converted to a single life annuity), (b) annual Social Security benefits, and (c) any supplemental annuity under the EDCP and/or the DCP, in each case assuming commencement of benefits at age 65. Final average compensation for purposes of calculating ESRIP benefits generally consists of the participant's highest average salary and annual incentive for any three consecutive compensation years in the last 10 years of employment. Long-term compensation is excluded from the definition of final average compensation.

The target annual retirement benefit is equal to (a) 4.33 percent of final average compensation for each of the participant's first 15 years of service, plus (b) for persons who were ESRIP participants as of September 1, 1998 (including Messrs. Dodson and Kantor), 0.5 percent of final average compensation for up to 10 additional years of service in excess of 15 years. This formula results in a target benefit of 65 percent of final average compensation after 15 years of service and a maximum 70 percent of final average compensation for those eligible after 25 years of service. Mr. Dodson's employment agreement modifies the ESRIP and provides that if his service continues until December 31, 2007 (which it now has), his target annual ESRIP benefit would be 65 percent of his final average compensation. A normal retirement benefit equal to the target benefit reduced by NBU Plan, Social Security and DCP supplemental annuity benefits as discussed above is payable upon retirement at the later of age 62 or after 10 years of service. Participants become vested for 50 percent of this benefit after five years of service and then become vested for an additional 10 percent for each additional year of service until fully vested after 10 years of service.

A participant who is age 55 or older with at least 10 years of service is eligible for early retirement benefits. The ESRIP normal retirement benefit is reduced by 1/2 percent per month (6 percent per year) for each month that the benefit commencement date precedes age 62.

The basic benefit form for ESRIP benefits is a monthly single life annuity with 10 years of guaranteed payments. The participant may choose among different annuity forms that are the actuarial equivalent of the basic benefit.

Supplemental Executive Retirement Plan

The Supplemental Executive Retirement Plan (SERP) is a non-qualified pension plan providing supplemental retirement benefits to persons who become executive officers after September 1, 2004, including Mr. Anderson and Ms. Kirkpatrick. Participants must complete five years of service before becoming 100 percent vested in SERP benefits, so neither Mr. Anderson nor Ms. Kirkpatrick is currently vested. Under the SERP, a target lump sum retirement benefit is determined for each participant, which is then reduced by the lump sum actuarial equivalent of the participant's NBU Plan benefit, Social Security benefit and any supplemental annuity under the DCP, in each case valued as of and assuming commencement at age 65. Final average pay for purposes of calculating SERP benefits generally consists of the

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participant's highest average salary and annual incentive for any five consecutive years in the last ten years of employment.

The target lump sum retirement benefit is equal to 40 percent of final average pay for each of the participant's first 15 years of service, resulting in a maximum target benefit of six times final average pay after 15 years of service. A normal retirement benefit equal to the target benefit reduced by the lump sum actuarial equivalents of NBU Plan, Social Security and DCP supplemental annuity benefits as discussed above is payable as a lump sum upon retirement at or after age 60. Upon termination of employment at any time after becoming vested, a participant will receive a termination benefit equal to the SERP normal retirement benefit reduced by 5/12 percent per month (5 percent per year) for each month that termination of employment precedes age 60, up to a maximum reduction of 60 percent for termination at age 48 or below. Participants may choose among different annuity forms that are the actuarial equivalent of the basic lump sum benefit.

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NON-QUALIFIED DEFERRED COMPENSATION IN 2007

Name	Plan Name	Executive Contributions in 2007 ¹	NW Natural Contributions in 2007 ¹	Aggregate Earnings in 2007 ¹	Aggregate Withdrawals/Distributions in 2007	Aggregate Balance at 12/31/2007 ¹
Mark S. Dodson	EDCP	\$ —	\$ —	\$ 42,191	\$ —	\$ 552,873
	DCP	186,500	24,918	26,005	—	510,993
Gregg S. Kantor	EDCP	—	—	4,472	—	58,600
	DCP	75,421	8,593	5,225	—	116,972
David H. Anderson	EDCP	—	—	474	—	3,942
	DCP	45,264	9,234	10,496	—	116,374
Lea Anne Doolittle	EDCP	—	—	8,933	—	98,061
	DCP	81,486	4,328	5,989	—	122,798
Margaret D. Kirkpatrick	EDCP	—	—	—	—	—
	DCP	—	—	—	—	—

¹ All amounts reported in the Executive Contributions and NW Natural Contributions columns are also included in amounts reported in the Summary Compensation Table above in columns (c) and/or (i) for 2007 and columns (d), (e) and/or (g) for 2006. The portion of the amounts reported in the Aggregate Earnings column that represents above-market earnings is included in column (h) of the Summary Compensation Table, and the amount of above-market earnings for each Named Executive Officer is set forth in footnote 4 to that table. Of the amounts reported in the Aggregate Balance column, the following amounts have been reported in the Summary Compensation Tables in this proxy statement or in prior year proxy statements: Mr. Dodson, \$836,519; Mr. Kantor, \$131,557; Mr. Anderson, \$104,855; Ms. Doolittle, \$167,398; and Ms. Kirkpatrick, \$0. Amounts not previously reported consist of market-rate earnings on amounts deferred and amounts deferred before designation as a Named Executive Officer.

Non-qualified Deferred Compensation Plans

We currently maintain two non-qualified deferred compensation plans for executive officers: the Executive Deferred Compensation Plan (the EDCP) and the Deferred Compensation Plan for Directors and Executives (the DCP). Prior to 2005, the EDCP was the plan pursuant to which our executives deferred compensation. On January 1, 2005, deferrals under the EDCP were discontinued and the DCP became effective for future deferrals of compensation by our executives. Accordingly, all deferred contributions in 2007 were made under the DCP, while earnings continued to accrue on EDCP account balances.

Participants in the DCP may elect in advance to defer up to 50 percent of their salaries, up to 100 percent of their annual incentives, and up to 100 percent of awards under our Long-Term Incentive Plan, including both restricted stock and long-term incentive awards. We make matching contributions each year equal to (a) the lesser of 60 percent of the participant's salary and annual incentive deferred during the year under both the DCP and our 401(k) plan or 3.6 percent of the participant's total salary and annual incentive for the year, reduced by (b) the maximum matching contribution we would have made under our 401(k) plan if the participant had been able to fully participate in that plan.

All amounts deferred under the EDCP or the DCP are credited to either a "stock account" or a "cash account" as elected by the participants. No transfers between a participant's cash account and stock account are permitted under the EDCP. Under the DCP, transfers from a cash account to a stock account are permitted, but not vice-versa. Stock accounts represent a right to receive shares of our Common Stock on a deferred basis, and are credited with additional shares based on the deemed reinvestment of dividends. Accordingly, the rate of earnings on stock accounts in 2007 was approximately 3.1 percent, representing dividends paid per share in 2007 as a percentage of the average closing market price of our Common Stock during 2007. Cash accounts under the EDCP are credited quarterly with interest at a rate

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equal to Moody's Average Corporate Bond Yield plus two percentage points, subject to a 6 percent minimum rate. The average interest rate paid on EDCP cash accounts in 2007 was 8.02 percent. Cash accounts under the DCP are credited quarterly with interest at a rate equal to Moody's Average Corporate Bond Yield without the additional two percentage points or the 6 percent minimum. The average interest rate paid on DCP cash accounts in 2007 was 6.02 percent.

Participants make elections regarding distributions of their accounts at the time they elect to defer compensation, and have limited rights to change these payment elections. Distributions may commence on a predetermined date while still employed or upon termination of employment, and may be made in a lump sum or in annual installments over five, ten or fifteen years. Hardship withdrawals are permitted under both the EDCP and the DCP, and participants in the EDCP may withdraw their full account balance at any time subject to forfeiture of 10 percent of the balance. No withdrawals or distributions were made by the Named Executive Officers during 2007.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Change in Control Compensation

We have agreed to provide certain benefits to the Named Executive Officers upon a "change in control" of NW Natural, although certain of the benefits are only payable if the Named Executive Officer's employment is terminated without "cause" or by the officer for "good reason" within 24 months after the change in control. In our plans and agreements, "change in control" is generally defined to include:

- the acquisition by any person of 20 percent or more of our outstanding Common Stock,
- the nomination (and subsequent election) of a majority of our directors by persons other than the incumbent directors, and
- the consummation of a sale of all or substantially all of our assets, or an acquisition of NW Natural through a merger or share exchange.

In our plans and agreements, "cause" generally includes willful and continued failure to substantially perform assigned duties or willfully engaging in illegal conduct injurious to NW Natural, and "good reason" generally includes a change in position or responsibilities that does not represent a promotion, a decrease in compensation, or a home office relocation of over 30 miles.

The following table shows the estimated change in control benefits that would have been payable to the Named Executive Officers if (i) a change in control had occurred on December 31, 2007 and (ii) each officer's employment was terminated on that date either by us without "cause" or by the officer with "good reason."

Name	Cash Severance Benefit ¹	Insurance Continuation ²	Long-Term Incentive Plan Acceleration ³	Restricted Stock Acceleration ⁴	Additional Lump Sum SERP Benefit ⁵	Total Lump Sum Payments ⁶	Additional Annual ESRIP Benefit ⁷
Mark S. Dodson	\$750,000	\$ —	\$ —	\$ —	\$ —	\$ 750,000	\$ —
Gregg S. Kantor	802,667	27,799	285,863	—	—	1,116,329	62,446
David H. Anderson	872,667	30,246	388,843	97,320	172,766	1,561,842	—
Lea Anne Doolittle	542,000	30,251	161,377	—	—	733,628	41,841
Margaret D. Kirkpatrick	634,000	23,891	242,065	—	126,966	1,026,922	—

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- ¹ *Cash Severance Benefit.* Each Named Executive Officer has entered into a severance agreement providing for, among other things, cash severance benefits payable if the officer's employment is terminated by us without "cause" or by the officer for "good reason" within 24 months after a change in control. The cash severance payment for Mr. Dodson is equal to \$750,000, and the cash severance benefit for each other Named Executive Officer is equal to two times the sum of final annual salary plus average annual incentive for the last three years (annualized for annual incentives paid for partial years). These amounts are payable in a lump sum within five days after termination.
- Under the severance agreements, if any payments to a Named Executive Officer in connection with a change in control would be subject to the 20 percent excise tax on "excess parachute payments" as defined in Section 280G of the Internal Revenue Code, then, if it would result in a greater net after-tax benefit for the officer to have the payments that would otherwise be made reduced by the amount necessary to prevent them from being "parachute payments," then the officer will be paid such reduced benefits. None of the amounts in the above table have been reduced in accordance with this provision.
- ² *Insurance Continuation.* If cash severance benefits are triggered, the severance agreements for all Named Executive Officers other than Mr. Dodson also provide for the continuation of life and health insurance benefits for two years following termination of employment, but not to the extent similar benefits are provided by a subsequent employer. The amounts in the table above represent the present value of two years' of monthly life and health insurance benefit payments at the rates paid by us for each officer as of December 31, 2007.
- ³ *Long-Term Incentive Plan Acceleration.* As described above under the "Grants of Plan-Based Awards During 2007" table and "Compensation Discussion and Analysis—Compensation Programs—Long-Term Incentives," we granted long-term incentive awards to the Named Executive Officers in February 2007 under which shares of our Common Stock (plus accumulated cash dividends) will be issued to them based on our performance over the years 2007 to 2009. Similar awards were granted in February 2006 to the Named Executive Officers under which Common Stock (and dividends) will be issued based on our performance over the years 2006 to 2008. The award agreements for the awards granted in 2006 to all Named Executive Officers other than Mr. Dodson require us to issue within five days after a change in control the target number of shares under each award for which the performance period has not yet expired. The award agreements for the awards granted in 2007 to all Named Executive Officers other than Mr. Dodson provide that upon a change in control (i) the number of shares to be issued will be pro-rated based on the portion of the award period completed prior to the change in control, and (ii) for the portion of the award payable based on total shareholder return relative to a peer group of companies, actual stock performance through the date of the change in control will be applied to determine a gross payout amount before applying the above pro-ration. These payments are required whether or not the officer's employment is terminated in connection with the change in control. The amounts in the table above represent the target number of shares for the awards made in February 2006 and the number of shares that would have been issued under the awards made in February 2007 based on stock performance through December 31, 2007, multiplied by a stock price of \$48.66 per share, which was the closing price of our Common Stock on the last trading day of 2007, plus an amount equal to the dividends paid per share during the applicable award periods through December 31, 2007.
- ⁴ *Restricted Stock Acceleration.* When Mr. Anderson commenced employment with us in September 2004, he received an award of 5,000 shares of restricted Common Stock that vests for 20 percent of the shares each year until fully vested. As of December 31, 2007, 2,000 shares of this award remain unvested. His award agreement provides that all unvested shares will immediately vest upon a change in control, whether or not his employment is terminated. The value of these shares in the table above is based on the same stock price referred to in Note 3 above.
- ⁵ *Additional Lump Sum SERP Benefit.* As discussed above in the text accompanying the "Pension Benefits" table, two of our Named Executive Officers are participants in the SERP, which generally provides for a lump sum benefit payable six months after termination of employment. If a SERP participant's employment is terminated by us without "cause" or by the participant for "good reason" within 24 months after a change in control, the SERP participant will become fully vested and receive three additional years of service for purposes of calculating their SERP benefit. As neither SERP participant currently has a vested right to any SERP benefit, the amounts in the table represent the full SERP benefits they would receive on termination following a change in control.
- ⁶ *Total Lump Sum Payments.* Amounts in this column equal the sum of the amounts in the five columns to its left.
- ⁷ *Additional Annual ESRIP Benefit.* As discussed above in the text accompanying the "Pension Benefits" table, three of our Named Executive Officers are participants in the ESRIP, which generally provides for a lifetime supplemental pension benefit payable by us following retirement. If the employment of any ESRIP participant, other than Mr. Dodson, is terminated by us without "cause" or by the participant for "good reason" within 24 months after a change in control, the ESRIP participant will become fully vested and receive three additional years of service for purposes of calculating his or her ESRIP benefit. In addition, the benefit reductions for commencement of ESRIP benefits prior to age 65 are reduced, from 6 percent for each year benefits commence prior to age 65 (applicable to participants like Mr. Kantor and Ms. Doolittle who are not yet eligible for early retirement) to 3 percent for each year benefits commence prior to age 62. The amounts in the table above represent the estimated additional annual ESRIP benefit each Named Executive Officer would receive due to the above benefit enhancements, based on commencement of benefits at age 55 as specified in the ESRIP. The actuarial present value of these additional annual benefits, calculated using the same mortality and discount rate assumptions as used for purposes of the "Pension Benefits" table above, is \$569,032 and \$441,724, for Mr. Kantor and Ms. Doolittle, respectively.

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Other Benefits Triggered on Certain Employment Terminations

When Mr. Anderson commenced employment with us in September 2004, he received an award of 5,000 shares of restricted Common Stock that vests for 20 percent of the shares each year until fully vested. As of December 31, 2007, 2,000 shares of this award remain unvested. His award agreement provides that all unvested shares will immediately vest if his employment is terminated as a result of death or disability. Accordingly, if Mr. Anderson's employment had been terminated on December 31, 2007 as a result of death or disability, he would have become vested in shares with a value of \$97,320 based on a stock price of \$48.66 per share which was the closing price of our Common Stock on the last trading day of 2007.

As described above in the text accompanying the "Grants of Plan-Based Awards" table, we granted long-term incentive awards to the Named Executive Officers in February 2007 under which shares of our Common Stock (plus accumulated cash dividends) will be issued to them based on our performance over the years 2007 to 2009. Similar awards were granted in February 2006 under which Common Stock (and dividends) will be issued based on our performance over the years 2006 to 2008. The award agreements generally require the officer to be employed by us on the last day of the performance period to receive an award payout, but provide that if employment terminates earlier as a result of death, disability or retirement the officer will be entitled to a pro-rated award payout. Accordingly, if any Named Executive Officer had terminated employment on December 31, 2007 as a result of death, disability or retirement, his or her target award for the 2007-2009 performance period would have been reduced to one-third of the original target award reflecting employment for one year of the three-year performance period, and his or her target award for the 2006-2008 performance period would have been similarly reduced to two-thirds of the original target award, and then he or she would receive payouts under these adjusted awards at the end of the applicable performance periods based on our actual performance against the performance goals. Assuming achievement of target performance levels, the estimated value of the pro-rated award payouts, based on a stock price of \$48.66 per share and continuation of quarterly dividends for the remainder of the performance period on our Common Stock at the current rate, for each Named Executive Officer would be: Mr. Dodson, \$758,188; Mr. Kantor, \$185,161; Mr. Anderson, \$255,670; Ms. Doolittle, \$105,797; and Ms. Kirkpatrick, \$158,695.

As of December 31, 2007, each Named Executive Officer held unexercisable options to purchase Common Stock as listed in the "Outstanding Equity Awards" table above. Under the terms of their stock option agreements, all unexercisable options become fully exercisable for a maximum remaining term of one year upon the death or disability of the officer. The stock option agreements also provide that all unexercisable options become fully exercisable for a maximum remaining term of three years if the officer terminates employment when eligible for normal or early retirement under our NBU Plan. The aggregate value as of December 31, 2007 of options held by each Named Executive Officer that would have become exercisable if death, disability or eligible retirement had occurred on that date, based on the positive spread (if any) between the exercise price of each option and a stock price of \$48.66 per share, which was the closing price of our Common Stock on the last trading day of 2007, was: Mr. Dodson, \$344,023; Mr. Kantor, \$61,593; Mr. Anderson, \$115,480; Ms. Doolittle, \$44,873; and Ms. Kirkpatrick, \$91,328.

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NON-EMPLOYEE DIRECTOR COMPENSATION IN 2007

Name (a)	Fees Earned or Paid in Cash (\$) ¹ (b)	Stock Awards (\$) ² (c)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ³ (d)	Total (\$) (e)
Timothy P. Boyle	\$ 69,000	\$20,003	\$ 11	\$ 89,014
Martha L. Byorum	67,500	20,036	280	87,816
John D. Carter	88,000	19,997	15	108,012
C. Scott Gibson	78,500	19,997	2,165	100,662
Tod R. Hamachek	80,000	19,997	17,393	117,390
Randall C. Papé	75,500	19,997	1,479	96,976
Jane L. Peverett	38,408	0	11	38,419
George J. Puentes	35,408	0	5	35,413
Richard G. Reiten	138,750	20,005	23,889	182,644
Kenneth Thrasher	98,000	0	0	98,000
Russell F. Tromley	92,500	19,997	8,822	121,319

¹ Except for amounts paid to Messrs. Reiten, Thrasher and Tromley and a portion of amounts paid to Ms. Peverett, all cash amounts were deferred pursuant to the terms of the Deferred Compensation Plan for Directors and Executives.

² Amounts shown in column (c) were calculated based on the compensation cost recognized over the service period using the actual cost of the vested shares purchased pursuant to the terms of the Non-Employee Directors Stock Compensation Plan (NEDSCP). All awards were outstanding prior to our adoption of Statement of Financial Accounting Standards No. 123R, "Share Based Payment," effective January 1, 2006. The aggregate amount of unvested NEDSCP stock awards held by each director as of December 31, 2007 were as follows: Mr. Boyle, 650 shares; Ms. Byorum, 685 shares; Mr. Carter, 650 shares; Mr. Gibson, 650 shares; Mr. Hamachek, 650 shares; Mr. Papé, 650 shares; Ms. Peverett, 0 shares; Mr. Puentes, 0 shares; Mr. Reiten, 650 shares; Mr. Thrasher, 0 shares; and Mr. Tromley, 650 shares. In addition to the amounts shown in column (c), in connection with the termination of a prior retirement benefit for directors and in lieu of that benefit, shares were credited to certain directors' accounts as of January 1, 1998. See "Directors Retirement Benefit," below. As of December 31, 2007, balances in the retirement benefit accounts were as follows: Mr. Hamachek, 919 shares; Mr. Papé, 694 shares; Mr. Reiten, 1,522 shares; and Mr. Tromley, 1,415 shares.

³ Amounts in column (d) represent above-market interest credited to the directors' accounts under the Directors Deferred Compensation Plan and the Deferred Compensation Plan for Directors and Executives through December 31, 2007. For Mr. Reiten, the amount also includes above-market interest credited to his cash account balance under the Executive Deferred Compensation Plan.

Non-employee Director Compensation Philosophy

The Organization and Executive Compensation Committee's compensation philosophy for non-employee members of the Board of Directors is designed to attract and retain high performing directors who will perform in the best interest of shareholders. The committee targets the compensation of Board members to be aligned with the middle of the market (50th percentile) for about 24 peer companies. The committee reviews Board compensation every two years and recommends adjustments to compensation only as necessary. Towers Perrin, the same consulting firm that assists the committee with executive compensation, provides competitive market data for Board compensation.

While the components of compensation have evolved over the years, the current pay components consist of a cash retainer, cash meeting fees, and extra cash retainers for serving as chair of the Board or of committees of the Board. However, some more senior Board members continue to receive a portion of their retainer fees pursuant to a stock retainer plan that was terminated at year-end 2004. All shares previously granted under that plan will be fully vested by the end of 2008. Further, a few senior Board members continue to vest in stock issued in lieu of benefits from a former retirement program that was terminated in 1998.

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The Board has adopted stock ownership guidelines that require directors to own NW Natural shares valued at the lesser of \$300,000 or five times their annual retainer within five years of joining the Board, including amounts deferred pursuant to the plans described below. The committee last reviewed the progress of the directors in achieving these stock ownership objectives in February 2008 and concluded that all of the directors have achieved stock ownership goals or, for newer directors, have made satisfactory progress in achieving these goals given the time they have served on the Board.

Director Fees and Arrangements

Fees Paid in 2007

Effective January 1, 2007, following the Organization and Executive Compensation Committee's 2006 review of the existing terms of compensation for non-employee directors and a review of a survey by the committee's independent compensation consultant of compensation paid to non-employee directors of companies of comparable size, the Board of Directors modified the terms of compensation to be paid to non-employee directors. The modifications included an increase in the annual cash retainer, an extra annual cash retainer for the chair of the Organization and Executive Compensation Committee and an increase in committee meeting fees. The compensation terms for non-employee members of the Board of Directors are described below:

Annual Cash Retainer (new Board members and effective for all directors after 12/31/08):	\$ 65,000
Extra Annual Cash Retainer for Committee Chairs (other than Audit or Organization and Executive Compensation Committee Chairs):	\$ 5,000
Extra Annual Cash Retainer for Audit Committee Chair:	\$ 10,000
Extra Annual Cash Retainer for Organization and Executive Compensation Committee Chair:	\$ 10,000
Extra Annual Cash Retainer for Chairman of the Board:	\$ 60,000
Board Meeting Fees:	\$ 1,500
Committee Meeting Fees:	\$ 1,500
Per diem (conduct of company business, other than on board or committee meeting day)	\$ 1,500

Assuming 14 meetings per year (7 Board meetings and 7 committee meetings), for a Board member who chairs one committee, the expected total annual compensation would be \$91,000.

During 2007, there were six meetings of our Board, each of which included an executive session of non-management directors. No continuing director attended fewer than 75 percent of the total meetings of our Board and committees on which he or she served, except that Mr. Puentes missed one Board meeting, one Finance Committee meeting and one Public Affairs and Environmental Policy Committee meeting due to illness.

Non-Employee Directors Stock Compensation Plan

Before January 1, 2005, our non-employee directors were awarded approximately \$100,000 worth of our Common Stock upon joining the Board pursuant to our Non-Employee Directors Stock Compensation Plan. These initial awards vested in monthly installments over the five calendar years following the award. On January 1 of each year following the initial year, non-employee directors were awarded an additional \$20,000 of Common Stock, which vested in monthly installments in the fifth year following the award (after the previous award had fully vested). The shares awarded were purchased in the open market by us at the time of award.

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All awards vest immediately upon the death of a director or upon a change in control of NW Natural. Unvested shares are forfeited if the recipient ceases to be a director. Certificates representing a director's vested shares are not delivered to the director until after the director leaves the Board.

In September 2004, the Board of Directors amended the Non-Employee Directors Stock Compensation Plan to provide that no new awards will be granted on or after January 1, 2005. Previous awards will continue to vest in monthly installments according to the original vesting schedule such that all shares awarded under the plan will be fully vested by December 31, 2008. Accordingly, current Board members who have as of the end of 2007 unvested Common Stock will continue to vest such stock at approximately \$20,000 worth of stock through December 31, 2008. During that time, their annual cash retainer will be \$45,000 instead of \$65,000. Non-employee directors could elect to defer unvested shares into their stock accounts under the Directors Deferred Compensation Plan or, after 2004, the Deferred Compensation Plan for Directors and Executives. Any amounts deferred would generally vest at the same time that the Common Stock would have vested. Directors are entitled to dividends on all shares awarded under the Non-Employee Directors Stock Compensation Plan, whether or not they are vested.

Directors do not receive options or any other form of equity compensation, but are subject to the stock ownership guidelines included in our Corporate Governance Standards. See "Non-employee Director Compensation Philosophy," above.

Deferred Compensation Plans

Directors Deferred Compensation Plan

Prior to January 1, 2005, directors could elect to defer the receipt of all or a part of their directors' compensation fees (cash or stock retainers and meeting fees) under our non-qualified Directors Deferred Compensation Plan (DDCP). At the director's election, deferred amounts were credited to either a "cash account" or a "stock account." If deferred amounts were credited to stock accounts, such accounts were credited with a number of shares based on the purchase price of our Common Stock on the next purchase date under our Dividend Reinvestment and Direct Stock Purchase Plan, and such accounts were credited with additional shares based on the deemed reinvestment of dividends. Cash accounts are credited quarterly with interest at a rate equal to Moody's Average Corporate Bond Yield plus two percentage points and the crediting rate is subject to a 6 percent minimum rate. The rate is adjusted quarterly. At the election of the participant, deferred balances in the stock and/or cash accounts are payable after termination of Board service in a lump sum, in installments over a period not to exceed 10 years, or in a combination of lump sum and installments.

In September 2004, the Board approved an amendment to the DDCP partially terminating the plan so that no deferrals will be made to the plan subsequent to December 31, 2004. All amounts deferred into the plan prior to December 31, 2004 will remain in the plan and all other provisions of the DDCP remain in effect.

Deferred Compensation Plan for Directors and Executives

In January 2005, the Deferred Compensation Plan for Directors and Executives (DCP) replaced the existing DDCP as the vehicle for non-qualified deferral of compensation by directors. See "Non-qualified Deferred Compensation Plans," above. Our obligation to pay deferred compensation in accordance with the terms of the DCP will generally become due on retirement, death, or other termination of service, and will be paid in a lump sum or in installments of five, ten or fifteen years as elected by the participant in accordance with the terms of the DCP. The right of each participant in the DCP is that of one of our general, unsecured creditors.

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Directors Retirement Benefit

On January 1, 1998, in connection with the termination of a prior retirement benefit for directors and in lieu of that benefit, we credited a number of shares of our Common Stock to a stock account under the DDCP for each then current director. If such a director retired from the Board at age 70 or older with 10 or more years of service as a director or if the director earlier died or became disabled or if there was an earlier change in control of NW Natural, we were obligated to deliver to the director (or to his or her beneficiary) the number of shares credited to the account, plus an additional number of shares based on reinvested dividends credited to the account over time. Concurrently with the creation of the stock accounts, we contributed to the Umbrella Trust for Directors a number of shares of our Common Stock equal to the number of shares credited to directors' accounts. Such stock is held in the Umbrella Trust and will be used to fund our obligation to pay out the stock accounts. In February 2008, the Board of Directors amended the DDCP such that each of the directors with this benefit became fully vested in the shares. See note 2 to the "Non-Employee Director Compensation in 2007" table, above.

Director Perquisites and Other Compensation

We do not provide perquisites to our directors of other than nominal value. For Board convenience in conducting company business, we provide complimentary parking at our headquarters, reimbursement for expenses related to qualified board education activities, expenses for inclusion of spouses at company-sponsored meals in connection with regular board meetings and expenses for planned activities for directors and spouses at the Board's annual strategic planning retreat. Gifts of nominal value are provided to each Board member annually at each Annual Meeting, the Board retreat and during the holiday season.

The aggregate incremental cost of perquisites received by each director did not exceed \$10,000 in 2007.

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2007 AND 2006 AUDIT FIRM FEES

The following table shows the fees and expenses that NW Natural paid or accrued for the integrated audits of its consolidated financial statements and other services provided by our independent registered public accounting firm, PricewaterhouseCoopers LLP, for fiscal years 2007 and 2006:

	2007	2006
Audit Fees	\$ 866,947	\$ 860,171
Audit-Related Fees	54,100	50,321
Tax Fees	14,849	29,432
All Other Fees	1,500	—
Total	<u>\$ 937,396</u>	<u>\$ 939,924</u>

Audit Fees

This category includes fees and expenses for services rendered for the integrated audit of the consolidated financial statements included in the Annual Report on Form 10-K and the review of the quarterly financial statements included in the Quarterly Reports on Form 10-Q. The integrated audit includes the review of our internal control over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act). In addition, amounts include fees for statutory filings, issuance of consents and comfort letters relating to the registration of company securities and assistance with the review of documents filed with the SEC. The amount in 2007 also includes \$51,650 for pre-implementation review of internal controls related to a new integrated financial information system.

Audit-Related Fees

This category includes fees and expenses for required audits of NW Natural's Retirement Plans and its Retirement K Savings Plan. Fees and expenses for the audit of NW Natural's Retirement Plans, which are paid by the Trustee from assets of NW Natural's Retirement Trust, totaled \$24,200 in 2007 and \$22,000 in 2006.

Tax Fees

This category includes fees for tax compliance, tax planning and tax advice. The amount in 2006 includes \$10,400 for analysis and consulting services related to Oregon Senate Bill 408, which was enacted and signed into law in 2005 in an attempt to ensure that Oregon utilities do not collect more for income taxes in rates from customers than they pay to governmental authorities.

All Other Fees

This category relates to services other than those described above. In 2007, the amount relates to payments for an accounting research tool. All fees in this category were pre-approved by the Audit Committee. See "Report of Audit Committee," below.

Pre-Approval Policy for Audit and Non-Audit Services

For 2008, the Audit Committee approved services for audit, audit-related and tax services, including audit services relating to compliance with Section 404 of the Sarbanes-Oxley Act. As of February 28, 2008, there were no other services pre-approved by the Audit Committee,

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except the ongoing license of an accounting research tool. The Chair of the Audit Committee is authorized to pre-approve non-audit services between meetings of the Audit Committee and must report such approvals at the next Audit Committee meeting. See "Report of the Audit Committee," below.

Lead Audit Partner Rotation

For 2008, the Audit Committee reviewed the relationship with its independent registered public accounting firm, PricewaterhouseCoopers LLP, and the mandatory rotation of their lead audit partner on the NW Natural account. See "Report of the Audit Committee," below.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the committee) is responsible for providing independent, objective oversight of NW Natural's accounting and auditing functions, financial reporting and internal control over financial reporting. The committee is solely responsible for the engagement of the independent registered public accounting firm on behalf of NW Natural, and the independent registered public accounting firm reports to the committee. The committee acts under a written charter, amended as of July 26, 2007, to ensure compliance with applicable laws and regulations. The charter is reviewed annually by the committee and is available on NW Natural's website at www.nwnatural.com. In 2007, the Board approved amendments to the committee's charter to clarify the committee's responsibility for oversight of strategies, investments and risks related to NW Natural's information technology systems and business continuity and disaster planning. Each of the members of the committee is independent as defined by current New York Stock Exchange listing standards and NW Natural's Director Independence Standards. The Board of Directors has designated John D. Carter, chair of the committee, as an "audit committee financial expert".

The committee, in accordance with its written charter, oversees the quality and integrity of NW Natural's accounting, auditing and financial reporting practices. During fiscal 2007, the committee discussed the interim financial information in each of NW Natural's quarterly reports to the Securities and Exchange Commission (SEC) in special meetings with the Chief Executive Officer, the Chief Financial Officer, the Controller, and PricewaterhouseCoopers LLP, NW Natural's independent registered public accounting firm, prior to filing them with the SEC. In addition, the Chair of the committee and available committee members review NW Natural's quarterly earnings press release before its dissemination.

During 2007, the committee reviewed disclosure controls and procedures designed to ensure the continuing integrity of NW Natural's financial reports and executive compensation disclosure. The committee provided regular oversight of NW Natural's assessment of its internal control over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

In fulfilling its responsibilities, the committee has reviewed and discussed the audited financial statements contained in NW Natural's Annual Report on Form 10-K for the year ended December 31, 2007 with NW Natural's management and the independent registered public accounting firm. As part of its review, the committee discussed NW Natural's critical accounting policies and matters of judgment and estimates used in the preparation of the financial statements included in NW Natural's 2007 Annual Report on Form 10-K. In addition, the committee discussed with the independent registered public accounting firm those matters required to be discussed by Statement on Auditing Standards No. 61 (*Communication with Audit Committees*), as amended.

In discharging its oversight responsibility as to the audit process, the committee obtained from the independent registered public accounting firm written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence. In this regard, the committee considered whether or not the provision of non-audit services by the independent registered public accounting firm for the year 2007 is compatible with maintaining the independence of the firm and determined that none of the services provided to NW Natural impacted a finding of independence. In addition, for 2008, the committee reviewed the relationship with its registered public accounting firm, PricewaterhouseCoopers LLP, and the

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mandatory rotation of the lead audit partner on the NW Natural account. Based upon the committee's assessment and satisfaction with the services provided, including identification of a qualified candidate to replace the lead audit partner, the committee determined it was in NW Natural's best interest to continue its engagement of PricewaterhouseCoopers LLP.

In February 2007, the committee pre-approved certain non-audit services performed by NW Natural's independent registered public accounting firm and affirmed its procedure for the pre-approval of any future non-audit services performed by its independent auditor. On February 28, 2008, the committee pre-approved specific services to be performed by the independent auditor in 2008, including audit, audit-related and tax services, and established its procedure for pre-approval of all other services to be performed by the independent auditor in 2008. The committee determined that:

- For proposed non-audit services, management will submit to the committee a list of non-audit services that it recommends the committee engage the independent registered public accounting firm to provide;
- The committee will review and consider for approval the list of permissible non-audit services and the budget for such services;
- Management will routinely inform the committee regarding the non-audit services actually provided by the independent auditor pursuant to this pre-approval process; and
- The Director of Internal Auditing will be responsible for reporting at least annually to the committee all independent registered public accounting firm fees and the pre-approved budget for such services.

The Chair of the committee is authorized to pre-approve non-audit services between meetings of the committee and must report such approvals at the next committee meeting.

The committee also discussed with the independent registered public accounting firm any relationships that may impact its objectivity and independence and satisfied itself as to the auditor's independence. The committee also completed its annual assessment of the independent registered public accounting firm's and internal auditors' performance. The committee discussed with management and the internal auditors the quality, adequacy and effectiveness of NW Natural's internal control over financial reporting, and the organization, responsibilities, budget and staffing of the internal audit function. The committee reviewed with the independent registered public accounting firm any significant matters regarding NW Natural's internal control over financial reporting that had come to their attention during the conduct of their audit. The committee reviewed with both the independent registered public accounting firm and the internal auditors their respective audit plans, audit scopes and identification of audit risks.

The committee, in reliance on the reviews and discussions referred to above, recommended to the Board of Directors (and the Board has approved and directed) that the audited consolidated financial statements be included in Northwest Natural Gas Company's Annual Report on Form 10-K for the year ended December 31, 2007, for filing with the SEC.

Respectfully submitted on February 28, 2008 by the Audit Committee of the Board of Directors:

John D. Carter, Chair
Martha L. "Stormy" Byorum
Tod R. Hamachek

Jane L. Peverett
Kenneth Thrasher
Russell F. Tromley

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**PROPOSAL 2 – PROPOSED AMENDMENT TO THE EMPLOYEE
STOCK PURCHASE PLAN**

In 1967, the Board of Directors adopted and the shareholders approved NW Natural's Employee Stock Purchase Plan (the ESPP). The ESPP was amended in 1968, 1976, 1980, 1996, 2000 and 2006. A total of 1,000,000 shares of NW Natural's Common Stock has been reserved for issuance under the ESPP. The proposed amendment to the ESPP does not include an increase in shares reserved.

On February 28, 2008, the Board of Directors adopted, subject to shareholder approval, an amendment to the ESPP that would allow the Board of Directors to designate a parent or subsidiary of NW Natural eligible to include its employees as participants in the ESPP. This change would conform the ESPP to the terms of NW Natural's Restated Stock Option Plan, which currently allows awards to employees of NW Natural's parent and subsidiaries, and would provide additional flexibility to NW Natural to give proper incentives to employees in NW Natural's consolidated operations.

The purposes of the ESPP are to encourage employees to become shareholders in NW Natural, to stimulate increased interest on their part in the affairs of NW Natural, to afford them the opportunity to share in the earnings and growth of NW Natural and to promote systematic savings by them. The proposed amendment is intended to further these purposes. The material terms of the ESPP, as proposed to be amended, are described below, and a complete copy of the ESPP, marked to show the proposed amendment, is attached to this Proxy Statement as Appendix A. The following description is qualified in its entirety by reference to Appendix A.

Summary of the ESPP

The ESPP provides for offerings of NW Natural's Common Stock to eligible employees at the times and in the amounts determined by the Board of Directors. The Board of Directors intends to continue its practice of making annual offerings under the ESPP. The price of each offering will equal 85 percent of the fair market value of our Common Stock on the date of that offering, rounded up to a full penny.

All active employees (including officers and directors who are employees) employed by NW Natural (and, if the amendment is adopted, active employees employed by a designated parent or subsidiary of NW Natural) for at least six months and whose customary employment is at least 20 hours per week and five months per year are eligible to participate in the ESPP. However, no employee may participate if he or she owns, or through any subscription will acquire, sufficient Common Stock to give him or her five percent or more of the total combined voting power or value of all classes of stock of NW Natural. At March 17, 2008, approximately 1,085 employees were eligible to participate in the ESPP.

An eligible employee may participate by subscribing for shares within a prescribed period after each offering. Each participant may subscribe for a maximum of 900 shares per offering. If any offering is oversubscribed, the shares offered will be allocated among the participants in accordance with the ESPP.

Payment for shares purchased under the ESPP is made through payroll deductions within a period of not less than six months from the offering date. The maximum period under the ESPP for payment for shares is 27 months, although the Board of Directors typically limits the offering periods consistent with its practice of allowing employees to make payroll deductions over a 12-month period. A participant may terminate participation in an offering at any time before the twentieth day preceding the end of the offering period. Upon termination of participation, all amounts are refunded to the participant, without interest.

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Shares subscribed for in any offering will be purchased at the end of the offering period. Prior to that time, contributions are held by NW Natural for the participant. There are no restrictions upon the disposition of shares purchased through the ESPP.

None of the participants' rights under the ESPP are assignable or transferable. The right to participate in, and any subscription under, the ESPP terminates upon the termination of employment.

The Board of Directors, without shareholder approval, may amend, modify, suspend or terminate the ESPP at any time without notice, but it may not, without the affected employee's written consent, adversely affect any existing subscription or offering, and it may not amend the ESPP, without shareholder approval, to change the number of shares authorized to be offered (otherwise than to reflect a change in capitalization, such as a stock dividend or stock split), decrease the offering price below 85 percent of fair market value or change the eligibility requirements.

Tax Consequences

The ESPP is an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. In the event of a disposition within one year after acquisition by the participant of the shares or within two years after they were offered under the ESPP, the participant would recognize ordinary income at the time of disposition in an amount equal to the difference between the fair market value of the shares at the time of their purchase by the participant and the price at which such shares were offered under the ESPP. This ordinary income would be added to the participant's cost basis in determining gain or loss on a sale, which would generally be capital gain or loss. If held for a period in excess of these limitations, gain or loss upon a sale of shares purchased under the ESPP is treated as capital gain or loss, except that any gain is treated as ordinary income to the extent of the difference between the fair market value of the shares at the time of offering and the offering price.

Purchases under the ESPP

The following table indicates shares purchased under the ESPP during the last fiscal year by the Named Executive Officers, by all executive officers as a group and by all employees (excluding executive officers) as a group:

<u>Name</u>	<u>Number of Shares Purchased in 2007</u>	<u>Dollar Value</u> <u>(1)</u>
Mark S. Dodson	600	\$ 3,720
Gregg S. Kantor	360	2,232
David H. Anderson	603	3,739
Lea Anne Doolittle	139	862
Margaret D. Kirkpatrick	0	0
All Executive Officers (11 persons)	2,896	17,955
All employees, excluding Executive Officers	18,477	\$ 114,557

(1) "Dollar Value" equals the difference between the price paid for shares purchased under the ESPP and the fair market value of the shares on the offering date.

Vote Required

Approval of the ESPP amendment by the shareholders will require the affirmative vote of the holders of a majority of the shares of Common Stock of NW Natural present, or represented by proxy, and entitled to vote on the matter at the Annual Meeting. Abstentions have the effect of "no" votes in determining whether the amendment is approved. Broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote.

The Board of Directors recommends a vote FOR this proposal.

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PROPOSAL 3—PROPOSED AMENDMENT TO ARTICLE III OF THE RESTATED ARTICLES OF INCORPORATION

The Board of Directors has unanimously adopted resolutions approving and recommending that the shareholders adopt an amendment to Article III of NW Natural's Restated Articles of Incorporation increasing the total authorized shares of the Common Stock from the currently authorized 60,000,000 shares to 100,000,000 shares. It is proposed that subdivision A. of Article III of the Restated Articles of Incorporation be amended to read (underlined portions indicate changes):

"The aggregate number of shares of capital stock which the corporation shall have authority to issue is ~~60,000,000~~ 103,500,000 shares, divided into 3,500,000 shares of Preferred Stock issuable in series as hereinafter provided, and ~~60,000,000~~ 100,000,000 shares of Common Stock."

As of February 29, 2008, of the 60,000,000 currently authorized shares of Common Stock, 26,411,248 shares were issued and outstanding and 33,588,752 were unissued shares. There were no shares of Preferred Stock outstanding.

The following unissued shares were also reserved for issuance:

<u>Plan</u>	<u>Number of Shares Reserved</u>
Dividend Reinvestment and Direct Stock Purchase Plan	645,914
Restated Stock Option Plan	1,389,250
Employee Stock Purchase Plan	223,033

Accordingly, 31,330,555 shares of authorized Common Stock remained unreserved and available for issuance.

Shareholders are requested to authorize an additional 40,000,000 shares at this time to provide a reasonable reserve of authorized but unissued Common Stock. Upon approval of the proposed amendment, the additional shares may be issued by the Board at such times and on such terms as deemed by the Board of Directors to be in the best interest of NW Natural and its shareholders, without further action by the shareholders, except as otherwise may be required by applicable laws or by the requirements of any stock exchange upon which NW Natural securities may be listed. Under present law, approval of the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission will be required to issue the additional shares.

The Board believes that it is in the best interest of NW Natural and its shareholders to have the additional shares authorized and available for issuance, at the Board's discretion, for the purposes of financing NW Natural's growth and business opportunities, and for stock splits or stock dividends. The Board could authorize a public offering or a private offering of additional shares of Common Stock or of debt or other securities convertible into shares of Common Stock. Such offering could be made for cash or in exchange for other NW Natural securities, in connection with funding growth and business opportunities, pursuant to NW Natural's Dividend Reinvestment and Direct Stock Purchase Plan or its employee benefit programs or for any other purpose the Board may in its discretion deem to be in the best interest of NW Natural and its shareholders. However, NW Natural has no plans to issue additional Common Stock for any of these purposes, except for a possible future stock split or stock dividend, and as permitted under NW Natural's Dividend Reinvestment and Direct Stock Purchase Plan and its employee benefit plans.

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The issuance of the additional shares of Common Stock would make a change in control of the company more difficult if the Board should cause such shares to be issued to holders who might side with the Board in opposing a takeover bid that the Board determines is not in the best interest of NW Natural and its shareholders. The availability of the additional shares might discourage an attempt by another person or entity to acquire control of NW Natural through the acquisition of a substantial number of shares of Common Stock, since the issuance of such shares could dilute the stock ownership of such person or entity. Similarly, the existence or issuance of such shares might make it more difficult or discourage attempts to remove incumbent management. Other existing provisions applicable to NW Natural that might have a material anti-takeover effect include (a) the Oregon Control Share Act, which under certain circumstances would operate to deprive a person or group that acquires more than 20 percent of the outstanding Common Stock of voting rights with respect to those shares; (b) the Oregon Business Combination statute, which places restrictions on business combination transactions with persons or groups that own 15 percent or more of the outstanding Common Stock, unless the transaction is approved by the Board of Directors; (c) Article V of NW Natural's Restated Articles of Incorporation, which places restrictions on business combination transactions with persons or groups that own 10 percent or more of the outstanding Common Stock; (d) the division of the Board of Directors into three classes elected for staggered three-year terms; (e) a requirement that the removal of directors from office be approved by a vote of at least two-thirds of the outstanding Common Stock; (f) authorization for the Board of Directors (subject to any applicable law) to issue preferred stock in series and to fix rights and preferences of the series; (g) advance notice procedures with respect to nominations of directors or proposals other than those adopted or recommended by the Board of Directors; (h) executive severance agreements, which provide severance payments to selected officers and employees if their employment is terminated by NW Natural without cause or by the employee for good reason within two years following a change of control of NW Natural; and (i) provisions of retirement and incentive plans that provide additional benefits in connection with a change of control of NW Natural. The Board has no knowledge of any present efforts to accumulate shares of NW Natural's Common Stock in the market or to gain control of NW Natural, and has no present intention to adopt any other provisions or enter into any other arrangements that would have a material anti-takeover effect.

The proposed amendment will not change any present right of holders of Common Stock. The additional shares of Common Stock would become part of the existing class of Common Stock, and the additional shares, when issued would have the same rights and privileges as the outstanding shares of Common Stock. The holders of Common Stock do not have pre-emptive rights to subscribe for any of NW Natural's securities and will not have any such rights to subscribe for the additional Common Stock proposed to be authorized.

Vote Required

Approval of the amendment to the Restated Articles of Incorporation by the shareholders will require the affirmative vote of the holders of a majority of the shares of Common Stock of NW Natural present, or represented by proxy, and entitled to vote on the matter at the Annual Meeting. Abstentions have the effect of "no" votes in determining whether the amendment is approved. Broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote.

The Board of Directors recommends a vote FOR this proposal.

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PROPOSAL 4—RATIFICATION OF APPOINTMENT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTANTS

At a meeting held February 28, 2008, the Audit Committee of the Board of Directors appointed PricewaterhouseCoopers LLP, registered independent public accounting firm, to audit the books, records and accounts of NW Natural for fiscal year 2008. The Audit Committee and the Board of Directors recommend that the shareholders ratify this appointment.

Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting with the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

See "2007 and 2006 Audit Firm Fees," above.

Vote Required

The ratification of the appointment of PricewaterhouseCoopers LLP as registered independent public accountants for 2008 will require the affirmative vote of the holders of a majority of the shares of Common Stock of NW Natural present, or represented by proxy, and entitled to vote on the matter at the Annual Meeting. Abstentions have the effect of "no" votes in determining whether the proposal is ratified. Broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote.

The Audit Committee and the Board of Directors recommend a vote FOR this proposal.

OTHER MATTERS

Management does not know of any other matters to be presented at the Annual Meeting. If other matters should be properly presented at the meeting, the persons named in the accompanying proxy will vote the shares represented by such proxy with respect to such matters in accordance with their best judgment.

Consolidation Services Provided

The consolidation of an individual's multiple proxy cards into one envelope is a service NW Natural provides based on Social Security Number or Tax ID Number match.

If you received a consolidated mailing this year and you would like to receive a separate annual report or proxy statement for each account with the same Social Security Number, please submit your request to Shareholder Services, 220 N.W. Second Avenue, Portland, OR 97209-3991 or call (800) 422-4012, ext. 3412. NW Natural will promptly send additional copies of the annual report and/or proxy statement upon receipt of such request. You may also contact NW Natural if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future.

Delivery of Proxy Materials to Households

Only one copy of our annual report and proxy statement will be delivered to an address where two or more shareholders reside unless we have received contrary instructions from a

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shareholder at the address. A separate proxy card will be delivered to each shareholder at the shared address.

If you are a shareholder who lives at a shared address and you would like additional copies of the annual report, this proxy statement, or any future annual reports or proxy statements, contact Shareholder Services, 220 N.W. Second Avenue, Portland, OR 97209-3991 or call (800) 422-4012, ext. 3412. NW Natural will promptly send additional copies of the annual report and/or proxy statement upon receipt of such request.

If you share the same address with another NW Natural shareholder and you currently receive multiple copies of annual reports or proxy statements, you may request delivery of a single copy of future annual reports or proxy statements at any time by calling Shareholder Services at (800) 422-4012, ext. 3412, or by writing Shareholder Services, 220 N.W. Second Avenue, Portland, OR 97209-3991.

If you did not receive our latest annual report, which includes financial statements, please notify Shareholder Services, 220 N.W. Second Avenue, Portland, OR 97209-3991, or call (800) 422-4012, ext. 3412, and a copy will be sent to you.

Many brokerage firms and other shareholders of record have procedures for the delivery of single copies of company documents to households with multiple beneficial shareholders. If your family has one or more "street name" accounts under which you beneficially own shares of NW Natural Common Stock, please contact your broker, financial institution, or other shareholder of record directly if you require additional copies of this proxy statement or NW Natural's annual report, or if you have other questions or directions concerning your "street name" account.

2009 ANNUAL MEETING OF SHAREHOLDERS

The 2009 Annual Meeting of Shareholders is scheduled to be held in Portland, Oregon on Thursday, May 28, 2009. The SEC's proxy rules require that any shareholder proposal to be considered for inclusion in NW Natural's proxy statement for the 2009 Annual Meeting of Shareholders must be received at NW Natural's principal executive office no later than December 15, 2008.

NW Natural's bylaws require shareholders to give NW Natural advance notice of any proposal to be submitted at any meeting of shareholders. The bylaws prescribe the information to be contained in any such notice, and a copy of the relevant provisions of the bylaws will be provided to any shareholder upon written request to the Corporate Secretary of NW Natural. For any shareholder proposal to be considered at the 2009 Annual Meeting of Shareholders, the shareholder's notice must be received by NW Natural's Corporate Secretary no later than February 23, 2009. The SEC's proxy rules allow NW Natural to use discretionary voting authority to vote on a matter coming before an annual meeting of shareholders which is not included in NW Natural's proxy statement, if NW Natural does not have notice of the matter before the deadline established in its bylaws. In addition, discretionary voting authority may generally also be used if NW Natural receives timely notice of such matter (as described above) and if, in the proxy statement, NW Natural describes the nature of such matter and how NW Natural intends to exercise its discretion to vote on such matter.

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COMPANY INFORMATION

NW Natural makes available on its website (www.nwnatural.com), among other things:

- Corporate Governance Standards;
- Director Independence Standards;
- Director Selection Criteria;
- Charters of the Governance, Audit, Organization and Executive Compensation, Finance, Public Affairs and Environmental Policy and Strategic Planning Committees;
- Code of Ethics;
- Standards of Conduct; and
- Financial Code of Ethics.

You may request a copy of these documents, at no cost to you, by writing or calling Shareholder Services, Northwest Natural Gas Company, One Pacific Square, 220 N.W. Second Avenue, Portland, Oregon 97209, telephone (800) 422-4012, ext. 3412.

Shareholders may communicate with the Chairman of the Board or the non-management directors of the Board by:

- calling (800) 541-9967;
- mailing correspondence to 220 N.W. Second Avenue, Portland, OR 97209, Attn: Corporate Secretary; or
- sending an e-mail to directors@nwnatural.com.

Correspondence or other communications received by the Corporate Secretary are forwarded to the chair of the Governance Committee or to the chair of the Audit Committee, as appropriate.

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SOLICITATION OF PROXIES

Proxies may be solicited on behalf of the Board of Directors by regular employees in person or by mail, telephone, the Internet or facsimile transmission. NW Natural will reimburse brokers or other persons holding stock in their names or in the names of their nominees for their reasonable expenses incurred in forwarding proxies and proxy materials to the beneficial owners of such shares. All solicitation costs will be borne by NW Natural. NW Natural has retained Laurel Hill Advisory Group to assist in the solicitation of proxies from banks, brokers and nominees at a fee of \$6,500 plus reasonable out-of-pocket expenses. Shareholders may assist NW Natural in avoiding expenses in this connection by voting their proxies promptly.

If you are unable to be present at the Annual Meeting in person, please mark, date, sign and mail the enclosed proxy, or, alternatively, grant your proxy by telephone or the Internet, so that the business of the meeting can be transacted.

By Order of the Board of Directors,

/s/ Richelle T. Luther
Richelle T. Luther
Corporate Secretary

Portland, Oregon
April 14, 2008

NORTHWEST NATURAL GAS COMPANY EMPLOYEE STOCK PURCHASE PLAN

1. Purposes of the Plan

The purposes of this Employee Stock Purchase Plan are to encourage employees to become stockholders in Northwest Natural Gas Company (the Company), to stimulate increased interest on their part in the affairs of the Company, to afford them an opportunity to share in the profits and growth of the Company, and to promote systematic savings by them. These purposes are sought to be accomplished under the Plan by enabling employees to subscribe for and purchase directly from the Company a limited number of the authorized and unissued shares of its Common Stock at a discount from the market price at the time offerings are made, with an opportunity to pay the purchase price in installments, by payroll deductions (including bonus deductions) over a period of not more than 27 months from the offering date. The Plan has been found desirable by the Board of Directors and is believed by management to be advantageous to employees desiring to become holders of Common Stock and in the best interests of the Company. Participation in the Plan is entirely voluntary. Each employee must decide whether it is in his or her best interests to purchase shares of Common Stock under the Plan.

2. Administration

The Plan shall be administered for the Company by the Employee Stock Purchase Plan Committee (the Committee), the membership of which shall be designated from time to time by the President of the Company. The Secretary or an Assistant Secretary of the Company shall serve as a member of the Committee and shall be responsible for recording and maintaining the Committee's records. The Company will pay all expenses incident to operation of the Plan, including costs of recordkeeping, accounting fees and legal fees.

3. Employees Eligible to Participate

Regular full-time employees of the Company and of any parent or subsidiary of the Company permitted to offer participation in an employee stock purchase plan under federal tax laws and designated by the Board of Directors (each, a Participating Company) are eligible to participate in the Plan, including officers but excluding directors not otherwise employed by the Company or a Participating Company, and also excluding any employee who, after an offering under the Plan, would own or be deemed (under Section 424(d) of the Internal Revenue Code) to own stock (including stock which may be purchased under outstanding options, if any, or offerings and subscriptions under the Plan) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or ~~its any parent or subsidiaries~~ subsidiary of the Company.

A regular full-time employee is one who has been in the employ of the Company or a Participating Company for at least six months and who is in the active service of the Company or a Participating Company on the date an offering is made under the Plan, excluding, however, any employee whose customary employment is less than 20 hours per week or whose customary employment is for not more than five months per calendar year.

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4. Method of Participation

Until the number of shares authorized under the Plan is exhausted, there may be an offering or offerings under the Plan each year on a date or dates to be determined beforehand by the Board of Directors. An eligible employee may participate in the Plan by completing a subscription and payroll deduction authorization pursuant to instructions provided by the Company within a number of days after the offering date, not to exceed 90, prescribed by the Board of Directors. The payroll deduction authorization will authorize the Company, or a ~~parent or subsidiary of the~~ Participating Company, to deduct a specific amount from the participating employee's regular paychecks during the period specified by the Board of Directors and/or a specific amount from any bonus paid to the employee during such period. The participating employee may not specify a regular payroll deduction amount that is less than \$20 per month, and the aggregate of the regular deductions and the bonus deduction in any 12-month period must be no more than \$21,250. The amount specified by the participating employee will only be deducted from a particular pay or bonus check if the employee has sufficient earnings available. All deductions from regular pay or bonus pay for a participating employee will be credited to the employee's account under the Plan. An employee may terminate participation in an offering as provided in Section 8, but may not otherwise change or modify the payroll or bonus deduction amount previously specified except in circumstances specified by the Committee. No interest will be paid on the amounts accumulated by the Company or the amounts held in the employee's account under the Plan.

No employee may purchase more than 900 shares in any offering. No employee will be allowed to subscribe for any shares under the Plan that would permit the employee's rights to purchase shares under all stock purchase plans (described in Internal Revenue Code Section 423) of the Company and its parent or subsidiaries, to accrue at a rate that exceeds \$25,000 of fair market value of the shares (determined at the time such shares are offered) for each calendar year in which the right to subscribe or a subscription is outstanding.

Correspondence relating to the Plan should be forwarded by regular or Company mail to Employee Stock Purchase Plan Committee, Northwest Natural Gas Company, One Pacific Square, Portland, Oregon 97209.

5. Purchase Price

The purchase price of shares of Common Stock offered to employees under the Plan shall be 85% (rounded up to a full penny) of the fair market value of the Company's shares of such Common Stock on the date the offering is made. The fair market value of the shares will be the closing price quoted for the Common Stock on the exchange on the trading day immediately before the offering date.

6. Source of Stock and Allocation in Event of Oversubscription

All Common Stock issued under the Plan will come from authorized but unissued shares of Common Stock. A total of 1,000,000 shares of Common Stock has been reserved for this purpose (or such number of shares of the 1,000,000 shares or any unissued portion thereof into which such reserved shares may be changed as a result of ~~split-ups~~ any stock split, combination of shares, recapitalization or reclassifications of the Common Stock). If any offering is oversubscribed, each employee will be allotted the lesser of (a) the number of shares purchasable by the employee or (b) the number of shares obtained by multiplying the total number of shares available under the Plan by a fraction, the numerator of which is the employee's account balance and the denominator of which is the sum of all participating employee's account balances.

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7. Purchase of Stock and Delivery

Unless a participant withdraws from an offering under the Plan as provided in Section 8 or unless limited by the second paragraph of Section 4, shares of Common Stock will be purchased automatically with the employee's contributed payroll and bonus deductions on the last day of the offering period. A transaction statement confirming the issuance in uncertificated form of the shares purchased by the participant shall be delivered to the participant as promptly as practicable after the purchase date. No fractional shares will be issued. Any payroll and bonus deductions accumulated in a participant's account that are not applied toward the purchase of shares on the purchase date shall be returned to the employee without interest.

8. Termination of Participation

(a) **Voluntary Termination of Participation.** After an employee has begun participating in an offering under the Plan by initiating payroll deductions, the employee may terminate participation in the offering by delivering written notice to the Company in the form specified by the Company any time before the twentieth day before the end of the offering period. If the employee terminates participation in an offering, accumulated cash contributions in the employee's account will be returned to the employee without interest. An employee may not reinstate participation in the Plan with respect to a particular offering after terminating participation in the Plan with respect to that offering.

(b) **Termination of Employment.** If an employee's employment with the Company and the Participating Companies is terminated for any reason including death, retirement or disability, accumulated cash contributions in the employee's account will be returned to the employee without interest.

9. Excused Absence

If an employee is granted a leave of absence of 90 days or less, or if an absence of 90 days or less is excused on account of illness, disability, or entering the armed forces, the employee's participation in an on-going offering will continue for the offering period and deductions will continue to be made from the employee's pay in each payroll period to the extent there are sufficient funds available in that period. Any absence (including an approved leave of absence or an excused absence) of more than 90 days will be treated as a termination of employment under Section 8(b) unless otherwise determined by the Committee.

10. Rights Not Transferable

The right to purchase shares under the Plan is not assignable or transferable to any person.

11. No Company Repurchases

The Company will not buy back shares that have been purchased by a participating employee under the Plan.

12. Termination or Amendment of Plan

No subscription application will be accepted after all of the shares reserved for purposes of the Plan have been purchased. The Company reserves the right to reject any subscription application not meeting the requirements of this Plan, and the right to abandon, amend, modify, or suspend the Plan at any time without notice, and to revoke or terminate it at any

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time; provided, however, that no such amendment, revocation, or termination shall, without the employee's written consent, adversely affect any existing subscription or offering; and provided further that no such amendment of the Plan by the Board of Directors shall change the number of shares authorized to be offered under the Plan as stated in Section 6 hereof (other than a change merely reflecting a change in capitalization such as a stock dividend or stock split-up), change the price at which the shares shall be offered under the Plan to a price below that specified in Section 5 hereof, or change or modify the eligibility requirements contained in Section 3 hereof.

No shares may be purchased hereunder if such purchase would constitute a violation of the Securities Act of 1933, as amended, or the regulations promulgated thereunder, or of any other applicable law or regulation. The Company reserves the right to amend any offer made hereunder in any manner which may be necessary to cause the offer to conform with any law applicable thereto or any valid regulation promulgated under any such law, and any such required amendments may be made effective either before or after subscriptions have been received by the Company hereunder. If the terms of the offer shall be amended, however, after a subscription has been received, any employee who does not agree to the amendment may, if so desired, cancel the subscription and the Company thereupon will refund any payment made by the employee thereunder.

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NW Natural
No gas up here
C/O AMERICAN STOCK TRANSFER
59 MAIDEN LANE
PLAZA LEVEL
NEW YORK, NY 10038

VOTE BY INTERNET - www.proxyvote.com
 Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time May 21, 2008. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS
 If you would like to reduce the costs incurred by Northwest Natural Gas Company in making proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903
 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time May 21, 2008. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
 Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Northwest Natural Gas Company, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11737.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY
THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

NORTHWEST NATURAL GAS COMPANY

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS.
Proposal 1. The election of three Class III directors for terms of three years.

- Class III Nominees: 01) Martha L. Byorum
 02) John D. Carter
 03) C. Scott Gibson

The election of one Class I director for a term of one year.
 Class I Nominee: 04) George J. Puentes

The election of one Class II director for a term of two years.
 Class II Nominee: 05) Jane L. Peverett

For All Withhold All For All Except

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the name(s) of the nominee(s) on the line below.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2.

Proposal 2.

2. The approval of the Employee Stock Purchase Plan as amended.

For Against Abstain

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 3.

Proposal 3.

3. The approval of an amendment to Article III of the Restated Articles of Incorporation.

For Against Abstain

For address changes and/or comments, please check this box and write them on the back where indicated.

Please indicate if you plan to attend this meeting.

Yes No

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 4.

Proposal 4.

4. The ratification of the appointment of PricewaterhouseCoopers LLP as NW Natural's independent registered public accountants for the year 2008.

For Against Abstain

This proxy when properly executed will be voted in the manner directed herein by the shareholder whose signature appears below. If no direction is made, the proxy will be voted FOR Proposals 1, 2, 3 and 4.

Note: Please sign exactly as your name or names appear(s) on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE

Signature (PLEASE SIGN WITHIN BOX) _____ Date _____

Signature (Joint Owners) _____ Date _____

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ANNUAL MEETING OF SHAREHOLDERS OF



NW Natural
We grow up here.

May 22, 2008

Please date, sign and mail
your proxy card in the
envelope provided as soon
as possible.

↓ Please detach along perforated line and mail in the envelope provided. ↓



NW Natural
We grow up here.

REVOCABLE PROXY

NORTHWEST NATURAL GAS COMPANY

PROXY FOR 2008 ANNUAL MEETING OF SHAREHOLDERS
This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints **Tod R. Hamachek, Randall C. Papé and Russel F. Tromley** and each or any of them, the proxy or proxies, with power of substitution and with authorization to vote all of the common shares of the undersigned at the annual meeting of shareholders of Northwest Natural Gas Company to be held on Thursday, May 22, 2008, and at all adjournments thereof, (i) as designated on the reverse of this card and, (ii) at their discretion, upon any and all other matters which properly may be brought before such meeting or any adjournment thereof.

If shares of the Company's Common Stock are held for the account of the undersigned under the Company's Dividend Reinvestment and Direct Stock Purchase Plan or its Retirement K Savings Plan, then the undersigned hereby directs the respective fiduciary of each applicable plan to vote all shares of Northwest Natural Gas Company Common Stock in the undersigned's name and/or account under such plan in accordance with the instructions given herein, at the 2008 Annual Meeting and at any adjournments or postponements thereof, on all matters properly brought before such meeting or any adjournment thereof, including but not limited to the matters set forth on the reverse side.

The Company will provide reasonable accommodations for a disability. If you need an accommodation, please contact the Company at (503) 226-4211 ext. 3412 at least 72 hours before the meeting.

Please date and sign this proxy on the reverse side and mail without delay in the enclosed envelope.

Address Changes/Comments: _____

(If you noted any address changes/comments above, please mark corresponding box on the reverse side.)