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July 11, 2008

**VIA ELECTRONIC FILING**

Public Utility Commission of Oregon  
550 Capitol Street NE, Suite 215  
PO Box 2148  
Salem, OR 97308-2148

Attention: Filing Center

**Re: Northwest Natural Gas Company Application for an Order Authorizing the Sale of Certain Property Located in Albany, Oregon**

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith the following application for an order authorizing the sale of certain property located in Albany, Oregon.

I understand from speaking with Mark Helman on July 1, 2008, that if we submitted this application by July 11, 2008, it would be placed on the July 29, 2008 meeting agenda. We respectfully request that it be placed on such agenda.

Please contact me if you have any questions or require further information.

Regards,

/s/ Shawn M. Filippi

Shawn M. Filippi

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

In the Matter of the Application of	)	
	)	
NORTHWEST NATURAL GAS COMPANY	)	A P P L I C A T I O N
	)	
for an Order Authorizing the Sale of Certain	)	
Property Located in Albany, Oregon	)	Docket No. UP _____
	)	
	)	
	)	
	)	
	)	

Northwest Natural Gas Company (“NW Natural” or the “Company”) hereby applies for an order of the Public Utility Commission of Oregon (“OPUC” or the “Commission”), pursuant to ORS 757.480 and OAR 860-027-0025, authorizing the Company to sell certain real property commonly known as 730 34<sup>th</sup> Avenue SW, Albany, Oregon 97321, and more fully described below (the “Property”). The Property formerly served as a customer service center for the Company’s Central Willamette Valley District, but is no longer useful and should be sold. NW Natural wishes to use the proceeds from the sale to offset the cost of a more suitable customer service facility and thereby provide a benefit to NW Natural’s customers. As a result, NW Natural seeks approval of the sale of the Property.

**I. Application for Authorization**

The following information is furnished in support of the Application for an order authorizing the sale of the Property, following the format of OAR 860-027-0025.

**(1)(a) Name and Address.** The exact name of the Applicant and the address of its principal business office are as follows:

Northwest Natural Gas Company  
220 NW Second Avenue  
Portland, Oregon 97209

**(1)(b) State of Incorporation and States Authorized to Transact Utility**

**Business.** The Company is a corporation duly organized and validly existing under the laws of the State of Oregon. The Company was incorporated January 10, 1910 and its duration is perpetual. It has duly qualified and is authorized to transact its business in the State of Washington and is in good standing as a foreign corporation under the laws of that State.

**(1)(c) Person Authorized to Receive Notices.** The name and address of the person authorized, on behalf of the Company, to receive notices and communications in respect to this Application is:

Shawn M. Filippi  
Associate Counsel  
NW Natural  
220 NW Second Avenue  
Portland, Oregon 97209  
Telephone: (503) 220-2435  
Facsimile: (503) 220-2584  
Email: shawn.filippi@nwnatural.com

The Company respectfully requests that the Commission send copies of all such notices and communications to:

Stephen P. Feltz  
Treasurer and Controller  
NW Natural  
220 NW Second Avenue  
Portland, Oregon 97209  
Telephone: (503) 220-2345  
Facsimile: (503) 220-2584  
Email: spf@nwnatural.com

(1)(d) **Principal Officers.** The names, titles and addresses of the principal

officers of the Company are:

Mark S. Dodson	Chief Executive Officer
Gregg S. Kantor	President and Chief Operating Officer
David H. Anderson	Senior Vice President and Chief Financial Officer
Margaret D. Kirkpatrick	Vice President, General Counsel and Corporate Secretary
Lea Anne Doolittle	Senior Vice President
Stephen P. Feltz	Treasurer and Controller
John T. Hood	Assistant Secretary and Assistant Treasurer
Grant M. Yoshihara	Vice President
David R. Williams	Vice President
J. Keith White	Vice President
C. Alex Miller	Assistant Treasurer

The address of all of the above officers is 220 NW Second Avenue, Portland, OR, 97209.

(1)(e) **General Character of the Business.** The Company is engaged

principally in the business of distributing and selling natural gas to residential, commercial, institutional and industrial customers in various cities and unincorporated areas in 15 counties in the State of Oregon and three counties in the State of Washington. A map of the Company's service territory is attached as Exhibit AA.

(1)(f) **Capital Stock.** As of March 31, 2008, the date of the balance sheet

submitted herewith (see Exhibit E), the authorized and outstanding capital stock of the Company was as follows:

Preferred Capital Stock: authorized, 3,500,000 shares, without par value; none issued and outstanding. The amount of Preferred Stock authorized in the Company's most recent Oregon Jurisdictional Rate Case is provided in Exhibit CC.

The Preferred Stock is entitled in preference to the Common Stock to cumulative dividends at the applicable rate for each series, which shall be set by the Board of

Directors, from time to time, in accordance with the Company's Restricted Articles of Incorporation. The Preferred Stock is entitled in preference to the Common Stock, upon voluntary liquidation, to such amounts per share that are determined by the Board of Directors, from time to time, in accordance with the Company's Restated Articles of Incorporation.

None of the Preferred Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

Common Capital Stock: authorized, 60,000,000 shares; issued and outstanding, 26,412,248 shares (26,415,248 shares of common stock were outstanding as of April 30, 2008); reserved for future issue to employees under the Company's Employee Stock Purchase Plan, 223,033 shares; reserved for future issuance to common shareholders under the Company's Dividend Reinvestment and Direct Stock Purchase Plan, 644,200 shares; reserved to accommodate the Restated Stock Option Plan (formerly the 1985 Stock Option Plan), 1,388,250 shares (of which 922,400 shares were available for grant and options on 465,850 shares were outstanding); and reserved for future grants under the Long-Term Incentive Plan, 253,221. As of June 3, 2008, the Company amended its Articles of Incorporation to authorize 100,000,000 shares of common stock.

The Common Stock is entitled to dividends when and as declared by the Board of Directors subject to the preferences of the Preferred Stock outlined above, and subject to the restrictions, if any, of the Company's Mortgage.

Generally, only the Common Stock has voting rights, subject to the special voting rights of the Preferred Stock, if any. Holders of Common Stock are entitled to cumulative voting for the election of directors.

None of the Common Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

**(1)(g) Long-Term Debt.** As of March 31, 2008, the date of the balance sheet submitted herewith (see Exhibit E), the classes and series of long-term debt or notes of the Company were as listed in the following table (the principal amount includes sinking fund requirements (of which there are none), and maturities due within one year, shown as current liabilities on the balance sheet):

Authorized First Mortgage Bonds (including Secured Medium-Term Notes), secured by a first mortgage lien on substantially all of the utility property now owned, or hereafter acquired by the Company, were outstanding in the amounts shown below, the interest rate and maturity being shown in the title of each series:

	<u>ORIGINALLY AUTHORIZED</u>	<u>OUTSTANDING</u>
<u>MEDIUM-TERM NOTES</u>		
<u>Secured Notes (First Mortgage Bonds):</u>		
6.500% Series B Due 2008	5,000,000	5,000,000
4.110% Series B Due 2010	10,000,000	10,000,000
7.450% Series B Due 2010	25,000,000	25,000,000
6.665% Series B Due 2011	10,000,000	10,000,000
7.130% Series B Due 2012	40,000,000	40,000,000
8.260% Series B Due 2014	10,000,000	10,000,000
4.700% Series B Due 2015	40,000,000	40,000,000
5.150% Series B Due 2016	25,000,000	25,000,000
7.000% Series B Due 2017	40,000,000	40,000,000
6.600% Series B Due 2018	22,000,000	22,000,000
8.310% Series B Due 2019	10,000,000	10,000,000
7.630% Series B Due 2019	20,000,000	20,000,000
9.050% Series A Due 2021	10,000,000	10,000,000
5.620% Series B Due 2023	40,000,000	40,000,000
7.720% Series B Due 2025	20,000,000	20,000,000
6.520% Series B Due 2025	10,000,000	10,000,000
7.050% Series B Due 2026	20,000,000	20,000,000
7.000% Series B Due 2027	20,000,000	20,000,000
6.650% Series B Due 2027	20,000,000	20,000,000
6.650% Series B Due 2028	10,000,000	10,000,000
7.740% Series B Due 2030	20,000,000	20,000,000
7.850% Series B Due 2030	10,000,000	10,000,000
5.820% Series B Due 2032	30,000,000	30,000,000
5.660% Series B Due 2033	40,000,000	40,000,000
5.250% Series B Due 2035	10,000,000	10,000,000

None of the long-term debt securities described above is held in treasury, or held as reacquired securities, and none is held by affiliated interests.

**(1)(h) Sale of Property**

This application is for the disposition of the Property by sale. The Company seeks to sell the Property, formerly a customer service office, for \$710,000. The sale price is above the Property's market value of \$650,000 as appraised in November of 2006. A copy of the November 2006 appraisal is attached hereto as Exhibit K.

**(1)(i) Description of Property to be Sold**

The Property is commonly known as 730 34<sup>th</sup> Avenue SW, Albany Oregon 97321 and is legally described as follows:

Abbreviated Legal Description: Tax Lot 101, Section 13DD, Township 11 South, Range 4 West, Willamette Meridian, Linn County, Oregon, 3.25 Acres and further described as:

Beginning on the North line of and North 89°14' East 710.40 feet from the Northwest corner of the Truett Donation Land Claim, being Claim No. 38, in Township 11 South, Range 4 West of the Willamette Meridian, and Claim No. 54, in Township 11 South, Range 3 West of the Willamette Meridian, in Linn County, Oregon; thence running South 0°46' East 182.8 feet to a ½ inch iron rod; thence South 76°43' East 659.43 feet to a ½ inch iron rod on the West right-of-way line of the Southern Pacific Railroad; thence North 0°14' East along said right-of-way 343.0 feet to the North line of said Truett Davis Donation Land Claim; thence South 89°14' West 645.7 feet to the place of beginning; Subject to an easement in favor of United States of America for Electrical Distribution facilities as recorded August 3, 1949 in Deed Book 209, Page 670 of the Linn County Deed Records.

Also Reserving unto the Grantors an easement for access purposes only, in, over, across and upon the Westerly 50 feet of said real property.

The Property consists of an office and service center for the Central Willamette Valley District consisting of the Company's Albany, Corvallis and Mid-Willamette service territory. The Property does not consist of all of the operating facilities of the parties to the transaction.

**(1)(j) Statement of Accounting**

Land - Albany:

Original Cost: \$20,616

Accumulated Depreciation: N/A

Building - Albany:

Original Cost: \$406,454

Accumulated Depreciation: \$186,738

The proposed journal entries to be used to record the transaction on the Company's books are attached as Exhibit J.

**(1)(k) Other Jurisdictions**

The Company will be filing a notice of property sale with the Washington Utilities and Transportation Commission.

**(1)(l) Sale of Property is Consistent with the Public Interest**

Since July of 1961, the Company's local office and service center was located at 730 34<sup>th</sup> Avenue SW in Albany, Oregon. As the local customer base grew, the Company's operations outgrew that service center. After conducting a facilities study, the Company determined that it needed to relocate its customer service operations to a more suitable facility, located at 7150 Supra Drive in Albany, Oregon (the "New Facility"). The relocation occurred in 2006. As a result of the facilities study and the relocation of the facilities, the Property is no longer necessary or useful in the performance of the Company's service to its customers, and therefore, the Property should be sold.

**(1)(m) Reasons for Sale of the Property**

The Company conducted a facilities study of the Property. The study examined the location, structure design and layout, building suitability, future population growth of the area, space demands, traffic and functional activities and processes needed to be performed at the Property to provide suitable customer service in the Central Willamette Valley District. The study revealed that the Property was built in the early 1960's and was in need of substantial remodeling. Additionally, the study revealed that the remodeling would be an expensive undertaking, and that even with the remodeling the

Company would not be able to conduct all of its customer service operations out of the Property. Therefore, the Company moved its customer service operations in the Central Willamette Valley District to a single, upgraded, more suitable location. The Company has determined that the Property is no longer necessary or suitable for the Company's ongoing operations, and is available for disposal.

**(1)(n) Securities Owned**

This application does not contemplate the acquisition of stocks or bonds.

**(1)(o) Franchises Owned**

This application does not contemplate transfer of franchises.

**(2) Use of Proceeds**

As indicated in Section 1(m) above, the Company moved all of its customer service operations in the Central Willamette Valley District into a single, upgraded location. The New Facility consists of a building purchased and constructed by the Company for a total of \$2,301,123 and real property that is subject to a lease with the option to purchase. The Company requests approval to transfer the gain from the sale of the Property (i.e. the account balance in 421.1, "Gain on Disposition of Property") to partially offset the increased purchase cost of the New Facility. Alternatively, the Company requests permission to transfer the net gain in account 421.1 and 409.2 from the sale of the Property to a regulatory deferred account (i.e. 186 account) to be refunded to customers through the Company's Annual Purchased Gas Adjustment.

## **REQUIRED EXHIBITS**

Filed with this application, are the following required exhibits:

- Exhibit A      A copy of the Company's Restated Articles of Incorporation, as amended.
- Exhibit B      A copy of the Company's bylaws, as amended.
- Exhibit C      A certified excerpt of the minutes of the Company's Board of Directors' meeting, held December 20, 2007, authorizing the disposition of the Property. Shareholder approval is not required for disposition of the Property.
- Exhibit D      Copies of all mortgages, trust, deeds, or indentures, securing any obligation of each party to the transaction.
- Exhibit E      Balance sheets showing booked amounts, adjustments to record the proposed transaction and pro forma, with supporting fixed capital or plant schedules in conformity with the forms in the annual report, which applicants is required or will be required to file with the Commission.
- Exhibit F      A statement of all known contingent liabilities, except minor items such as damage claims and similar items involving relatively small amounts, as of the date of the application.
- Exhibit G      Comparative income statements showing recorded results of operations, adjustments to record the proposed transaction and pro forma, in conformity with the form in the annual report which applicant is required, or will be required, to file with the Commission.
- Exhibit H      An analysis of surplus for the period covered by the income statements referred to in Exhibit G.
- Exhibit I      A copy of each contract in respect to the sale, lease or other proposed disposition, merger or consolidation of facilities, acquisition of stock, bonds, or property of another utility, as the case may be, with copies of all other written instruments entered into or proposed to be entered into by the parties to the transaction pertaining thereto.
- Exhibit J      A copy of each proposed journal entry to be used to record the transaction upon each applicant's book.
- Exhibit K      A copy of each supporting schedule showing the benefits, if any, which each applicant relies upon to support the facts as required by subsection

(1)(l) of this rule and the reasons as required by subsection (1)(m) of this rule.

WHEREFORE, the Applicant respectfully requests that the Public Utility Commission of Oregon enter an appropriate Order granting the within Application.

Dated at Portland, Oregon this 11th day of July, 2008.

NORTHWEST NATURAL GAS COMPANY

By           /s/ Stephen P. Feltz            
Stephen P. Feltz  
Treasurer & Controller

STATE OF OREGON            )  
  ) ss  
County of Multnomah)

Stephen P. Feltz, being first duly sworn, deposes and says that he is Treasurer & Controller of Northwest Natural Gas Company, the Applicant in the foregoing Application, that he has read said Application, including exhibits thereto, knows the content thereof, and that the same are true to the best of his knowledge and belief.

          /s/ Stephen P. Feltz            
Stephen P. Feltz

Subscribed and sworn to before me this 11th day of July 2008.

          /s/ Pamela L. Villaloboz            
Notary Public for Oregon  
My commission expires: 12/23/10

**Exhibit A**

Restated Articles of Incorporation as amended

**RESTATED ARTICLES OF INCORPORATION**  
**of**  
**NORTHWEST NATURAL GAS COMPANY**

**as Filed and Amended June 3, 2008**

**AMENDED AND RESTATED ARTICLES OF INCORPORATION  
OF  
NORTHWEST NATURAL GAS COMPANY**

(These Amended and Restated Articles of Incorporation of Northwest Natural Gas Company supersede its theretofore existing Restated Articles of Incorporation and all amendments thereto.)

**ARTICLE I**

The name of this corporation is NORTHWEST NATURAL GAS COMPANY, and its duration shall be perpetual.

**ARTICLE II**

The purposes of the corporation are to engage in any lawful activity for which corporations may be organized under the Oregon Business Corporation Act.

**ARTICLE III**

- A. The aggregate number of shares of capital stock which the corporation shall have authority to issue is 103,500,000 shares, divided into 3,500,000 shares of Preferred Stock, issuable in series as hereinafter provided, and 100,000,000 shares of Common Stock.
- B. A statement of the preferences, limitations and relative rights of each class of capital stock of the corporation, namely, the Preferred Stock and the Common Stock, of the variations in the relative rights and preferences as between series of the Preferred Stock, insofar as the same are fixed by these Restated Articles of Incorporation, and of the authority vested in the board of directors of the corporation to establish series of Preferred Stock and to fix and determine the variations in the relative rights and preferences as between series insofar as the same are not fixed by these Restated Articles of Incorporation, is as follows:

**Preferred Stock**

1. The shares of the Preferred Stock may be divided into and issued in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series of the Preferred Stock and all other classes of capital stock of the corporation. To the extent that these Restated Articles of Incorporation shall not have established series of the Preferred Stock and fixed and determined the variations in the relative rights and preferences as between series, the board of directors shall have authority, and is hereby expressly vested with authority, to divide the Preferred Stock into series and, within the limitations set forth in these Restated Articles of Incorporation and such limitations as may be provided by law, to fix and determine the relative rights and preferences of any series of the Preferred Stock so established. Such action by the board of directors shall be expressed in a resolution or resolutions adopted by it prior to the issuance of shares of each series, which resolution or resolutions shall also set forth the distinguishing designation of the particular series of the Preferred Stock established thereby. Without limiting the generality of the foregoing, authority is hereby expressly vested in the board of directors so to fix and determine with respect to any series of the Preferred Stock:
  - (a) The rate of dividend and the relative preference of each series in the payment of dividends;
  - (b) The price at which and the terms and conditions on which shares may be redeemed;
  - (c) The amount payable upon shares in the event of voluntary and involuntary liquidation and the relative preference of each series on liquidation;
  - (d) Sinking fund provisions, if any, for the redemption or purchase of shares;
  - (e) The terms and conditions, if any, on which shares may be converted if the shares of any series are issued with the privilege of conversion; and

(f) Any other relative right or preference as permitted by law.

All shares of the Preferred Stock of the same series shall be identical except that shares of the same series issued at different times may vary as to the dates from which dividends thereon shall be cumulative; and all shares of the Preferred Stock, irrespective of series, shall constitute one and the same class of stock and shall be identical except as to the designation thereof, the date or dates from which dividends on shares thereof shall be cumulative, and the relative rights and preferences set forth above in clauses (a) through (f) of this subdivision, as to which there may be variations between different series. Except as otherwise may be provided by law or by the resolutions establishing any series of Preferred Stock in accordance with the foregoing provisions of this subdivision, whenever the written consent, affirmative vote, or other action on the part of the holders of the Preferred Stock may be required for any purpose, such consent, vote or other action shall be taken by the holders of the Preferred Stock as a single class irrespective of series and not by different series.

2. The holders of shares of the Preferred Stock of each series shall be entitled to receive dividends, when and as declared by the board of directors, out of any funds legally available for the payment of dividends, at the annual rate fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1., and no more, payable quarterly on the 15th day of February, May, August and November in each year or on such other date or dates as the board of directors shall determine in the resolutions establishing such series. Such dividends shall be cumulative in the case of shares of each series either from the date of issuance of shares of such series or from the first day of the current dividend period within which shares of such series shall be issued, as the board of directors shall determine, so that if dividends on all outstanding shares of each particular series of the Preferred Stock, at the annual dividend rates fixed and determined either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1., shall not have been paid or declared and set apart for payment for all past dividend periods and for the then current dividend periods, the deficiency shall be fully paid or dividends equal thereto declared and set apart for payment at said rates before any dividends on the Common Stock shall be paid or declared and set apart for payment. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments which may be in arrears.
3. In the event of any dissolution, liquidation or winding up of the corporation, before any distribution or payment shall be made to the holders of the Common Stock, the holders of the Preferred Stock of each series then outstanding shall be entitled to be paid out of the net assets of the corporation available for distribution to its shareholders the respective amounts per share fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1., and no more. If upon dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation available for distribution to its shareholders shall be insufficient to pay the holders of all outstanding shares of Preferred Stock of all series the full amounts to which they shall be respectively entitled as aforesaid, the net assets of the corporation so available for distribution shall be distributed to the holders of Preferred Stock in accordance with the relative preferences of each series of Preferred Stock established either by these Restated Articles of Incorporation or in accordance with subdivision III. B. 1. For the purposes of this subdivision, any dissolution, liquidation or winding up which may arise out of or result from the condemnation or purchase of all or a major portion of the properties of the corporation by (i) the United States Government or any authority, agency or instrumentality thereof (ii) a State of the United States or any political subdivision, authority, agency or instrumentality thereof, or (iii) a district, cooperative or other association or entity not organized for profit, shall be deemed to be an involuntary dissolution, liquidation or winding up; and a consolidation, merger or amalgamation of the corporation with or into any other corporation or corporations shall not be deemed to be a dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary.
4. The holders of shares of the Preferred Stock shall have no right to vote in the election of directors or for any other purpose, except as may be otherwise provided by law or by resolutions establishing any series of Preferred Stock in accordance with subdivision III. B. 1. Holders of Preferred Stock shall be entitled to notice of each meeting of shareholders at which they shall have any right to vote, but shall not be entitled to notice of any other meeting of shareholders.

### **Common Stock**

5. Subject to the limitations set forth in subdivisions III. B. 2. (and subject to the rights of any class of stock hereafter authorized), dividends may be paid upon the Common Stock when and as declared by the board of directors of the corporation out of any funds legally available for the payment of dividends.
6. Subject to the limitations set forth in subdivisions III. B. 3. (and subject to the rights of any other class of stock hereafter authorized), upon any dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation shall be distributed ratably to the holders of the Common Stock.
7. Except as may be otherwise provided by law or by the resolutions establishing any series of Preferred Stock in accordance with subdivision III. B. 1., the holders of the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In the election of directors of the corporation, every holder of record of any share or shares of the Common Stock of the corporation shall have the right to cast as many votes for one candidate as shall equal the number of such shares multiplied by the number of directors to be elected, or to distribute such number of votes among any two or more candidates for such election.
8. Upon the issuance for money or other consideration of any shares of capital stock of the corporation, or of any security convertible into capital stock of the corporation, no holder of shares of the capital stock, irrespective of the class or kind thereof, shall have any preemptive or other right to subscribe for, purchase or receive any proportionate or other amount of such shares of capital stock, or such security convertible into capital stock, proposed to be issued; and the board of directors may cause the corporation to dispose of all or any of such shares of capital stock, or of any such security convertible into capital stock, as and when said board may determine, free of any such right, either by offering the same to the corporation's then shareholders or by otherwise selling or disposing of such shares of other securities, as the board of directors may deem advisable.

### **ARTICLE IV**

- A. The business and affairs of the corporation shall be managed by a board of directors. Except as provided in subdivision B. below, the number of members of the board, their classifications and terms of office, and the manner of their election and removal shall be as follows:
  1. The number of directors shall be that number, not less than nine or more than thirteen, determined from time to time by resolution adopted by affirmative vote of a majority of the entire board of directors. The directors shall be divided into three classes, designated Class I, Class II, and Class III. Each class shall consist, as nearly as possible, of one-third of the total number of directors. At the 1984 annual meeting of shareholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year term, and Class III directors for a three-year term. At each succeeding annual meeting of shareholders, successors to directors whose terms expire at that annual meeting shall be of the same class as the directors they succeed, and shall be elected for three-year terms. If the number of directors should be changed by resolution of the board of directors, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director.
  2. A director shall hold office until the annual meeting for the year in which his or her term shall expire and until his or her successor shall have been elected and qualified, subject, however, to prior death, resignation, retirement or removal from office. Any newly created directorship resulting from an increase in the number of directors and any other vacancy on the board of directors, however caused, may be filled by the affirmative vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director.
  3. One or more of the directors may be removed with or without cause by the affirmative vote of the holders of not less than two-thirds of the shares entitled to vote thereon at a meeting of the shareholders called

expressly for that purpose; provided, however, that for as long as the corporation shall have cumulative voting, if fewer than all the directors should be candidates for removal, no one of them shall be removed if the votes cast against his or her removal would be sufficient to elect him or her if then cumulatively voted at an election of the class of directors of which he or she shall be a part.

4. No person, except those persons 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 shall be received from a shareholder of record entitled to vote at such election by the secretary of the corporation not later than the latter of (a) the thirtieth day prior to the date fixed for the meeting, or (b) the tenth day after the mailing of notice of that meeting, together with the written consent of the nominee to serve as a director.
- B. Notwithstanding the provisions of subdivision A. above, whenever the holders of any one or more classes of the capital stock of the corporation shall have the right, voting separately as a class or classes, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of these Restated Articles of Incorporation applicable thereto. Directors so elected shall not be divided into classes unless expressly provided by such provisions, and during their prescribed terms of office, the board of directors shall consist of such directors in addition to the directors determined as provided in subdivision A. above.
- C. This Article IV may not be repealed or amended in any respect unless such action shall be approved by the affirmative vote of the holders of not less than two-thirds of the shares entitled to vote at an election of directors determined as provided in subdivision A. above, at a meeting of the shareholders called expressly for that purpose.

#### ARTICLE V

- A. For purposes of this Article V:
1. The term "Affiliate", as used to indicate a relationship with a specified "Persons" (as hereinafter defined), shall mean a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.
  2. The term "Associate", as used to indicate a relationship with a specified Person, shall mean (a) any Person (other than the corporation) of which such specified Person is a director, officer, partner, trustee, guardian, fiduciary or official or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities or any beneficial interest, (b) any Person who is a director, officer, partner, trustee, guardian, fiduciary or official or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities or any beneficial interest of or in such specified Person (other than the corporation), and (c) any relative or spouse of such specified Person, or any relative of such spouse who has the same home as such specified Person.
  3. The term "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on April 9, 1984; provided, however, that, notwithstanding the provisions of such Rule, a Person shall be deemed to be the Beneficial Owner of any share of the capital stock of the corporation that such Person shall have the right to acquire at any time pursuant to any agreement, contract, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise, and any such share of capital stock shall be deemed to be outstanding for purposes of subdivision V.A.9.
  4. The term "Business Transaction" shall include, without limitation, (a) any merger, consolidation or plan of exchange of the corporation, or any Person controlled by or under common control with the corporation, with or into any "Related Person" (as hereinafter defined), (b) any merger, consolidation or plan of exchange of a Related Person with or into the corporation or any Person controlled by or under common control with the corporation, (c) any sale, lease, exchange, transfer or other disposition (in one transaction or a series of transactions) including without limitation a mortgage or any other security device, of all or

any "Substantial Part" (as hereinafter defined) of the property and assets of the corporation, or any Person controlled by or under common control with the corporation, to or with a Related Person, (d) any purchase, lease, exchange, transfer or other acquisition (in one transaction or a series of transactions), including without limitation a mortgage or any other security device, of all or any Substantial Part of the property and assets of a Related Person, by or with the corporation or any Person controlled by or under common control with the corporation, (e) any recapitalization of the corporation that would have the effect of increasing the voting power of a Related Person, (f) the issuance, sale, exchange or other disposition of any securities of the corporation, or of any Person controlled by or under common control with the corporation, by the corporation or by any Person controlled by or under common control with the corporation, (g) any liquidation, spinoff, splitoff, splitup or dissolution of the corporation, and (h) any agreement, contract or other arrangement providing for any of the transactions described in this subdivision.

5. The term "Continuing Director" shall mean a director who was a director of the corporation on April 9, 1984 and a director who shall become a director subsequent thereto whose election, or whose nomination for election by the shareholders, shall have been approved by a vote of a majority of the then Continuing Directors.
  6. The term "Highest Purchase Price" shall mean, with respect to the shares of any class or series of the capital stock of the corporation, the highest amount of consideration paid by a Related Person for a share of the same class and series at any time regardless of whether the share was acquired before or after such Related Person became a Related Person; provided, however, that the Highest Purchase Price shall be appropriately adjusted to reflect the occurrence of any reclassification, recapitalization, stock split, reverse stock split or other readjustment in the number of outstanding shares of that class or series, or the declaration of a stock dividend thereon. The Highest Purchase Price shall include any brokerage commissions, transfer taxes and soliciting dealers' fees paid by such Related Person with respect to any shares of the capital stock acquired by such Related Person.
  7. The term "Other Consideration" shall include, without limitation, capital stock to be retained by the shareholders of the corporation in a Business Transaction in which the corporation shall be the survivor.
  8. The term "Person" shall mean any natural person, corporation, partnership, trust, firm, association, government, governmental agency or any other entity whether acting in an individual, fiduciary or other capacity.
  9. The term "Related Person" shall mean (a) any Person which, together with its Affiliates and Associates, shall be the Beneficial Owner in the aggregate of 10 percent or more of the capital stock of the corporation, and (b) any Affiliate or Associate (other than the corporation or a wholly owned subsidiary of the corporation) of any such Person. Two or more Persons acting in concert for the purpose of acquiring, holding or disposing of the capital stock of the corporation shall be deemed to be a "Related Person". A Related Person shall be deemed to have acquired a share of capital stock at the time when such Related Person became the Beneficial Owner thereof. With respect to the shares of the capital stock of the corporation owned by any Related Person, if the price paid for such shares cannot be determined by a majority of the Continuing Directors, the price so paid shall be deemed to be the market price of the shares in question at the time when such Related Person became the Beneficial Owner thereof.
  10. The term "Substantial Part" shall mean 10% or more of the fair market value of the total assets of a Person, as reflected on the most recent balance sheet of such Person available to the Continuing Directors on the date of mailing of the notice of the meeting of shareholders called for the purpose of voting with respect to a Business Transaction involving the assets constituting any such Substantial Part.
- B. The corporation shall not enter into any Business Transaction with a Related Person or in which a Related Person shall have an interest (except proportionately as a shareholder of the corporation) without first obtaining both (1) the affirmative vote of the holders of not less than two-thirds of the outstanding shares of the capital stock of the corporation not held by such Related Person, and (2) the determination of a majority of the Continuing Directors that the cash or fair market value of the property, securities or Other Consideration to be received per share by the holders, other than such Related Person, of the shares of each class or series of the

capital stock of the corporation in such Business Transaction shall not be less than the Highest Purchase Price paid by such Related Person in acquiring any of its holdings of shares of the same class or series, unless the Continuing Directors by a majority vote shall either (a) have expressly approved the acquisition of the shares of the capital stock of the corporation that caused such Related Person to become a Related Person, or (b) have expressly approved such Business Transaction.

- C. For the purposes of this Article V, a majority of the Continuing Directors shall have the power to make a good faith determination, on the basis of information known to them, of: (1) the number of shares of capital stock of the corporation of which any Person shall be the Beneficial Owner, (2) whether a Person is an Affiliate or Associate of another Person, (3) whether a Person has an agreement, contract, arrangement or understanding with another Person as to the matters referred to in subdivision V.A.3. or clause (h) of subdivision V.A.4., (4) the Highest Purchase Price paid by a Related Person for shares of any class or series of the capital stock, (5) whether the assets subject to any Business Transaction constitute a Substantial Part, (6) whether any Business Transaction is one in which a Related Person has an interest (except proportionately as a shareholder of the corporation), and (7) such other matters with respect to which a determination may be required under this Article V.
- D. In determining whether to give their approval as provided in subdivision V.B., the Continuing Directors shall give due consideration to all relevant factors involved, including, without limitation, (1) the value of the corporation in a freely negotiated transaction and its future value as an independent entity, (2) the recognition of gain or loss to the corporation for tax purposes or the postponement of such recognition in a tax-free transaction, (3) the anticipated developments of the business of the corporation not yet reflected in the price of its shares, and (4) the impact on employees, customers, suppliers and the public generally within the geographical area it serves.
- E. This Article V may not be repealed or amended in any respect unless such action shall be approved by the affirmative vote of the holders of not less than two-thirds of the capital stock of the corporation not held by a Related Person at a meeting of the shareholders called expressly for that purpose.

#### ARTICLE VI

No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for conduct as a director; provided that this Article VI shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination of liability is permitted shall affect the liability of a director for any act or omission which occurs prior to the effective date of such amendment.

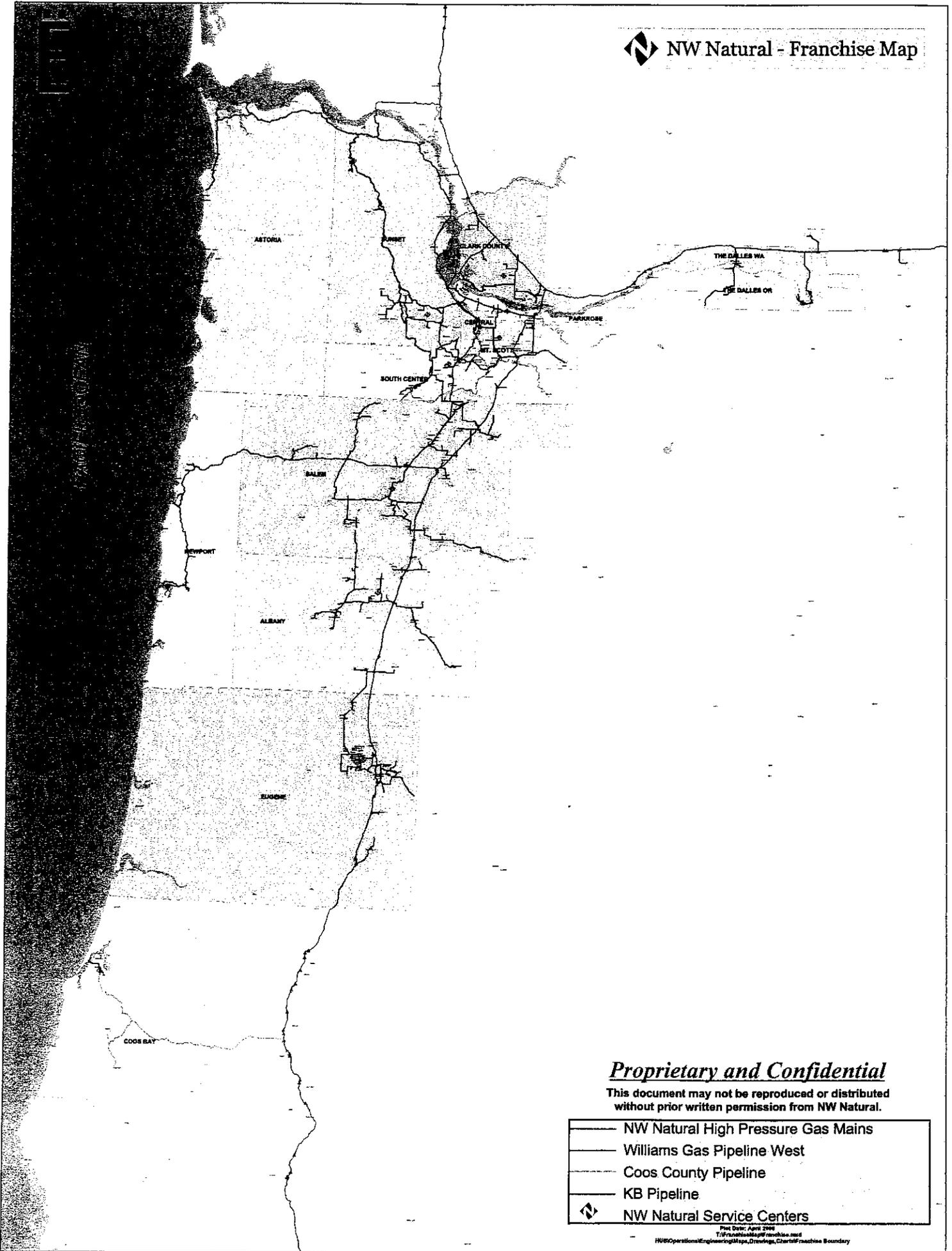
#### ARTICLE VII

The corporation shall indemnify to the fullest extent then permitted by law any person who is made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (including an action, suit or proceeding by or in the right of the corporation) by reason of the fact that the person is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against all judgments, amounts paid in settlement, fines and such expenses (including attorneys' fees), actually and reasonably incurred in connection therewith. This Article shall not be deemed exclusive of any other provisions for indemnification of directors and officers that may be included in any statute, bylaw, agreement, vote of shareholders or directors or otherwise, both as to action in any official capacity and as to action in another capacity while holding an office.

**As amended June 3, 2008.**

**Exhibit AA**

Map of the Company's service territory.



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	NW Natural High Pressure Gas Mains
	Williams Gas Pipeline West
	Coos County Pipeline
	KB Pipeline
	NW Natural Service Centers

**Exhibit B**

Bylaws as amended

**BYLAWS**  
**of**  
**NORTHWEST**  
**NATURAL**  
**GAS**  
**COMPANY**

**As Adopted by the Board of Directors**  
**July 17, 1975**  
**As Amended through May 24, 2007**

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The following Bylaws were adopted by Northwest Natural Gas Company on July 17, 1975 superseding amended Bylaws originally adopted in conformity with an order of the District Court of the United States for the District of Oregon enforcing a plan for rearrangement of the Company's capital structure effective December 31, 1951, and subsequently amended by the stockholders on May 17, 1954, May 20, 1957, May 21, 1973, and May 20, 1974.

**BYLAWS  
OF  
NORTHWEST NATURAL GAS COMPANY**

**ARTICLE I.**

**OFFICES**

**Section 1. Office.** The principal office of the company shall be located in the City of Portland, Oregon. The company also may have offices at such other places both within and without the State of Oregon as the board of directors from time to time may determine.

**Section 2. Registered Office.** The registered office of the company required by law to be maintained in the state shall be at the same location as the principal office unless otherwise designated by resolution of the board of directors.

**ARTICLE II.**

**MEETINGS OF SHAREHOLDERS**

**Section 1. Annual Meeting.** The annual meeting of shareholders of the company for the election of directors and for the transaction of other business shall be held at the company's office in the City of Portland, Oregon, or such other place in that City as shall be determined by the board of directors, on the fourth Thursday of May in each year, unless such day shall be a legal holiday, in which event such meeting shall be held on the next business day. If such meeting shall not be held on such day in any year, it shall be held within 60 days thereafter on such day as shall be fixed by the board of directors and be specified in the notice of the meeting. Every such meeting shall be held at the hour of two o'clock p.m., or at such other hour as shall be fixed by the board and specified in such notice.

Amended 1/1/85

**Section 2. Special Meetings.** Special meetings of the shareholders of the company may be called by the board of directors or the holders of not less than one-tenth of all shares entitled to vote at the meeting. Each special meeting shall be held for such purposes, at such place in the City of Portland, Oregon, and at such time as shall be specified in the notice thereof.

**Section 3. Notice.** Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than 10 nor more than 50 days before the date of the meeting, either personally or by mail, by or at the direction of the board of directors or the persons calling the meeting, to each shareholder of record entitled to vote at such meeting.

**Section 4. Fixing Record Date.** For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 50 days and, in the case of a meeting of shareholders, not less than 10 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the board declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

**Section 5. Record of Shareholders.** The officer or agent having charge of the transfer books for shares of the company shall make, at least 10 days before each meeting of shareholders, a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order with the address of and the number of shares held by each, which record, for a period of 10 days prior to such meeting, shall be kept on file at the registered office of the company and shall be subject to inspection by any shareholder at any time during usual business hours. Such record also shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original transfer books for shares shall be prima facie evidence as to who are the shareholders entitled to examine such record or transfer books or to vote at any meeting of the shareholders.

**Section 6. Quorum.** A majority of the shares of the company entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of shareholders. If a quorum is present, in person or by proxy, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater number, or voting by classes, is required by law or the Restated Articles of Incorporation.

If a quorum shall not be represented at any meeting of shareholders, the shareholders represented may adjourn the meeting from time to time without further notice. At such adjourned meeting, at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders represented at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Amended 12/13/01

**Section 7. Voting.** Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by law or the Restated Articles of Incorporation. At each election of directors holders of shares of common stock have the right to cumulative voting as provided for in the Restated Articles of Incorporation. A shareholder may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy in any manner permitted by law. An authorization of a proxy is effective when received by the secretary of the company or other officer or agent authorized to tabulate votes.

Amended 5/23/02

**Section 8. Conduct of Meetings.** Every meeting of shareholders shall be presided over by the chairman of the board, in his or her absence by the president, in their absence by a vice president or, if none be present, by a chairman appointed by the shareholders present at the meeting. The minutes of such meeting shall be recorded by the secretary or an assistant secretary but, if neither be present, by a secretary appointed for that purpose by the chairman of the meeting. The board of directors may adopt by resolution such rules and regulations for the conduct of meetings of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the board of directors, the chairman of any meeting of shareholders shall have the exclusive right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the board of directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to shareholders of record of the company, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the board of directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Amended 5/23/02

**Section 9. Proper Business for Meetings.** (a) No business shall be conducted at any meeting of shareholders that has not been properly brought before the meeting. To be properly brought before a special meeting of shareholders, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors or the persons calling the meeting. To be properly brought before an annual meeting of shareholders, business must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise brought before the meeting by or at the direction of the board of directors or

the chairman of the board, or (iii) otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the company. To be timely, a shareholder's notice must be delivered to the secretary at the principal executive office of the company not less than 90 days prior to the first anniversary of the previous year's annual meeting of shareholders; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed (other than as a result of adjournment) by more than 30 days from the anniversary of the previous year's annual meeting, notice by a shareholder to be timely must be delivered not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission; (b) A shareholder's notice to the secretary shall set forth (i) one or more matters appropriate for shareholder action that the shareholder proposes to bring before the meeting, (ii) a brief description of the matters desired to be brought before the meeting and the reasons for conducting such business at the meeting, (iii) the name and record address of the shareholder, (iv) the class and number of shares of the company that the shareholder owns or is entitled to vote and (v) any material interest of the shareholder in such matters; and (c) The chairman of the meeting shall have the power and duty (i) to determine whether any proposed business was properly brought before the meeting in accordance with the procedures set forth in this Section 9, and (ii) if the chairman determines that any proposed business was not brought before the meeting in compliance with this Section 9, to declare that such proposed business shall not be transacted.

### ARTICLE III.

#### BOARD OF DIRECTORS

**Section 1. Directors.** The business and affairs of the company shall be managed by its board of directors. The number of members of the board, their classification and terms of office, and the manner of their election and removal shall be determined as provided by the Restated Articles of Incorporation. Directors need not be residents of the State of Oregon or shareholders of the company. Unless otherwise determined by the board of directors, no person who has reached the age of 70 years shall be eligible to be elected a director.

Amended 5/17/84  
Amended 5/23/02  
Amended 12/18/03  
Amended 5/24/07

**Section 2. Chairman of the Board.** The board of directors may elect one of its members as chairman of the board. The chairman of the board, if that position be filled, shall preside at all meetings of the shareholders and the board of directors and shall have such other duties and responsibilities as may be prescribed by the board of directors. If there shall be no chairman of the board, or in his or her absence or disability, the president also shall exercise the duties and responsibilities of that position.

Amended 1/1/85

**Section 3. Compensation.** Directors shall receive such reasonable compensation for their services as may be fixed from time to time by resolution of the board of directors, and shall be reimbursed for their expenses properly incurred in the performance of their duties as directors. No such payment shall preclude any director from serving the company in any other capacity and receiving such reasonable compensation for such services as may be fixed by resolution of the board.

Amended 5/17/84

### ARTICLE IV.

#### MEETINGS OF THE BOARD OF DIRECTORS

**Section 1. Regular Meetings.** Regular meetings of the board of directors shall be held in the company's offices at two o'clock p.m., Pacific Time, on the fourth Thursday of February, April, May, July and September, and on the third Thursday of December, or on such other date or at such other hour and place as shall be specified in the notice of meeting. The date, time and place for holding regular meetings of the board of directors may be changed upon the giving of notice to all directors by or at the request of the chairman of the board or the president. The board may provide by resolution the time and place either within or without the State of Oregon for holding of meetings or may omit the holding of any meeting without other notice than such resolution.

Amended 5/26/88  
Amended 5/23/91  
Amended 12/16/93  
Amended 7/25/96  
Amended 5/28/98

Amended 1/1/85  
Amended 2/24/95  
Amended 5/23/02

**Section 2. Special Meetings.** Special meetings of the board of directors may be called by or at the request of the chairman of the board, the chairman of the governance committee, the president or any two directors. The person or persons authorized to call special meetings of the board may fix any place, either within or without the State of Oregon, as the place for holding any special meeting of the board called by them. Notice of the time and place of special meetings shall be given to each director at least one day in advance by the secretary or other officer performing his or her duties.

**Section 3. Waiver of Notice.** Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise provided by law or the Restated Articles of Incorporation, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Amended 5/17/84

**Section 4. Quorum.** A majority of the number of directors at any time fixed by resolution adopted by the affirmative vote of a majority of the entire board of directors shall constitute a quorum for the transaction of business. If a quorum shall not be present at any meeting of directors, the directors present may adjourn the meeting from time to time without further notice until a quorum shall be present.

**Section 5. Manner of Acting.** Except as otherwise provided by law or the Restated Articles of Incorporation, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

**Section 6. Action Without a Meeting.** Any action required or permitted to be taken at a meeting of the board of directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors entitled to vote with respect to the subject matter thereof.

## ARTICLE V.

### COMMITTEES OF THE BOARD

Amended 5/17/84  
Amended 1/1/85  
Amended 11/21/91  
Amended 2/24/95  
Amended 5/23/96  
Amended 5/23/02

**Section 1. Governance Committee.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint a governance committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The committee shall have and may exercise all of the authority of the board of directors in the management of the company, except with respect to matters upon which by law only the board of directors may act. The committee's responsibilities shall include serving as the nominating committee of the board; making recommendations to the board on board and board committee composition and structure, including recommendations with respect to committee and committee chairmanship assignments; and conducting periodic board self-assessments, peer reviews of individual directors and evaluations of committee effectiveness. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 2/24/95  
Amended 5/23/02

**Section 2. Audit Committee.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint an audit committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The duties of the committee shall be to discuss and review with the company's independent auditors the annual audit of the company, including the scope of the audit, and report the results of this review to the board; to meet with the independent auditors at such other times as the committee shall deem to be advisable; and to perform such other functions as the board by resolution from time to time may direct.

Amended 2/22/90  
Amended 2/24/95  
Amended 5/23/02

**Section 3. Organization and Executive Compensation Committee.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint an organization and executive compensation committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The duties of the committee shall be to discuss and review the management of the affairs of the company relating to its organization and to executive personnel and their compensation, and to perform such other functions as the board by resolution from time to time may direct.

**Section 4. Strategic Planning Committee.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members a strategic planning committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be to review and make recommendations to the board with respect to the company's long-term strategic goals, objectives and plans. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 7/24/03  
Amended 9/25/03

**Section 5. Finance Committee.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint a finance committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be to discuss and review the management of the affairs of the company relating to financing, including the development of financial planning goals and financial policy, and to perform such other functions as the board by resolution from time to time may direct.

Amended 2/24/95  
Amended 2/25/99  
Amended 9/25/03

**Section 6. Public Affairs and Environmental Policy Committee.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members a public affairs and environmental policy committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be (i) to consider, review and monitor significant matters of public interest and societal trends, and the company's community affairs, charitable contributions, diversity and equal employment opportunity compliance programs, and (ii) to monitor significant environmental issues affecting the company and to recommend to the board appropriate environmental policies. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 5/22/03  
Amended 9/25/03

**Section 7. Other Committees.** The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members such other committees and the chairmen thereof as it may deem to be advisable. Each such committee shall have such powers and authority as are set forth in the resolutions pertaining thereto from time to time adopted by the board.

Amended 2/24/95

**Section 8. Changes of Size and Function.** Subject to the provisions of law, the board of directors shall have the power at any time to increase or decrease the number of members of any committee, to fill vacancies thereon, to change any members thereof and to change the functions and terminate the existence thereof.

**Section 9. Conduct of Meetings.** Each committee shall conduct its meetings in accordance with the applicable provisions of these bylaws relating to the conduct of meetings of the board of directors. Each committee shall adopt such further rules and regulations regarding its conduct, keep such minutes and other records and appoint such subcommittees and assistants as it shall deem to be appropriate.

**Section 10. Compensation.** Persons serving on any committee shall receive such reasonable compensation for their services on such committee as may be fixed by resolution of the board of directors, provided that no person shall receive compensation for his or her services on any committee while serving as an officer of the company.

## ARTICLE VI.

### NOTICES

**Section 1. Form and Manner.** Whenever, under the provisions of law or the Restated Articles of Incorporation, notice is required to be given to any director or shareholder, unless otherwise specified, it shall be given in writing by mail addressed to such director or shareholder at his or her address as it appears on the stock transfer books or other records of the company, with postage thereon prepaid, and such notice shall be deemed to be delivered when deposited in the United States Mail. Notice to directors also may be given by telephone or in any other manner which is reasonably

calculated to give adequate notice.

**Section 2. Waiver.** Whenever any notice whatever is required to be given under the provisions of law, the Restated Articles of Incorporation or these bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

## ARTICLE VII.

### OFFICERS

Amended 1/1/85  
Amended 5/24/07

**Section 1. Election.** The board of directors, at its first meeting following the annual meeting of shareholders each year, shall elect a president and a secretary. At such meeting, or at any other time it shall deem appropriate, the board may elect one or more vice presidents and a treasurer. The board also may elect or appoint such other officers and agents as it may deem necessary. Any two or more offices may be held by the same person, except the offices of president and secretary.

**Section 2. Compensation.** The officers of the company shall receive such reasonable compensation for their services as from time to time may be fixed by resolution of the board of directors.

Amended 5/17/84

**Section 3. Term.** The term of office of all officers shall commence upon their election or appointment and shall continue until the first meeting of the board of directors following the annual meeting of shareholders and thereafter until their successors shall be elected or until their resignation or removal. A vacancy occurring in any office of the company for whatever reason may be filled by the board.

**Section 4. Removal.** Any officer or agent elected or appointed by the board of directors may be removed by the board whenever in its judgment the best interests of the company will be served thereby but such removal shall be without prejudice to the contract rights, if any, of the officer or agent so removed.

Amended 10/18/84  
Amended 3/1/96  
Amended 5/24/07

**Section 5. President.** Unless otherwise determined by the board of directors, the president shall be the chief executive officer of the company and, subject to the control of the board of directors, shall be responsible for the general administration and operation of the company. He shall have such other duties and responsibilities as may pertain to such office or be prescribed by the board of directors. In the absence or disability of the president, an officer designated by the board shall exercise the duties and responsibilities of the president.

In the event the offices of chief executive officer and president are not held by the same person, the chief executive officer shall exercise the duties and responsibilities of the president described in these bylaws.

**Section 6. Vice Presidents.** Each vice president shall have such duties and responsibilities as may be prescribed by the board of directors and the president. The board or the president may confer a special title upon a vice president.

**Section 7. Secretary.** The secretary shall record and keep the minutes of the shareholders in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; and perform such other duties as may be prescribed by the board or the president. The secretary shall have custody of the corporate seal of the company and shall affix the seal to any instrument requiring it and attest the same by his or her signature.

The assistant secretaries shall have such duties as may be prescribed from time to time by the board, the president or the secretary. In the absence or disability of the secretary, his or her duties shall be performed by an assistant secretary.

Amended 1/1/85

**Section 8. Treasurer.** The treasurer shall have charge and custody and be responsible for all funds and securities of the company; deposit all moneys and other valuable effects in the name and to the credit of the company in such depositories as may be designated by the board of directors; and disburse the funds of the company as may be authorized by the board and take proper vouchers for such disbursements. The treasurer shall have such other duties as may be prescribed from time to time by the board or the president. In the absence or disability of the treasurer, his or her duties shall be performed by an assistant treasurer.

## ARTICLE VIII.

### CONTRACTS, LOANS, CHECKS AND DEPOSITS

**Section 1. Contracts.** The board of directors by resolution may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the company, and such authority may be general or confined to specific instances.

**Section 2. Loans.** No loans shall be contracted on behalf of the company and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

**Section 3. Checks and Drafts.** All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the company shall be signed by such officer or officers, agent or agents of the company and in such manner as shall from time to time be determined by resolution of the board of directors.

**Section 4. Deposits.** All funds of the company not otherwise employed shall be deposited from time to time to the credit of the company in such banks, trust companies or other depositories as the board of directors or officers of the company designated by the board may select, or be invested as authorized by the board.

## ARTICLE IX.

### CERTIFICATES FOR SHARES AND THEIR TRANSFER

**Section 1. Certificates for Shares.** The shares of the company shall be represented by certificates; provided, however, the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of the company's shares shall be uncertificated shares. When shares are not represented by certificates then within a reasonable time after the issuance or transfer of such shares, the company shall send or cause to be sent to the shareholder to whom such shares have been issued or transferred a written statement of the information required by the laws of the State of Oregon to be on certificates.

Amended 1/1/93  
Amended 7/22/04

Certificates representing shares of the company shall be issued only for whole numbers of shares and shall be in such form as the board of directors may, from time to time, prescribe in accordance with the laws of the State of Oregon. Such certificates shall be signed by the president or a vice president and by the secretary or an assistant secretary and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles thereof. In case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the company as the board may authorize.

**Section 2. Transfer.** Shares of stock of the company shall be transferable on the books of the company by the holder of record thereof, or by his or her legal representative who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by duly executed power of attorney, and on surrender for cancellation of the certificates, if any, for such shares. The board of directors may appoint one or more transfer agents and registrars of stock of the company.

Amended 7/22/04

**Section 3. Owner of Record.** The company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

## ARTICLE X.

### INDEMNIFICATION AND INSURANCE

**Section 1. Indemnification.** The company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee or agent of the company, or is or was serving at the request of the

company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise or any employee benefit plan, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the defense or settlement of such action, suit or proceeding to the fullest extent permissible under the Oregon Business Corporation Act or the indemnification provisions of any successor Act. The foregoing rights of indemnification shall not be exclusive of any other rights to which any such person so indemnified may be entitled, under any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office; shall continue as to a person who has ceased to be a director, officer, employee or agent; and shall inure to the benefit of the heirs, executors and administrators of such a person.

**Section 2. Insurance.** The company may purchase and maintain insurance (and pay the entire premium therefor) on behalf of any person who is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the company would have the power to indemnify him or her against such liability under the provisions of the Oregon Business Corporation Act or any successor Act; and on behalf of any person who is or was a fiduciary under the Employee Retirement Income Security Act of 1974 with regard to an employee benefit plan of the company against any liability asserted against him or her and incurred by him or her in his or her fiduciary capacity.

#### **ARTICLE XI.**

##### **SEAL**

The corporate seal of the company shall be circular in form and shall bear an inscription containing the name of the company, the year of its organization, the state of its incorporation and the words "Corporate Seal."

#### **ARTICLE XII.**

##### **AMENDMENTS**

These bylaws, or any of them, may be altered, amended or repealed, or new bylaws adopted, by resolution of a majority of the board of directors, subject to repeal or change by action of the shareholders.

**CERTIFICATE**

I, Richelle T. Luther, Secretary of Northwest Natural Gas Company, a corporation organized and existing under the laws of the State of Oregon, HEREBY CERTIFY that the foregoing eight printed pages entitled "Bylaws of Northwest Natural Gas Company" constitute a full and true copy of the Bylaws of said corporation as of the date hereof.

WITNESS my hand and seal of said corporation this \_\_\_\_ day of \_\_\_\_\_.

Richelle T. Luther  
*Secretary*

**Exhibit C**

A certified excerpt of the minutes of the Company's Board of Directors' meeting, held December 20, 2007, authorizing the disposition of the Property. Shareholder approval is not required for disposition of the Property.

**Executive Offices**

**CERTIFIED COPY OF RESOLUTIONS**

(Under Sections 3 and 59 of  
Mortgage and Deed of Trust)

I, Margaret D. Kirkpatrick, the duly elected and acting Vice President, General Counsel and Corporate Secretary of Northwest Natural Gas Company, a corporation organized and existing under the laws of the State of Oregon, HEREBY CERTIFY that the following is a true copy of resolutions duly adopted by the Board of Directors of said Company at a meeting thereof duly convened and held on the 20th day of December 2007; and that said resolutions are in full force and effect on the date of this certificate.

**Authorization to Release Albany Property from Lien of Mortgage**

Mr. Papé explained that the Company's operations in Albany had outgrown its facilities and that the Company had acquired a larger, more suitable facility. Accordingly, Mr. Papé said that the Committee is recommending authorizing the sale of the subject Albany property and the requisite release of the property from the lien of the Company's mortgage.

After discussion, and upon motion duly made and seconded, the Board unanimously adopted the following resolutions:

**Sale of property**

WHEREAS, Northwest Natural Gas Company (the "Company") owns real property at 730 34<sup>th</sup> Avenue SW located in the city of Albany, Oregon (the "Property") which served as the office and service center for the Albany, Corvallis and Mid-Willamette service territory; and

WHEREAS, the Company's operations outgrew the Property's facilities and the Company acquired a larger, more suitable facility; and

WHEREAS, the Company believes it is in its best interests to sell the Property;

NOW, THEREFORE, BE IT RESOLVED, that the officers of the Company are authorized and directed, in the Company's name and behalf, to negotiate, execute and deliver such instruments and documents and to do or cause to be done any and all such acts and things as they may deem to be necessary or desirable in order to

effect the sale of the Property and to carry out the purposes of this resolution with respect to the sale of the Property.

**Release of Property from Lien of Mortgage and Deed of Trust**

RESOLVED, that Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) and Stanley Burg, as Trustees under the Mortgage and Deed of Trust of Portland Gas & Coke Company, now Northwest Natural Gas Company, to said Trustees, dated as of July 1, 1946, as supplemented and amended, hereby are requested, pursuant to the provisions of Section 59 of said Mortgage and Deed of Trust, to release from the lien thereof all the right, title and interest of said Trustees in and to the property, situated in Linn County, State of Oregon, described as follows:

Also known as: 730 34th Avenue SW, Albany OR 97321

The property commonly known as 730 34th Avenue SW, located in the City of Albany, County of Linn, State of Oregon, legally described as follows:

Abbreviated Legal Description: Tax Lot 101, Section 13DD, Township 11 South, Range 4 West, Willamette Meridian, Linn County, Oregon, 3.25 Acres and further described as:

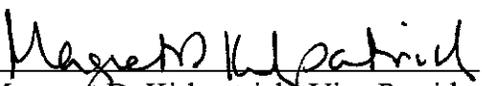
Beginning on the North line of and North 89°14' East 710.40 feet from the Northwest corner of the Truett Donation Land Claim, being Claim No. 38, in Township 11 South, Range 4 West of the Willamette Meridian, and Claim No. 54, in Township 11 South, Range 3 West of the Willamette Meridian, in Linn County, Oregon; thence running South 0°46' East 182.8 feet to a ½ inch iron rod; thence South 76°43' East 659.43 feet to a ½ inch iron rod on the West right-of-way line of the Southern Pacific Railroad; thence North 0°14' East along said right-of-way 343.0 feet to the North line of said Truett Davis Donation Land Claim; thence South 89°14' West 645.7 feet to the place of beginning; Subject to an easement in favor of United States of America for Electrical Distribution facilities as recorded August 3, 1949 in Deed Book 209, Page 670 of the Linn County Deed Records.

Also Reserving unto the Grantors an easement for access purposes only, in, over, across and upon the Westerly 50 feet of said real property.

FURTHER RESOLVED, that the officers of Northwest Natural Gas Company hereby are authorized and directed to take and to cause to be taken any and all action in their judgment necessary or appropriate to obtain the release of the property described in the foregoing resolution from the lien of said Mortgage and Deed of Trust.

WITNESS my hand and the seal of said Northwest Natural Gas Company this 9<sup>th</sup> day of July 2008.

(S E A L)

  
Margaret D. Kirkpatrick, Vice President,  
General Counsel and Corporate Secretary

**Exhibit D**

Copies of all mortgages, trust, deeds, or indentures, securing any obligation of each party to the transaction.

None. Please see attached title report.



*First American*

**First American Title Insurance Company of Oregon**  
1124 Cornucopia St NW, Ste 202

Salem, OR 97304  
Phn - (503)375-8380  
Fax - (866)807-4150

Northwest Natural Gas Co Corp  
220 NW Second Avenue  
Portland, OR 97209

May 31, 2008  
File No: 7088-1237121 (DSS)

Re: Property: **730 34th Ave SW, Albany, OR 97322**

**ENCLOSED** please find the following for your records:

- Preliminary Title Report
- 

Should you have any questions or need further assistance, please contact the undersigned. We appreciate the opportunity to serve you.

First American Title Insurance Company of Oregon

Linda Eriksen, Assistant for  
Debbie Smith, Escrow Officer



**First American**

**First American Title Insurance Company of Oregon**  
2405 14th Ave SE, Ste B  
Albany, OR 97322  
Phn - (541)926-8808  
Fax - (866)847-2139

**TITLE DEPARTMENT  
(541) 926-8808**

Lynn M. Rohde  
Sr. Title Officer  
lrohde@firstam.com

First American Title Insurance Company of Oregon  
1124 Cornucopia St NW, Ste 202  
Salem, OR 97304

Order No.: 7088-1237121  
May 30, 2008

Attn: **Debbie Smith, Escrow Officer**  
Phone No.: (503)375-8380 - Fax No.: (866)807-4150  
Email: debsmith@firstam.com

**Preliminary Title Report**

ALTA Owners Standard Coverage	Liability \$	710,000.00	Premium \$	1,665.00
ALTA Owners Extended Coverage	Liability \$		Premium \$	
ALTA Lenders Standard Coverage	Liability \$		Premium \$	
ALTA Lenders Extended Coverage	Liability \$		Premium \$	
Endorsement 9, 22 & 8.1			Premium \$	100.00
Govt Service Charge			Cost \$	
Other			Cost \$	

We are prepared to issue Title Insurance Policy or Policies in the form and amount shown above, insuring title to the following described land:

The land referred to in this report is described in Exhibit A attached hereto.

and as of May 27, 2008 at 8:00 a.m., title vested in:

Northwest Natural Gas Company, a corporation

Subject to the exceptions, exclusions, and stipulations which are ordinarily part of such Policy form and the following:

1. Taxes, including the current fiscal year 2007-2008, not assessed because of Public Services Exemption. If the exempt status is terminated an additional tax may be levied. Account No. 0381398.

2. Easement, including terms and provisions contained therein:  
Recording Information: August 03, 1949 in Book 209, Page 0670, Deed Records  
In Favor of: United States of America  
For: Electrical power transmission line and appurtenant signal lines, etc.
  
3. An easement reserved in a deed, including the terms and provisions thereof;  
Recorded: June 28, 1961 in Book 277, Page 0328, Deed Records  
From: Ben H. Pharis and Janet E. Pharis, husband and wife  
To: Northwest Natural Gas Company, a corporation  
For: Access  
Affects: Westerly 50 Feet
  
4. Mortgage and Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: Northwest Natural Gas Company, an Oregon corporation  
(formerly Portland Gas & Coke Company)  
Grantee/Beneficiary: Bankers Trust Company, a New York corporation  
Trustee: Stanley Burg  
Amount: \$Undisclosed  
Recorded: November 15, 1998  
Recording Information: Volume 991, Page 0164, Microfilm Records  
  
(Affects: Covers Additional Property)
  
5. Unrecorded leases or periodic tenancies, if any.
  
6. The following pertain to Lender's Extended Coverage only:
  - a. Parties in possession, or claiming to be in possession, other than the vestees shown herein.
  - b. Statutory liens for labor and/or materials, including liens for contributions due to the State of Oregon for employment compensation and for workman's compensation, or any rights thereto, where no notice of such liens or rights appears of record.

- END OF EXCEPTIONS -

NOTE: We find no judgments or United States Internal Revenue liens against Elwood Martin

NOTE: This Report does not include a search for Financing Statements filed in the Office of the Secretary of State, or in a county other than the county wherein the premises are situated, and no liability is assumed if a Financing Statement is filed in the Office of the County Clerk covering Fixtures on the premises wherein the lands are described other than by metes and bounds or under the rectangular survey system or by recorded lot and block.

NOTE: According to the public record, the following deed(s) affecting the property herein described have been recorded within 24 months of the effective date of this report: NONE

Situs Address as disclosed on Linn County Tax Roll:

730 34th Ave SW, Albany, OR 97322

**THANK YOU FOR CHOOSING FIRST AMERICAN TITLE!  
WE KNOW YOU HAVE A CHOICE!**

**RECORDING INFORMATION**

Filing Address: **First American Title Recorder for Linn County**  
2405 14th Avenue SE, Ste. B  
P.O. Box 981  
Albany, OR 97321

Recording Fees: \$ **26.00** per document (most documents) (1st page)  
\$ **5.00** per additional page  
\$ **20.00** non-standard fee  
\$ **5.00** each additional title



## First American Title Insurance Company of Oregon

### SCHEDULE OF EXCLUSIONS FROM COVERAGE

#### ALTA LOAN POLICY (06/17/06)

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
  - (i) the occupancy, use, or enjoyment of the Land;
  - (ii) the character, dimensions, or location of any improvement erected on the Land;
  - (iii) the subdivision of land; or
  - (iv) environmental protection;
 or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
3. Defects, liens, encumbrances, adverse claims, or other matters
  - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
  - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
  - (c) resulting in no loss or damage to the Insured Claimant;
  - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risk 11, 13, or 14); or
  - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Insured Mortgage.
4. Unenforceability of the lien of the Insured Mortgage because of the inability or failure of an Insured to comply with applicable doing-business laws of the state where the Land is situated.
5. Invalidity or unenforceability in whole or in part of the lien of the Insured Mortgage that arises out of the transaction evidenced by the Insured Mortgage and is based upon usury or any consumer credit protection or truth-in-lending law.
6. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction creating the lien of the Insured Mortgage, is
  - (a) a fraudulent conveyance or fraudulent transfer, or
  - (b) a preferential transfer for any reason not stated in Covered Risk 13(b) of this policy.
7. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the Insured Mortgage in the Public Records. This Exclusion does not modify or limit the coverage provided under Covered Risk 11(b).

#### ALTA OWNER'S POLICY (06/17/06)

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
  - (i) the occupancy, use, or enjoyment of the Land;
  - (ii) the character, dimensions, or location of any improvement erected on the Land;
  - (iii) the subdivision of land; or
  - (iv) environmental protection;
 or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
3. Defects, liens, encumbrances, adverse claims, or other matters
  - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
  - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
  - (c) resulting in no loss or damage to the Insured Claimant;
  - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risks 9 and 10); or
  - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Title.
4. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction vesting the Title as shown in Schedule A, is
  - (a) a fraudulent conveyance or fraudulent transfer; or
  - (b) a preferential transfer for any reason not stated in Covered Risk 9 of this policy.
5. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

### SCHEDULE OF STANDARD EXCEPTIONS

1. The Lien of Real Estate Taxes or Assessments imposed on the title by a governmental authority that are not shown as existing liens in the records of any taxing authority that levies taxes or assessments on real property or in the public records.
2. Any Facts, Rights, Interests, or Claims that are not shown in the public records but that could be ascertained by an inspection of the land or by making inquiry of persons in possession of the land.
3. Easements, Claims of Easements or Encumbrances that are not shown in the public records.
4. Any Encroachment, Encumbrance, Violation, Variation, or Adverse Circumstance affecting the title including discrepancies, conflicts in boundary lines, shortage in area, or any other facts that would be disclosed by an accurate and complete land survey of the land, and that are not shown in the public records.
5. Unpatented Mining Claims; Reservations or Exceptions in Patents or in acts authorizing the issuance thereof; Water Rights, Claims or Title to Water.
6. Any Lien, or Right to a Lien, for Services, Labor or Material theretofore or hereafter furnished, imposed by law and not shown in the public records.

**Exhibit "A"**

Real property in the County of Linn, State of Oregon, described as follows:

BEGINNING ON THE NORTH LINE OF AND NORTH 89° 14' EAST 710.40 FEET FROM THE NORTHWEST CORNER OF THE TRUETT DAVIS DONATION LAND CLAIM, BEING CLAIM NO. 38, IN TOWNSHIP 11 SOUTH, RANGE 4 WEST OF THE WILLAMETTE MERIDIAN, AND CLAIM NO. 54, IN TOWNSHIP 11 SOUTH, RANGE 3 WEST OF THE WILLAMETTE MERIDIAN, IN LINN COUNTY, OREGON;  
THENCE RUNNING SOUTH 0° 46' EAST 182.8 FEET TO A 1/2 INCH IRON ROD;  
THENCE SOUTH 76° 43' EAST 659.43 FEET TO A 1/2 INCH IRON ROD ON THE WEST RIGHT-OF-WAY LINE OF THE SOUTHERN PACIFIC RAILROAD;  
THENCE NORTH 0° 14' EAST ALONG SAID RIGHT-OF-WAY 343.0 FEET TO THE NORTH LINE OF SAID TRUETT DAVIS DONATION LAND CLAIM;  
THENCE SOUTH 89° 14' WEST 645.7 FEET TO THE PLACE OF BEGINNING.

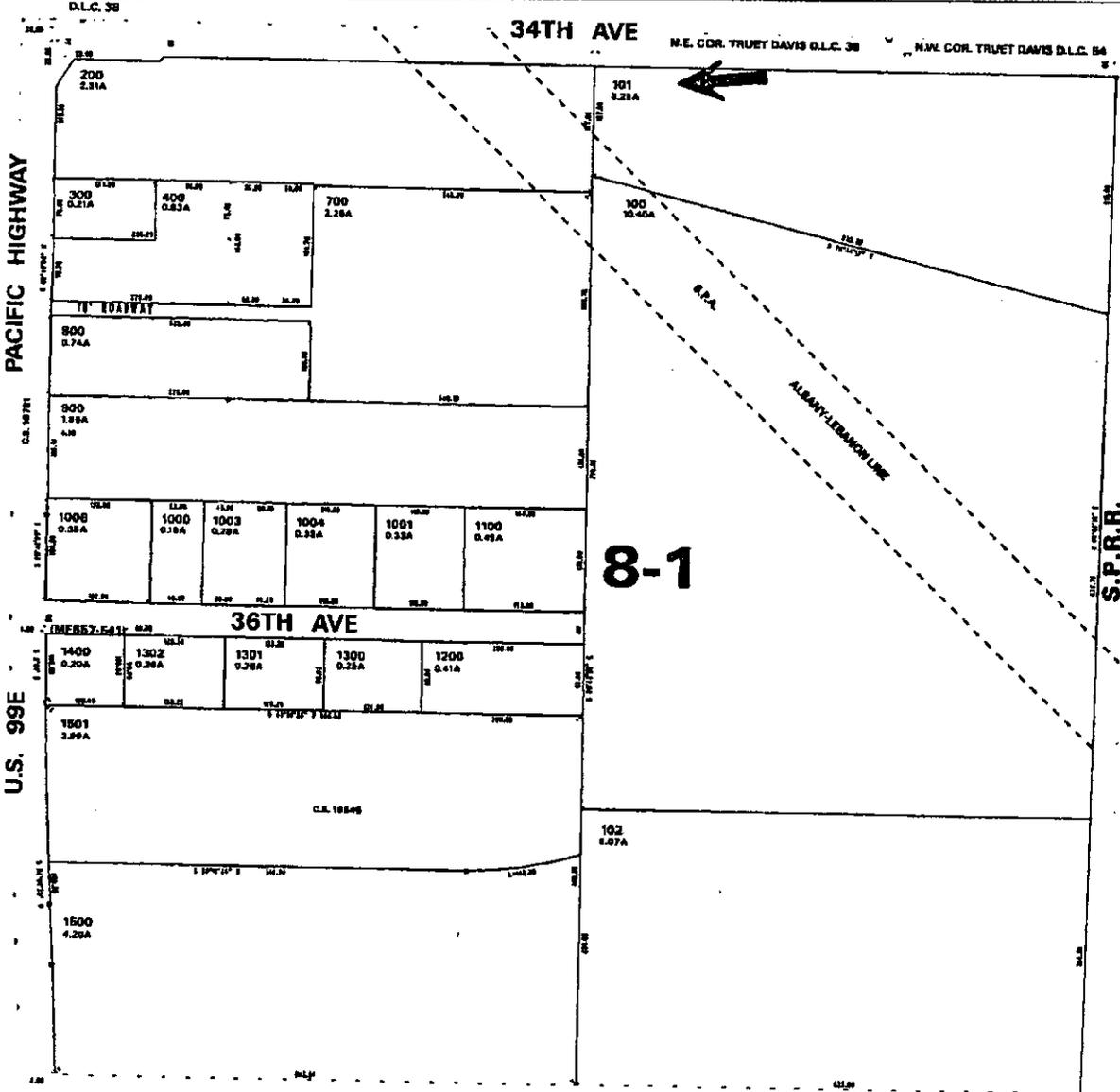
EXCEPTING THEREFROM A PORTION OF THE PROPERTY DEEDED TO CITY OF ALBANY, A MUNICIPAL CORPORATION BY DEED RECORDED MARCH 14, 1973 IN VOLUME 57, PAGE 0823, MICROFILM RECORDS

THE LEGAL DESCRIPTION WAS CREATED PRIOR TO JANUARY 01, 2008.

Tax Parcel Number: 0381398

SEE MAP 11 4W 13 DB

SEE MAP 11 4W 13 DC



102-41  
307 INT  
500 AC  
700-01  
801 00  
1002 IN  
1005 IN

SEE MAP 11 3W 18C

SEE MAP 11 3W 19



**THIS MAP FURNISHED AS A CONVENIENCE  
 BY FIRST AMERICAN TITLE INSURANCE  
 This plat is made solely for the purpose of assisting  
 in locating said premises and the company assumes  
 no liability for variations, if any, in dimensions  
 and location ascertained by actual survey.**

TRANSMISSION LINE EASEMENT

The GRANTOR, herein so styled whether one or more, BEN H. PHARIS and JANET E. PHARIS, husband and wife,

for and in consideration of the sum of FOUR HUNDRED - - - - - Dollars (\$ 400.00 )

in hand paid by the UNITED STATES OF AMERICA, receipt of which is hereby acknowledged, hereby grants, bargains, sells, and conveys to the UNITED STATES OF AMERICA and its assigns, a perpetual easement and right to enter and erect, operate, maintain, repair, rebuild, and patrol one or more electric power transmission lines and appurtenant signal lines, poles, towers, wires, cables, and appliances necessary in connection therewith, in, upon, over, under, and across the following-described parcel of land in the County of Linn, in the State of Oregon, to wit:

That portion of that part of the Tract Davis Donation Land Claim No. 38 in Section 13, Township 11 South, Range 4 West of the Willamette Meridian and the Tract Davis Donation Land Claim No. 54 in Section 18, Township 11 South, Range 3 West of the Willamette Meridian, all being in Linn County, Oregon, described as: Beginning at a point which is N. 88° 30' E. a distance of 710 feet and south a distance of 25 feet from the northwest corner of the Tract Davis Donation Land Claim No. 38 in Section 13, Township 11 South, Range 4 West, Willamette Meridian; thence South on a line parallel to the west line of said Donation Land Claim No. 38 a distance of 1305.9 feet; thence easterly on a line parallel with the north line of said Claim No. 38 and the north line of the Tract Davis Donation Land Claim No. 54 in Section 18, Township 11 South, Range 3 West, Willamette Meridian, a distance of 620.8 feet to the west line of the Southern Pacific Company right of way; thence northerly along said west line of the Southern Pacific Company right of way a distance of 1305.9 feet; thence westerly on a line parallel to the north line of said Donation Land Claim No. 54 and said Donation Land Claim No. 38 a distance of 647.6 feet to the point of beginning, which lies within a strip of land 100 feet in width, the boundaries of said strip lying 50 feet distant from, on each side of, and parallel to the survey line of the Albany-Lebanon transmission line as now located and staked on the ground over, across, upon, and/or adjacent to the above described property, said survey line being particularly described as follows:

Beginning at survey station 68 + 50.0, a point on the north line of the Tract Davis Donation Land Claim No. 38 in Section 13, Township 11 South, Range 4 West, Willamette Meridian, said point being S. 88° 50' E. a distance of 509.2 feet from the northwest corner of said Donation Land Claim No. 38; thence S. 44° 35' E. a distance of 684.1 feet to survey station 136 + 98.1 a point on the west line of the Robert Pentland Donation Land Claim No. 69 in Section 19, Township 11 South, Range 3 West, Willamette Meridian, said point being N. 1° 49' E. a distance of 1819.6 feet from the westerly southwest corner of the said Claim No. 69.

*PAUL KENNEL*

I, PAUL KENNEL, lessee from year to year, under an unrecorded lease for a valuable consideration from the aforementioned grantor, hereby acknowledged, join in this instrument for the sole and specific purpose of subordinating any and all interest I may have in said premises to the easement herein granted to the UNITED STATES OF AMERICA, and am not entering into or becoming a party in any degree or manner to the warranty contained herein.



300 3611

together with the right to clear said parcel of land and keep the same clear of all brush, timber, structures, and fire hazards, provided however, the words "fire hazards" shall not be interpreted to include growing crops; and also the present and future right to top, limb, fell; and remove all growing trees, dead trees or snags (collectively called "danger trees") located on Grantor's land adjacent to said parcel of land, which could fall upon or against said transmission and signal line facilities.

TO HAVE AND TO HOLD said easement and rights unto the UNITED STATES OF AMERICA and its assigns, forever.

The Grantor covenants to and with the UNITED STATES OF AMERICA and its assigns that the title to all brush and timber cut and removed from said parcel of land and also all growing trees, dead trees or snags (collectively called "danger trees") cut and removed from Grantor's land adjacent to said parcel of land, is and shall be vested in the UNITED STATES OF AMERICA and its assigns and that the consideration paid for conveying said easement and rights herein described is accepted as full compensation for all damages incidental to the exercise of any of said rights.

The Grantor also covenants to and with the UNITED STATES OF AMERICA that Grantor is lawfully seized and possessed of the lands aforesaid; has a good and lawful right and power to sell and convey same; that same are free and clear of encumbrances, except as above indicated; and that Grantor will forever warrant and defend the title to said easement and the quiet possession thereof against the lawful claims and demands of all persons whomsoever.

Dated this 29 day of July, 1949.

Bess H. Pharis  
Bess H. Pharis  
Janet E. Pharis  
Janet E. Pharis  
Paul W. Kennel  
Paul Kennel

1949 JUL 29

Vol 209 Page 672

STATE OF Oregon )  
COUNTY OF Linn ) ss:

On the 7 day of July, 1949, personally came before me, a notary public in and for said County and State, the within-named ESS H. PEARIS and JANET E. PEARIS, husband and wife, and PAUL KENNEDY, to me personally known to be the identical persons described in and who executed the within and foregoing instrument and acknowledged to me that they executed the same as their own free and voluntary act and deed, for the uses and purposes therein mentioned.

GIVEN under my hand and official seal the day and year last above written.



Johnston Wilson  
Notary Public in and for the  
State of Oregon  
Residing at \_\_\_\_\_

My commission expires: April 7, 1951

02445 2.25  
TRANSMISSION LINE EASEMENT

from  
ESS H. PEARIS et ux  
to  
UNITED STATES OF AMERICA

State of Oregon, ) ss.  
County of Linn, )  
I hereby certify that the within  
was received and duly recorded  
by me in Linn County Records  
Book of Deeds  
Vol. 209 Page 670 on  
the 3rd day of August  
1949, at 4:00 o'clock P.M.  
Paul E. Kennedy  
Recorder of Linn County, Oregon

By \_\_\_\_\_ Deputy

Return  
Comptroller Public Administration  
P. O. Box no. 5537  
Portland 8, Oregon

KNOW ALL MEN BY THESE PRESENTS, That Ben E. Pharis and Janet E. Pharis, husband and wife.

in consideration of Ten and no/100 - - - - - (\$10.00) Dollars,

to them paid by Northwest Natural Gas Company, a corporation.

do hereby grant, bargain, sell and convey unto the said grantees and assigns, all the following real property, with the tenements, hereditaments and appurtenances, situated in the County of Linn and State of Oregon, bounded and described as follows, to-wit:

Beginning on the North line of and North 89°14' East 719.40 feet from the Northwest corner of the Truett Davis Donation Land Claim, being Claim No. 38, in Township 11 South, Range 4 West of the Willamette Meridian, and Claim No. 54, in Township 11 South, Range 3 West of the Willamette Meridian, in Linn County, Oregon; and running thence South 0° 45' East 182.8 feet to a 1/2" iron rod; thence South 76° 43' East 699.43 feet to a 1/2" iron rod on the West right-of-way line of the Southern Pacific Railroad; thence North 0° 14' East along said right of way 243.0 feet to the North line of said Truett Davis Donation Land Claim; thence South 89° 14' West 645.7 feet to the place of beginning; Subject to an easement in favor of United States of America for Electrical Distribution facilities as recorded August 3, 1949 in Book 209, Page 670 of the Linn County deed records; ALSO; Reserving unto the Grantees an easement for access purposes only, in, over, across and upon the westerly fifty (50) feet of said real property.

To Have and to Hold the above described and granted premises unto the said grantees, their successors, heirs and assigns forever.

And the Grantee do covenant that THEY ARE lawfully seized in fee simple of the above granted premises free from all encumbrances, except as aforesaid.

and that they will and their heirs, executors and administrators, shall warrant and forever defend the above granted premises, and every part and parcel thereof, against the lawful claims and demands of all persons whatsoever.

Witness our hand and seal this 28th day of June, 1961.

Ben E. Pharis (SEAL)
Janet E. Pharis (SEAL)

STATE OF OREGON,

County of Linn } On this 28 day of June, 1961, before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within named Ben E. Pharis and Janet E. Pharis, husband and wife, who

known to me to be the identical individuals described in and who executed the within instrument, and acknowledged to me that they executed the same freely and voluntarily. IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public for Oregon
My commission expires 4/10/62

WARRANTY DEED

TO
AFTER RECORDING RETURN TO
Tripp & Tripp
P. O. Box 346
Albany, Oregon

(DON'T USE THIS SPACE, RESERVED FOR RECORDING LABEL, IN COURTS WHERE USED.)

STATE OF OREGON,

County of Linn

I certify that the within instrument was received for record on the 28 day of June, 1961, at 4:28 o'clock P.M., and recorded in book 277 on page 328 Record of Deeds of said County.

Witness my hand and seal of County of Linn

Stella E. Johnson
County Clerk-Recorder

By Deputy

WILLAMETTE TITLE COMPANY

189228 150

Docket No.

ORDINANCE NO. 3119

AN ORDINANCE AMENDING ORDINANCE NO. 3092, SECTION 1 THEREOF AND DECLARING AN EMERGENCY.

THE PEOPLE OF THE CITY OF ALBANY DO ORDAIN AS FOLLOWS:

Section 1: Section 1 of Ordinance No. 3092 is hereby amended to read as follows:

Beginning S. 0°46' E. 511.5 ft. from the Northwest corner of Truett Davis D.L.C. 38, T. 11 S., R. 4 W.; thence Northerly along the centerline of Pacific Hwy. 99E 521.775 ft.; thence Westerly 208.708 ft.; thence Southerly 521.775 ft.; thence Easterly 208.708 ft. to the place of beginning. Also: (No change from previous ordinance) Beginning on the East line of Pacific Hwy. 99E 40 ft. East of the Northwest corner of Truett Davis D.L.C. 38, T. 11 S., R. 4 W.; thence Easterly along the North line of 34th Avenue to the West line of the Southern Pacific Railroad right-of-way; thence Southerly along said West line 378 ft.; thence N. 76°43' W. 659.43 ft.; thence Southerly 548.75 ft.; thence Westerly 150 ft.; thence Northerly 130 ft.; thence Westerly 520.1 ft. to the East line of Pacific Hwy. 99E; thence Northerly along said East line to the place of beginning.

Section 2: EMERGENCY CLAUSE

Inasmuch as this ordinance is necessary for the immediate preservation of the public health, peace and safety for the citizens of the City of Albany an emergency is hereby declared to exist and it will become effective immediately upon passage by the Council and approval by the Mayor.

Passed by the Council: April 8, 1964

Approved by the Mayor: April 8, 1964

/s/ Larry D. Roth  
Mayor

Effective Date: April 8, 1964

ATTEST:

/s/ Ernest W. Isham  
City Recorder

STATE OF OREGON )  
COUNTY OF LINN ) ss  
CITY OF ALBANY )

I, Ernest W. Isham, the duly appointed, qualified and acting Recorder of the City of Albany do hereby certify that the foregoing is a true and exact copy of Ordinance No. 3119 as on record in the office of the Recorder of the City of Albany, Linn County, Oregon.

Dated this 13th day of April, 1964

Ernest W. Isham  
Ernest W. Isham, City Recorder

**Exhibit E**

Balance sheets showing booked amounts, adjustments to record the proposed transaction and pro forma, with supporting fixed capital or plant schedules in conformity with the forms in the annual report, which applicants is required or will be required to file with the Commission.

**NORTHWEST NATURAL GAS COMPANY**  
**Pro Forma Condensed Balance Sheet**  
(Thousands)

	March 31, 2008	Property Sale Adjustments (1)	Pro Forma
Utility Plant	\$ 2,071,072	(406)	\$ 2,070,666
Less Accumulated Depreciation	627,265	(196)	627,069
Utility Plant - net	1,443,807	(210)	1,443,597
Other Property and Investments	60,554		60,554
Current Assets:			
Cash and Cash Equivalents	6,417	710	7,127
Other Current and Accrued Assets	230,346		230,346
Deferred Debits	247,165		247,165
Total Assets	<u>\$ 1,988,289</u>	<u>\$ 500</u>	<u>\$ 1,988,789</u>
Proprietary Capital:			
Common Stock	332,182		332,182
Earnings Invested in the Business	299,923	6	299,929
Other Comprehensive Income	(2,840)		(2,840)
Long-Term Debt and Other Liabilities:			
Secured Medium-Term Notes	512,000		512,000
Notes Payable-Commercial Paper	54,600		54,600
Misc. Current and Accrued Liabilities	257,378	191	257,569
Deferred Income Taxes and Investment Tax Credits	221,670	3	221,673
Regulatory Liabilities	220,137	300	220,437
Other Liabilities	93,239		93,239
Total Capitalization and Liabilities	<u>\$ 1,988,289</u>	<u>\$ 500</u>	<u>\$ 1,988,789</u>

(1) Adjusted to reflect the following:

- Sale of Albany property (\$710,000)
- Deferral of gain, net of tax for purchase of replacement property
- Decrease in depreciation expense of \$8,617
- Increase in tax expense of \$3,361 due to lower depreciation expense (39% effective tax rate)

**Exhibit F**

A statement of all known contingent liabilities, except minor items such as damage claims and similar items involving relatively small amounts, as of the date of the application.

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

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-15973



**NORTHWEST NATURAL GAS COMPANY**

(Exact name of registrant as specified in its charter)

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

**93-0256722**  
(I.R.S. Employer  
Identification No.)

**220 N.W. Second Avenue, Portland, Oregon 97209**  
(Address of principal executive offices) (Zip Code)

**Registrant's Telephone Number, including area code: (503) 226-4211**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer

Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At April 30, 2008, 26,415,248 shares of the registrant's Common Stock (the only class of Common Stock) were outstanding.

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## 10. Commitments and Contingencies

Environmental Matters

We own, or have previously owned, properties that may require environmental remediation or action. We accrue all material loss contingencies relating to these properties that we believe to be probable of assertion and reasonably estimable. We continue to study the extent of our potential environmental liabilities, but due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several environmental site investigations, the range of potential loss beyond the amounts currently accrued, and the probabilities thereof, cannot be reasonably estimated. See Part II, Item 8., Note 12, in the 2007 Form 10-K. The status of each site currently under investigation is provided below.

**Gasco site.** We own property in Multnomah County, Oregon that is the site of a former gas manufacturing plant that was closed in 1956 (the Gasco site). The Gasco site has been under investigation by us for environmental contamination under the Oregon Department of Environmental Quality's (ODEQ) Voluntary Clean-Up Program. In June 2003, we filed a Feasibility Scoping Plan and an Ecological and Human Health Risk Assessment with the ODEQ, which outlined a range of remedial alternatives for the most contaminated portion of the Gasco site. In May 2007, we completed a revised upland remediation investigation report and submitted it to the ODEQ for review. In 2008, the estimated liability for this site decreased by \$0.4 million due to actual costs paid at this site during the first three months of 2008. We have a net liability of \$20.9 million at March 31, 2008 for the Gasco site, which is estimated at the low end of the range of potential liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

**Siltronic site.** We previously owned property adjacent to the Gasco site that now is the location of a manufacturing plant owned by Siltronic Corporation (the Siltronic site). We are currently working with the ODEQ to develop a study of manufactured gas plant wastes on the uplands at this site. In 2008, the estimated liability for this site decreased by less than \$0.1 million due to actual costs paid at this site during the first three months of 2008. The net liability at March 31, 2008 for the Siltronic site is \$1.5 million, which is at the low end of the range of potential additional liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

**Portland Harbor site.** In 1998, the ODEQ and the U.S. Environmental Protection Agency (EPA) completed a study of sediments in a 5.5-mile segment of the Willamette River (Portland Harbor) that includes the area adjacent to the Gasco and Siltronic sites. The Portland Harbor was listed by the EPA as a Superfund site in 2000 and we were notified that we are a potentially responsible party. We then joined with other potentially responsible parties, referred to as the Lower Willamette Group, to fund environmental studies in the Portland Harbor. Subsequently, the EPA approved a Programmatic Work Plan, Field Sampling Plan and Quality Assurance Project Plan for the Portland Harbor Remedial Investigation/Feasibility Study (RI/FS), completion of which is currently expected in 2009. The EPA and the Lower Willamette Group are conducting focused studies on approximately nine miles of the lower Willamette River, including the 5.5-mile segment previously studied by the EPA. In 2007, we received a revised estimate and updated our estimate for additional expenditures related to RI/FS development and environmental remediation. In 2008, the estimated liability for this site decreased by \$0.5 million due to actual costs paid at this site during the first three months of 2008. As of March 31, 2008, we have a net liability of \$13.3 million for this site, which is at the low end of the range of the potential liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

In April 2004, we entered into an Administrative Order on Consent providing for early action removal of a deposit of tar in the river sediments adjacent to the Gasco site. We completed the removal of the tar deposit in the Portland Harbor in October 2005 and on November 5, 2005, the EPA approved the completed project. The total cost of removal, including technical work, oversight, consultant fees, legal fees and ongoing monitoring, was about \$10.8 million. To date, we have paid \$9.8 million on work related to the removal of the tar deposit. As of March 31, 2008, we have a net liability of this site of \$1.0 million remaining for our estimate of ongoing costs, which is at the low end of the range of the potential liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

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**Central Service Center site.** In 2006, we received notice from the ODEQ that our Central Service Center in southeast Portland (the Central Service Center site) was assigned a high priority for further environmental investigation. Previously there were three manufactured gas storage tanks on the premises. The ODEQ believes there could be site contamination associated with releases of condensate from stored manufactured gas as a result of historic gas handling practices. In the early 1990s, we excavated waste piles and much of the contaminated surface soils and removed accessible waste from some of the abandoned piping. In early 2007, we received notice that this site has been added to the ODEQ's list of sites where releases of hazardous substances have been confirmed and its list where additional investigation or cleanup is necessary. As of March 31, 2008, we have an estimated liability of \$0.5 million for this site. We cannot reasonably estimate a range of liability until studies are completed.

**Front Street site.** The Front Street site was the former location of a gas manufacturing plant operated by our predecessor. Although it is outside the geographic scope of the current Portland Harbor site sediment studies, the EPA directed the Lower Willamette Group to collect a series of surface and subsurface sediment samples off the river bank adjacent to where that facility was located. Based on the results of that sampling, the EPA notified the Lower Willamette Group that additional sampling would be required. Until the results of that sampling are evaluated, a future cost cannot be reasonably estimated.

**Oregon Steel Mills site.** See "Legal Proceedings," below.

**Accrued Liabilities Relating to Environmental sites.** Until 2007, we had not been able to determine the timing of our environmental liabilities and therefore had classified no liabilities as current prior to June 2007. The following table summarizes the accrued liabilities relating to environmental sites at March 31, 2008 and 2007 and December 31, 2007:

Thousands	March 31, 2008		March 31, 2007		Dec. 31, 2007	
	Current	Non-Current	Current	Non-Current	Current	Non-Current
Gasco site	\$ 8,444	\$12,406	\$ —	\$6,249	\$6,901	\$14,342
Siltronic site	1,502	—	—	62	—	1,540
Portland Harbor site	1,454	12,887	—	1,703	—	14,821
Central Service Center site	—	529	—	—	—	529
Other sites	—	84	—	155	—	167
Total	<u>\$11,400</u>	<u>\$25,906</u>	<u>\$ —</u>	<u>\$8,169</u>	<u>\$6,901</u>	<u>\$31,399</u>

**Regulatory and Insurance Recovery for Environmental Matters.** In May 2003, the Oregon Public Utility Commission (OPUC) approved our request for deferral of environmental costs associated with specific sites, including the Gasco, Siltronic and Portland Harbor sites. An extension request of the original deferral order is pending with the OPUC, which will allow us to defer and seek recovery of unreimbursed environmental costs in a future general rate case through early 2009. The extension request also asks for additional named sites to be included in the deferral order. Beginning in 2006, the OPUC authorized us to accrue interest on deferred environmental cost balances, subject to an annual demonstration that we have maximized our insurance recovery or made substantial progress in securing insurance recovery for unrecovered environmental expenses. As of March 31, 2008, we have paid a cumulative total of \$26.1 million relating to the named sites since the effective date of the deferral authorization.

On a cumulative basis, we have recognized a total of \$68.2 million for environmental costs, including legal, investigation, monitoring and remediation costs. Of this total, \$30.9 million has been spent to date and \$37.3 million is reported as an outstanding liability. At March 31, 2008, we had a regulatory asset of \$63.4 million, which includes \$26.1 million of total paid expenditures to date, \$33.4 million for additional environmental costs expected to be paid in the future and accrued interest of \$3.9 million. We believe the recovery of these deferred charges is probable through the regulatory process. We intend to pursue recovery of an insurance receivable and environmental regulatory deferrals from insurance carriers under our general liability insurance policies, and the regulatory asset will be reduced by the amount of any corresponding insurance recoveries. We consider insurance recovery of some portion of our environmental costs probable based on a combination of factors, including a review of the terms of our insurance policies,

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the financial condition of the insurance companies providing coverage, a review of successful claims filed by other utilities with similar gas manufacturing facilities, and Oregon legislation that allows an insured party to seek recovery of "all sums" from one insurance company. We have initiated settlement discussions with a majority of our insurers but continue to anticipate that our overall insurance recovery effort will extend over several years.

We anticipate that our regulatory recovery of environmental cost deferrals will not be initiated within the next 12 months because we will not have completed our insurance recovery efforts during that time period. As such we have classified our regulatory assets for environmental cost deferrals as non-current. The following table summarizes the regulatory assets relating to environmental matters at March 31, 2008 and 2007 and December 31, 2007:

<u>Thousands</u>	<u>Non-Current Regulatory Assets</u>		
	<u>March 31, 2008</u>	<u>March 31, 2007</u>	<u>Dec. 31, 2007</u>
Gasco site	\$ 29,414	\$ 10,836	\$ 29,042
Siltronic site	2,247	477	2,227
Portland Harbor site	30,880	16,770	30,869
Central Service Center site	545	15	545
Other sites	300	199	371
Total	<u>\$ 63,386</u>	<u>\$ 28,297</u>	<u>\$ 63,054</u>

**Legal Proceedings**

We are subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings, including the matter described below, cannot be predicted with certainty, we do not expect that the ultimate disposition of these matters will have a material adverse effect on our financial condition, results of operations or cash flows.

**Oregon Steel Mills site.** In 2004, NW Natural was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, Oregon Steel Mills, Inc. v. The Port of Portland. The Port alleges that in the 1940s and 1950s petroleum wastes generated by our predecessor, Portland Gas & Coke Company, and 10 other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. In March 2005, motions to dismiss by ourselves and other third-party defendants were denied on the basis that the failure of the Port to plead and prove that we were in violation of law was an affirmative defense that may be asserted at trial, but did not provide a sufficient basis for dismissal of the Port's claim. No date has been set for trial and discovery is ongoing. We do not expect that the ultimate disposition of this matter will have a material adverse effect on our financial condition, results of operations or cash flows.

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

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-15973



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

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

**93-0256722**  
(I.R.S. Employer  
Identification No.)

**220 N.W. Second Avenue, Portland, Oregon 97209**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(503) 226-4211**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 29, 2007, the registrant had 26,815,203 shares of its Common Stock outstanding. The aggregate market value of these shares of Common Stock (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$1,226,580,437.

At February 25, 2008, 26,408,248 shares of the registrant's Common Stock (the only class of Common Stock) were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

List documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated.

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recovery is included in other comprehensive income. There were no realized gains or losses on the interest rate swap during 2007.

As of December 31, 2007, all of the natural gas hedges mature by or are extendible to October 31, 2009. The maturity date for our interest rate swap contract is September 30, 2018; however, we expect to cash settle this contract concurrently with the issuance of long-term debt in the second half of 2008.

### 12. COMMITMENTS AND CONTINGENCIES:

#### Lease Commitments

We lease land, buildings and equipment under agreements that expire in various years through 2046. Rental expense under operating leases was \$4.6 million, \$4.4 million and \$4.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. The table below reflects the future minimum lease payments due under non-cancelable leases at December 31, 2007. Such payments total \$53.0 million for operating leases. The net present value of payments on capital leases less imputed interest was \$1.2 million. These commitments relate principally to the lease of our office headquarters, underground gas storage facilities, vehicles and computer equipment.

Thousands	2008	2009	2010	2011	2012	Later years
Operating leases	\$ 4,257	\$ 4,184	\$ 4,177	\$ 4,140	\$ 4,265	\$ 32,003
Capital leases	532	393	255	26	-	-
Minimum lease payments	<u>\$ 4,789</u>	<u>\$ 4,577</u>	<u>\$ 4,432</u>	<u>\$ 4,166</u>	<u>\$ 4,265</u>	<u>\$ 32,003</u>

#### Gas Purchase and Pipeline Capacity Purchase and Release Commitments

We have signed agreements providing for the reservation of firm pipeline capacity under which we are required to make fixed monthly payments for contracted capacity. The pricing component of the monthly payment is established, subject to change, by U.S. or Canadian regulatory bodies. In addition, we have entered into long-term sale agreements to release firm pipeline capacity. We also enter into gas purchase agreements. The aggregate amounts of these agreements were as follows at December 31, 2007:

Thousands	Gas Purchase Agreements	Pipeline Capacity Purchase Agreements	Pipeline Capacity Release Agreements
2008	\$ 302,709	\$ 87,453	\$ 5,105
2009	118,936	68,631	5,105
2010	53,253	65,344	4,254
2011	24,106	64,989	-
2012	24,106	49,977	-
2013 through 2027	44,193	131,501	-
Total	<u>567,303</u>	<u>467,895</u>	<u>14,464</u>
Less: Amount representing interest	27,538	61,410	567
Total at present value	<u>\$ 539,765</u>	<u>\$ 406,485</u>	<u>\$ 13,897</u>

Our total payments of fixed charges under capacity purchase agreements in 2007, 2006 and 2005 were \$90.1 million, \$69.2 million and \$83.1 million, respectively. Included in the

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amounts were reductions for capacity release sales of \$5.3 million for 2007 and \$3.7 million for both 2006 and 2005. In addition, per-unit charges are required to be paid based on the actual quantities shipped under the agreements. In certain take-or-pay purchase commitments, annual deficiencies may be offset by prepayments subject to recovery over a longer term if future purchases exceed the minimum annual requirements.

### Environmental Matters

We own, or have previously owned, properties that may require environmental remediation or action. We accrue all material loss contingencies relating to these properties that we believe to be probable of assertion and reasonably estimable. We continue to study the extent of our potential environmental liabilities, but due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several environmental site investigations, the range of potential loss beyond the amounts currently accrued, and the probabilities thereof, cannot be reasonably estimated. We regularly review our remediation liability for each site where we may be exposed to remediation responsibilities. The costs of environmental remediation are difficult to estimate. A number of steps are involved in each environmental remediation effort, including site investigations, remediation, operations and maintenance, monitoring and site closure. Each of these steps may, over time, involve a number of alternative actions, each of which can change the course of the effort. In certain cases, in addition to us, there are a number of other potentially responsible parties, each of which, in proceedings and negotiations with other potentially responsible parties and regulators, may influence the course of the remediation effort. The allocation of liabilities among the potentially responsible parties is often subject to dispute and can be highly uncertain. The events giving rise to environmental liabilities often occurred many decades ago, which complicates the determination of allocating liabilities among potentially responsible parties. Site investigations and remediation efforts often develop slowly over many years. In addition, disputes may arise between potentially responsible parties and regulators as to the severity of particular environmental matters and what remediation efforts are appropriate. These disputes could lead to adversarial administrative proceedings or litigation, with uncertain outcomes.

To the extent reasonably estimable, we estimate the costs of environmental liabilities using current technology, enacted laws and regulations, industry experience gained at similar sites and an assessment of the probable level of involvement and financial condition of other potentially responsible parties. Unless there is a better estimate within this range of probable cost, we record the liability at the lower end of this range. It is likely that changes in these estimates will occur throughout the remediation process for each of these sites due to uncertainty concerning our responsibility, the complexity of environmental laws and regulations and the selection of compliance alternatives. The status of each of the sites currently under investigation is provided below.

**Gasco site.** We own property in Multnomah County, Oregon that is the site of a former gas manufacturing plant that was closed in 1956 (the Gasco site). The Gasco site has been under investigation by us for environmental contamination under the Oregon Department of Environmental Quality's (ODEQ) Voluntary Clean-Up Program. In June 2003, we filed a Feasibility Scoping Plan and an Ecological and Human Health Risk Assessment with the ODEQ, which outlined a range of remedial alternatives for the most contaminated portion of the Gasco site. In May 2007, we completed a revised upland remediation investigation report and submitted it to the ODEQ for review. During 2007, we accrued an additional \$19.3 million

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for estimated liabilities based on updated information for the development of proposed studies of in-water source control and completion of remedial actions. We have a net liability of \$21.2 million at December 31, 2007 for the Gasco site, which is estimated at the low end of the range of potential liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

**Siltronic site.** We previously owned property adjacent to the Gasco site that now is the location of a manufacturing plant owned by Siltronic Corporation (the Siltronic site). We are currently working with the ODEQ to develop a study of manufactured gas plant wastes on the uplands at this site. During 2007, the estimated liability for this site increased by \$1.8 million related to future expenditures in connection with the study, which is at the low end of the range of potential additional liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated. The net liability at December 31, 2007 for the Siltronic site is \$1.5 million.

**Portland Harbor site.** In 1998, the ODEQ and the U.S. Environmental Protection Agency (EPA) completed a study of sediments in a 5.5-mile segment of the Willamette River (Portland Harbor) that includes the area adjacent to the Gasco site and the Siltronic site. The Portland Harbor was listed by the EPA as a Superfund site in 2000 and we were notified that we are a potentially responsible party. We then joined with other potentially responsible parties, referred to as the Lower Willamette Group, to fund environmental studies in the Portland Harbor. Subsequently, the EPA approved a Programmatic Work Plan, Field Sampling Plan and Quality Assurance Project Plan for the Portland Harbor Remedial Investigation/Feasibility Study (RI/FS), completion of which is currently expected in 2009. The EPA and the Lower Willamette Group are conducting focused studies on approximately nine miles of the lower Willamette River, including the segment previously studied by the EPA. During 2007, we received a revised estimate and following a review of that estimate, we accrued an additional \$13.6 million for additional expenditures related to RI/FS development and environmental remediation and monitoring after the RI/FS work plan is completed. As of December 31, 2007, we have a net liability of \$13.8 million, which is at the low end of the range of the potential liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

In April 2004, we entered into an Administrative Order on Consent providing for early action removal of a deposit of tar in the river sediments adjacent to the Gasco site. We completed the removal of the tar deposit in the Portland Harbor in October 2005 and on November 5, 2005, the EPA approved the completed project. The total cost of removal, including technical work, oversight, consultant fees, and legal fees and ongoing monitoring, was about \$10.4 million. In 2007 we accrued \$0.5 million for additional monitoring and reporting expense. To date, we have paid \$9.8 million on work related to the removal of the tar deposit. As of December 31, 2007, we have a net liability of \$1.0 million, which is at the low end of the range of the potential liability because no amount within the range is considered to be more likely than another and the high end of the range cannot be estimated.

**Central Service Center site.** In 2006, we received notice from the ODEQ that our Central Service Center in southeast Portland (the Central Service Center site) was assigned a high priority for further environmental investigation. Previously there were three manufactured gas storage tanks on the premises. The ODEQ believes there could be site contamination associated with releases of condensate from stored manufactured gas as a result of historic gas handling

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practices. In the early 1990s, we excavated waste piles and much of the contaminated surface soils and removed accessible waste from some of the abandoned piping. In early 2007, we received notice that this site has been added to the ODEQ's list of sites where releases of hazardous substances have been confirmed and its list where additional investigation or cleanup is necessary. During 2007, we accrued \$0.5 million for estimated liabilities related to the design of an investigational plan for this site in cooperation with the ODEQ. We cannot estimate a range of liability until studies are completed.

**Front Street site.** The Front Street site was the former location of a gas manufacturing plant operated by our predecessor. Although it is outside the geographic scope of the current Portland Harbor site sediment studies, the EPA directed the Lower Willamette Group to collect a series of surface and subsurface sediment samples off the river bank where that facility was located. Based on the results of that sampling, the EPA notified the Lower Willamette Group that additional sampling would be required. Until the results of that sampling are evaluated, a future cost cannot be reasonably estimated.

**Oregon Steel Mills site.** See "Legal Proceedings," below.

**Accrued Liabilities relating to Environmental sites.** Until the current year, we had not been able to determine the timing of our environmental liabilities and therefore had classified no liabilities as current prior to June 2007. The following table summarizes the accrued liabilities relating to environmental sites at December 31, 2007 and 2006:

Thousands	Current Liabilities		Non-Current Liabilities	
	2007	2006	2007	2006
Gasco site	\$ 6,901	\$ -	\$ 14,342	\$ 6,414
Siltronic site	-	-	1,540	43
Portland Harbor site	-	-	14,821	2,149
Central Service Center site	-	-	529	-
Other sites	-	-	167	62
Total	<u>\$ 6,901</u>	<u>\$ -</u>	<u>\$ 31,399</u>	<u>\$ 8,668</u>

**Regulatory and Insurance Recovery for Environmental Matters.** In May 2003, the OPUC approved our request for deferral of environmental costs associated with specific sites, including the Gasco, Siltronic, Portland Harbor and Front Street sites. The authorization, which was extended through January 2008 and expanded to include the Oregon Steel Mills site, allows us to defer and seek recovery of unreimbursed environmental costs in a future general rate case. Beginning in 2006, the OPUC authorized us to accrue interest on deferred balances, subject to an annual demonstration that we have maximized our insurance recovery or made substantial progress in securing insurance recovery for unrecovered environmental expenses. An application for further extension of the regulatory approval to defer environmental costs and accrued interest is pending. As of December 31, 2007, we have paid a cumulative total of \$24.8 million relating to the named sites since the effective date of the deferral authorization.

On a cumulative basis, we have recognized a total of \$67.8 million for environmental costs, including legal, investigation, and monitoring and remediation costs. Of this total, \$29.5 million has been spent to-date and \$38.3 million is reported as an outstanding liability. At December 31, 2007, we had a regulatory asset of \$63.1 million which includes \$24.8 million of total paid expenditures to date, \$35.1 million for additional environmental accruals for costs expected to be paid in the future and accrued interest of \$3.2 million. We believe the recovery

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of these costs is probable through the regulatory process. We intend to pursue recovery of these environmental costs from our general liability insurance policies, and the regulatory asset will be reduced by the amount of any corresponding insurance recoveries. We consider insurance recovery of some portion of our environmental costs probable based on a combination of factors, including a review of the terms of our insurance policies, the financial condition of the insurance companies providing coverage, a review of successful claims filed by other utilities with similar gas manufacturing facilities, and Oregon legislation that allows an insured party to seek recovery of "all sums" from one insurance company. We have initiated settlement discussions with a majority of our insurers but continue to anticipate that our overall insurance recovery effort will extend over several years.

We anticipate that our regulatory recovery of environmental cost deferrals will not be initiated within the next 12 months because we will not have completed our insurance recovery efforts during that time period. As such we have classified our regulatory assets for environmental cost deferrals as non-current. The following table summarizes the regulatory assets and accrued liabilities relating to environmental matters at December 31, 2007 and 2006:

Thousands	Non-Current Regulatory Assets	
	2007	2006
Gasco site	\$ 29,042	\$ 10,336
Siltronic site	2,227	477
Portland Harbor site	30,869	16,769
Central Service Center site	545	-
Other sites	371	291
Total	<u>\$ 63,054</u>	<u>\$ 27,873</u>

Legal Proceedings

We are subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings, including the matter described below, cannot be predicted with certainty, we do not expect that the ultimate disposition of these matters will have a material adverse effect on our financial condition, results of operations or cash flows.

**Oregon Steel Mills site.** In 2004, NW Natural was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, *Oregon Steel Mills, Inc. v. The Port of Portland*. The Port alleges that in the 1940s and 1950s petroleum wastes generated by our predecessor, Portland Gas & Coke Company, and 10 other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The Port's complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. In March 2005, motions to dismiss by ourselves and other third-party defendants were denied on the basis that the failure of the Port to plead and prove that we were in violation of law was an affirmative defense that may be asserted at trial, but did not provide a sufficient basis for dismissal of the Port's claim. No date has been set for trial and discovery is ongoing. We do not expect that the ultimate disposition of this matter will have a material adverse effect on our financial condition, results of operations or cash flows.

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NORTHWEST NATURAL GAS COMPANY  
 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Thousands, except per share amounts	Quarter ended				Total
	March 31	June 30	Sept. 30	Dec. 31	
<b>2007</b>					
Operating revenues	\$ 394,091	\$ 183,249	\$ 124,245	\$ 331,608	\$ 1,033,193
Net operating revenues	139,008	64,118	49,663	116,253	369,042
Net income (loss)	48,075	2,617	(5,908)	29,713	74,497
Basic earnings (loss) per share	1.77	0.10	(0.22)	1.12	2.78*
Diluted earnings (loss) per share	1.76	0.10	(0.22)	1.11	2.76*
<b>2006</b>					
Operating revenues	\$ 390,391	\$ 170,979	\$ 114,914	\$ 336,888	\$ 1,013,172
Net operating revenues	125,464	61,747	41,341	111,624	340,176
Net income (loss)	41,033	1,994	(9,724)	30,112	63,415
Basic earnings (loss) per share	1.49	0.07	(0.35)	1.10	2.30*
Diluted earnings (loss) per share	1.48	0.07	(0.35)	1.09	2.29*

\* Quarterly earnings (loss) per share are based upon the average number of common shares outstanding during each quarter. Because the average number of shares outstanding has changed in each quarter shown, the sum of quarterly earnings (loss) per share may not equal earnings per share for the year. Variations in earnings between quarterly periods are due primarily to the seasonal nature of our business.

**Exhibit G**

Comparative income statements showing recorded results of operations, adjustments to record the proposed transaction and pro forma, in conformity with the form in the annual report which applicant is required, or will be required, to file with the Commission.

**NORTHWEST NATURAL GAS COMPANY**  
**Pro Forma Condensed Income Statement**  
(Thousands)

	<u>Twelve Months Ended March 31, 2008</u>	<u>Property Sale Adjustments (1)</u>	<u>Pro Forma</u>
Operating Revenues	\$ 362,457		\$ 362,457
Operating Expense	<u>214,975</u>	(9)	<u>214,966</u>
Operating Income	147,482	9	147,491
Other Income	<u>1,080</u>		<u>1,080</u>
Income Before Interest Charges and Income	<u>148,562</u>	9	<u>148,571</u>
Interest Charges - net of amounts capitalized	<u>37,674</u>		<u>37,674</u>
Income Before Income Taxes	110,888		110,897
Income Taxes	<u>41,298</u>	3	<u>41,301</u>
Net Income	<u>\$ 69,590</u>	<u>\$ 6</u>	<u>\$ 69,596</u>
Basic Earnings Per Average Share of Common Stock	<u>\$2.61</u>		<u>\$2.61</u>
Diluted Earnings Per Average Share of Common Stock	<u>\$2.60</u>		<u>\$2.60</u>
<b>Analysis of Earned Surplus</b>			
Earnings Invested in the Business (beginning of period)	\$ 269,172		\$ 269,172
Balance Transferred from Income	69,590	6	69,596
Other Comprehensive Income	(2,324)		(2,324)
Total Credits	<u>336,438</u>	6	<u>336,443</u>
<b>Miscellaneous Debits to Surplus:</b>			
Dividends Declared:			
Common Stock	38,839		38,839
Changes in Other Comprehensive Income	515		515
Total Debits	<u>39,355</u>	-	<u>39,355</u>
Earnings Invested in the Business	<u>\$ 297,083</u>	<u>\$ 6</u>	<u>\$ 297,089</u>

(1) Adjusted to reflect the following:

- Sale of Albany property (\$710,000)
- Deferral of gain, net of tax for purchase of replacement property
- Decrease in depreciation expense of \$8,617
- Increase in tax expense of \$3,361 due to lower depreciation expense (39% effective tax rate)

**Exhibit H**

An analysis of surplus for the period covered by the income statements referred to in Exhibit G.

12 month

	<b>3/31/2008</b>	<b>3/31/2007</b>	<b>12/31/2007</b>	<b>12 months</b>
Dividends Paid	9,903	9,677	38,613	38,839
Capital Stock Exp			-	
OCI	659	32	(1,146)	(519)

## **Exhibit I**

A copy of each contract in respect to the sale, lease or other proposed disposition, merger or consolidation of facilities, acquisition of stock, bonds, or property of another utility, as the case may be, with copies of all other written instruments entered into or proposed to be entered into by the parties to the transaction pertaining thereto.

- Purchase and Sale Agreement and Receipt for Earnest Money, dated as of April 8, 2008, between Northwest Natural Gas Company and Elwood Martin and/or assigns.
- Promissory Note (for Earnest Money) from Elwood Martin, dated as of April 8, 2008 in the amount of \$10,000.
- Addendum to Purchase and Sale Agreement and Receipt for Earnest Money, dated as of May 16, 2008, between Elwood Martin and Northwest Natural Gas Company.
- Addendum to Purchase and Sale Agreement, dated as of June 3, 2008, between Elwood Martin and Northwest Natural Gas Company.

**PURCHASE AND SALE AGREEMENT AND RECEIPT FOR  
EARNEST MONEY**

1 Dated: April 8, 2008

2  
3 BETWEEN:

4 Northwest Natural Gas Company ("Seller")  
5 Address:

6  
7  
8 AND:

9 Elwood Martin and/or assigns ("Buyer")  
10 Address:

11  
12  
13 Buyer offers to buy and acquire from Seller (i) the real property and all improvements thereon  
14 commonly known as NW Natural Gas Building and Land and located at 730 SW 34<sup>th</sup>  
15 Avenue, in the City of Albany, County of Linn, Oregon legally described as follows: Tax  
16 Accnt: R381398 Tax Lot: #101, Ref Parcel # 11S-4W-13-SE-SE, consisting of  
17 approximately 3.25 +/- acres and all improvements thereon, actual legal description to be  
18 provided by First American Title Company and approved by the Buyer and Seller prior to  
19 escrow and attached hereto and incorporated herein by reference (the "Property"). If no legal  
20 description is attached, Buyer and Seller will attach a legal description upon receipt and  
21 reasonable approval by both parties of the Preliminary Commitment or, if applicable, the  
22 Survey.

23  
24 1. Purchase Price. The total purchase price is Seven Hundred and Ten  
25 Thousand Dollars---(\$710,000.00) (the "Purchase Price") payable as follows: All Cash at  
26 Close of Escrow.

27  
28 2. Earnest Money Deposit. Upon execution of this Agreement, Buyer shall  
29 deliver to the Escrow Holder as defined in herein, for the account of Buyer \$10,000.00 as  
30 earnest money (the "Earnest Money") in the form of  cash or  check or  promissory  
31 note (the "Note"). If the Earnest Money is in the form of the Note, it shall be due and payable  
32 no later than 5 PM Pacific Time  by Buyer and Seller or  One day after waiver of all  
33 conditions stipulated to Buyer's obligation to purchase the Property set forth in this  
34 Agreement.

35 If the Note is not redeemed and paid in full when due, then (i) the Note shall be delivered and  
36 endorsed to Seller (if not already in Seller's possession), (ii) Seller may collect the Earnest  
37 Money from Buyer, either pursuant to an action on the Note or an action on this Agreement,  
38 and (iii) Seller shall have no further obligations under this Agreement. The purchase and sale  
39 of the Property shall be accomplished through an escrow (the "Escrow") which Seller has  
40 established or will establish with First American Title Company, (the "Title Company") and  
41 the Earnest Money shall be deposited with  Title Company located at the following branch:  
42 1124 Cornucopia St N.W., Salem, OR 97304 Attn: Debbie Smith, Commercial Escrow  
43 Officer. The Earnest Money shall be applied to the payment of the purchase price for the

44 Property at Closing. Any interest earned on the Earnest Money shall be considered to be part  
45 of the Earnest Money. The Earnest Money shall be returned to Buyer in the event any  
46 condition to Buyer's obligation to purchase the Property shall fail to be satisfied or waived  
47 through no fault of Buyer.

48 3. Conditions to Purchase. Buyer's obligation to purchase the Property is  
49 conditioned on the following: Buyer's approval of the results of (i) the Property inspection  
50 described in Section 4 below and (ii) the document review described in Section 5 and (iii)  
51 Buyers satisfaction and/or waiver of the following:

52  
53 A) Tax deferred exchange  
54 Both Buyer and Seller may participate in a 1031 Tax Exchange at their own  
55 expense; said Exchange shall not hinder or delay the completion of this  
56 transaction.

57  
58 B) Finance contingency  
59 Buyer is financing a portion of the purchase of this property. This transaction  
60 is contingent upon the Buyer receiving lender financing at terms and conditions  
61 acceptable to the Buyer within forty five (45) days of Execution Date of this  
62 Agreement. If the Buyer has not given written approval of all other terms and  
63 conditions related to financing within forty five (45) days after Execution Date  
64 of this Agreement, Buyer may elect to terminate this Agreement with both Buyer  
65 and Seller having no further obligation to each other, and any amount or form  
66 of earnest monies shall be promptly returned to the Buyer.

67  
68 C) Buyers Feasibility - Due Diligence contingency  
69 Buyer shall have forty five (45) days from Execution Date to perform any due-  
70 diligence and feasibility investigations deemed necessary for the Buyer's  
71 intended use and future development of the subject property. If for any reason  
72 the Buyer has not given written approval of this due diligence feasibility period  
73 within forty five (45) days of Execution Date of this Agreement, this Agreement  
74 may be terminated at the Buyers discretion, with the Buyer and Seller having no  
75 further obligation to each other, and any amount or form of earnest monies  
76 shall be immediately returned to the Buyer.

77  
78 D) Buyer Inspections  
79 This transaction shall be conditioned on the Buyer's property inspection period  
80 as stipulated in section 4 below. The Buyer shall have forty five (45) days from  
81 Execution Date to perform any and all inspections deemed necessary, including  
82 all levels of Environmental studies.  
83 If for any reason the Buyer has not given written approval of the inspection  
84 period within forty five (45) days after Execution Date of this Agreement, this  
85 Agreement may be terminated at the Buyers discretion, with the Buyer and  
86 Seller having no further obligation to each other, and any amount or form of  
87 earnest monies shall be immediately returned to the Buyer. Any inspections or  
88 studies performed on the subject property shall be completed at the Buyer's  
89 own expense.  
90

91 if for any reason in Buyer's sole discretion, Buyer has not given written waiver of  
92 these conditions, or stated in writing that these conditions have been satisfied, by  
93 written notice given to Seller within 45 days after the delivery of a fully executed  
94 Agreement to Buyer and Seller, this Agreement shall be deemed automatically  
95 terminated, the Earnest Money shall be promptly returned to Buyer, and thereafter,  
96 except as specifically provided to the contrary herein, neither party shall have any  
97 further right or remedy hereunder.  
98

99 **4. Property Inspection.** Seller shall permit Buyer and its agents, at Buyer's  
100 sole expense and risk, to enter the Property at reasonable times after reasonable prior  
101 notice to Seller and after prior notice to the tenants of the Property as required by the  
102 tenants' leases, if any, to conduct any and all inspections, tests, and surveys concerning the  
103 structural condition of the improvements, all mechanical, electrical and plumbing systems,  
104 hazardous materials, pest infestation, soils conditions, wetlands, Americans with Disabilities  
105 Act compliance, and all other matters affecting the suitability of the Property for Buyer's  
106 intended use and/or otherwise reasonably related to the purchase of the Property including  
107 the economic feasibility of such purchase. Buyer shall indemnify, hold harmless, and defend  
108 Seller from all liens, costs, and expenses, including reasonable attorneys' fees and experts'  
109 fees, arising from or relating to Buyer's entry on and inspection of the Property. This  
110 agreement to indemnify, hold harmless, and defend Seller shall survive closing or any  
111 termination of this Agreement.  
112

113 **5. Seller's Documents.** Within 10 days after the Execution Date, Seller shall  
114 deliver to Buyer, at Buyer's address shown above, legible and complete copies of  
115 the following documents and other items relating to the ownership, operation, and  
116 maintenance of the Property, to the extent now in existence and to the extent such items are  
117 within Seller's possession or control: include any documents pertaining to property;  
118 copies of any active leases or rental agreements; list any upgrades performed on the  
119 property within the last three years; provide any documents, plans, drawings, or  
120 specifications of the structures and real property, any maintenance agreements; all  
121 environmental studies performed of any kind, any notices or correspondence from City,  
122 State, County, or other governmental authorities about the subject property that could  
123 affect the future use or condition of the property.  
124

125 **6. Title Insurance.** Within 10 days after the Execution Date, Seller shall open the  
126 Escrow with the Title Company and deliver to Buyer a preliminary title report from the Title  
127 Company (the "Preliminary Commitment"), showing the status of Seller's title to the Property,  
128 together with complete and legible copies of all documents shown therein as exceptions to  
129 title ("Exceptions"). Buyer shall have 10 days after receipt of a copy of the Preliminary  
130 Commitment and Exceptions within which to give notice in writing to Seller of any objection to  
131 such title or to any liens or encumbrances affecting the Property. Within 10 days after the  
132 date of such notice from Buyer, Seller shall give Buyer written notice of whether it is willing  
133 and able to remove the objected-to Exceptions. Within 10 days after the date of such notice  
134 from Seller, Buyer shall elect whether to (i) purchase the Property subject to those objected-  
135 to Exceptions which Seller is not willing or able to remove or (ii) terminate this Agreement.  
136 On or before the Closing Date (defined below), Seller shall remove all Exceptions to which  
137 Buyer objects and which Seller agrees Seller is willing and able to remove. All remaining

138 Exceptions set forth in the Preliminary Commitment and agreed to by Buyer shall be deemed  
139 "Permitted Exceptions." The title insurance policy to be delivered by Seller to Buyer  
140 at Closing shall contain no Exceptions other than the Permitted Exceptions, any Exceptions  
141 caused by Buyer and the usual preprinted Exceptions contained in an owner's standard ALTA  
142 form title insurance policy.  
143

144 **7. Default; Remedies.** Notwithstanding anything to the contrary contained in this  
145 Agreement, in the event Buyer fails to deposit the Earnest Money Deposit in Escrow strictly as  
146 and when contemplated under Section 2 above, Seller shall have the right at any time  
147 thereafter to terminate this Agreement and all further rights and obligations hereunder by  
148 giving written notice thereof to Buyer. If the conditions, if any, to Buyer's obligation to  
149 consummate this transaction are satisfied or waived by Buyer and Buyer nevertheless fails,  
150 through no fault of Seller, to close the purchase of the Property, Seller's sole remedy  
151 shall be to retain the Earnest Money paid by Buyer. In the event Seller fails, through  
152 no fault of Buyer, to close the sale of the Property, Buyer shall be entitled to pursue  
153 any remedies available at law or in equity, including without limitation, the remedy of  
154 specific performance. In no event shall Buyer be entitled to punitive or consequential  
155 damages, if any, resulting from Seller's failure to close the sale of the Property.  
156

157 **8. Closing of Sale.** Buyer and Seller agree the sale of the Property shall be  
158 closed on or before June 25, 2008 in the Escrow. The sale shall be deemed "closed" when  
159 the document(s) conveying title to the Property is recorded and the Purchase Price (increased  
160 or decreased, as the case may be, by the net amount of credits and debits to Seller's account  
161 at Closing made by the Escrow Holder pursuant to the terms of this Agreement) is disbursed  
162 to Seller. At Closing, Buyer and Seller shall deposit with the Title Company all documents  
163 and funds required to close the transaction in accordance with the terms of this Agreement.  
164 At Closing, Seller shall deliver a certification in a form approved by Buyer that Seller is not a  
165 "foreign person" as such term is defined in the Internal Revenue Code and the Treasury  
166 Regulations promulgated under the Internal Revenue Code. If Seller is a foreign person and  
167 this transaction is not otherwise exempt from FIRPTA regulations, the Title Company shall be  
168 instructed by the parties to withhold and pay the amount required by law to the Internal  
169 Revenue Service. At Closing, Seller shall convey fee simple title to the Property to Buyer by  
170  statutory warranty deed or  (the "Deed"). If this Agreement provides for the  
171 conveyance by Seller of a vendee's interest in the Property by a contract of sale, Seller shall  
172 deposit with the Title Company (or other mutually acceptable escrow) the executed and  
173 acknowledged Deed, together with written instructions to deliver such deed to Buyer upon  
174 payment in full of the purchase price. At Closing, Seller shall pay for and deliver to Buyer a  
175 standard ALTA form owner's policy of title insurance (the "Policy") in the amount of the  
176 Purchase Price insuring fee simple title to the Property in Buyer subject only to the Permitted  
177 Exceptions and the standard preprinted exceptions contained in the Policy.  
178

179 **9. Closing Costs; Prorates.** Seller shall pay the premium for the Policy. Seller  
180 and Buyer shall each pay one-half of the escrow fees charged by the Title Company, any  
181 excise tax, and any transfer tax. Real property taxes for the tax year in which the transaction  
182 is closed, assessments (if a Permitted Exception), personal property taxes, rents and other  
183 Lessee charges arising from existing Tenancies paid for the month of Closing, interest on  
184 assumed obligations, and utilities shall be prorated as of the Closing Date. Prepaid rents,

185 security deposits, and other unearned refundable deposits regarding the Tenancies shall  
186 be assigned and delivered to Buyer at Closing.  Seller  Buyer  N/A shall be  
187 responsible for payment of all taxes, interest, and penalties, if any, upon removal of the  
188 Property from any special assessment or program.

189  
190 **10. Possession.** Buyer shall be entitled to exclusive possession of the  
191 Property, subject to the Tenancies existing as of the Closing Date,  At Close of Escrow  
192 or:

193  
194 **11. Condition of Property.** Seller represents that, to the best of Seller's  
195 knowledge without specific inquiry, Seller has received no written notices of violation of any  
196 laws, codes, rules, or regulations applicable to the Property ("Laws"), and Seller is not aware  
197 of any such violations or any concealed material defects in the Property which cost more than  
198 **\$1000** to repair or correct. Risk of loss or damage to the Property shall be Seller's until  
199 Closing and Buyer's at and after Closing. No agent of Buyer or Seller has made any  
200 representations regarding the Property. BUYER AND SELLER AGREE THAT THE REAL  
201 ESTATE LICENSEES NAMED IN THIS AGREEMENT HAVE MADE NO REPRESENTATIONS TO  
202 ANY PARTY REGARDING THE CONDITION OF THE PROPERTY, THE OPERATIONS ON OR  
203 INCOME FROM THE PROPERTY, THE TENANCIES, OR WHETHER THE PROPERTY OR THE  
204 USE THEREOF COMPLIES WITH LAWS. Except for Seller's representations set forth in this  
205 section 11, Buyer shall acquire the Property "as is" with all faults and buyer shall rely on the  
206 results of its own inspection and investigation in Buyer's acquisition of the Property. It shall  
207 be a condition of Buyer's obligation to close, and of Seller's right to retain the Earnest Money  
208 as of Closing, that all of the Seller's representations and warranties stated in this Agreement  
209 are materially true and correct on the Closing Date. Seller's representations and warranties  
210 stated in this Agreement shall survive Closing for one (1) year.

211  
212 **12. Personal Property.** This sale includes the following personal property: None  
213 or  the personal property located on and used in connection with the Property and owned by  
214 Seller which Seller shall itemize in a schedule. Seller shall deliver to Buyer such schedule  
215 within \_\_\_\_\_ days after the Execution Date. Seller shall convey all personal property owned  
216 by Seller on or in the Property to Buyer by executing and delivering to Buyer at Closing  
217 through Escrow by a Bill of Sale.

218  
219 **13. Notices.** Unless otherwise specified, any notice required or permitted in,  
220 or related to, this Agreement must be in writing and signed by the party to be bound. Any  
221 notice will be deemed delivered (i) when personally delivered or delivered by facsimile  
222 transmission (with electronic confirmation of delivery), or (ii) on the day following delivery  
223 of the notice by reputable overnight courier, or (iii) three (3) days after mailing in the U.S.  
224 mails, postage prepaid, by the applicable party in all events, to the address of the other party  
225 shown in this Agreement, unless that day is a Saturday, Sunday, or legal holiday, in which  
226 event it will be deemed delivered on the next following business day. If the deadline under  
227 this Agreement for delivery of a notice or payment is a Saturday, Sunday, or legal holiday,  
228 such last day will be deemed extended to the next following business day.

229  
230 **14. Assignment.** Buyer  may not assign  may assign  may assign, only if  
231 the assignee is an entity owned and controlled by Buyer (may not assign, if no box is

232 checked) this Agreement or Buyer's rights under this Agreement without Seller's prior written  
233 consent. If Seller's consent is required for assignment, such consent may be withheld in  
234 Seller's reasonable discretion.

235

236 **15. Attorneys' Fees.** In the event a suit, action, arbitration, or other proceeding of  
237 any nature whatsoever, including without limitation any proceeding under the U.S. Bankruptcy  
238 Code, is instituted, or the services of an attorney are retained, to interpret or enforce any  
239 provision of this Agreement or with respect to any dispute relating to this Agreement, the  
240 prevailing party shall be entitled to recover from the losing party its attorneys', paralegals',  
241 accountants', and other experts' fees and all other fees, costs, and expenses actually incurred  
242 and reasonably necessary in connection therewith (the "Fees"). In the event of suit, action,  
243 arbitration, or other proceeding, the amount of Fees shall be determined by the judge or  
244 arbitrator, shall include all costs and expenses incurred on any appeal or review, and shall be  
245 in addition to all other amounts provided by law.

246

247 **16. Statutory Land Use Disclaimer.** THE PROPERTY DESCRIBED IN THIS  
248 INSTRUMENT MAY NOT BE WITHIN A FIRE PROTECTION DISTRICT PROTECTING  
249 STRUCTURES. THE PROPERTY IS SUBJECT TO LAND USE LAWS AND REGULATIONS,  
250 WHICH, IN FARM AND FOREST ZONES, MAY NOT AUTHORIZE CONSTRUCTION OR SITING  
251 OF A RESIDENCE AND WHICH LIMIT LAWSUITS AGAINST FARMING OR FOREST  
252 PRACTICES AS DEFINED IN ORS 30.930 IN ALL ZONES. BEFORE SIGNING OR ACCEPTING  
253 THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD  
254 CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY  
255 APPROVED USES AND THE EXISTENCE OF FIRE PROTECTION FOR STRUCTURES.

256

257 **17. Cautionary Notice About Liens.** UNDER CERTAIN CIRCUMSTANCES, A  
258 PERSON WHO PERFORMS CONSTRUCTION-RELATED ACTIVITIES MAY CLAIM A LIEN  
259 UPON REAL PROPERTY AFTER A SALE TO THE PURCHASER FOR A TRANSACTION OR  
260 ACTIVITY THAT OCCURRED BEFORE THE SALE. A VALID CLAIM MAY BE ASSERTED  
261 AGAINST THE PROPERTY THAT YOU ARE PURCHASING EVEN IF THE CIRCUMSTANCES  
262 THAT GIVE RISE TO THAT CLAIM HAPPENED BEFORE YOUR PURCHASE OF THE  
263 PROPERTY. THIS INCLUDES, BUT IS NOT LIMITED TO, CIRCUMSTANCES WHERE THE  
264 OWNER OF THE PROPERTY CONTRACTED WITH A PERSON OR BUSINESS TO PROVIDE  
265 LABOR, MATERIAL, EQUIPMENT OR SERVICES TO THE PROPERTY AND HAS NOT PAID  
266 THE PERSONS OR BUSINESS IN FULL.

267

268 **18. Miscellaneous.** Time is of the essence of this Agreement. The facsimile  
269 transmission of any signed document including this Agreement, in accordance with Paragraph  
270 13, shall be the same as delivery of an original. At the request of either party, the party  
271 delivering a document by facsimile will confirm facsimile transmission by signing and  
272 delivering a duplicate original document. This Agreement may be executed in two or more  
273 counterparts, each of which shall constitute an original and all of which together shall  
274 constitute one and the same Agreement. This Agreement contains the entire agreement and  
275 understanding of the parties with respect to the subject matter of this Agreement and  
276 supersedes all prior and contemporaneous agreements between them with respect thereto.  
277 Without limiting the provisions of Section 14 of this Agreement, this Agreement shall be  
278 binding upon and shall inure to the benefit of the parties and their respective successors and

279 assigns. The person signing this Agreement on behalf of Buyer and the person signing this  
280 Agreement on behalf of Seller each represents, covenants and warrants that such person has  
281 full right and authority to enter into this Agreement and to bind the party for whom such  
282 person signs this Agreement to the terms and provisions of this Agreement. This Agreement  
283 shall not be recorded unless the parties otherwise agree.  
284

285 **19. Addendums; Exhibits.** The following named addendums and exhibits are  
286 attached to this Agreement and incorporated within this Agreement:  none or **Exhibit "A"**  
287 **Agency Disclosure.**  
288

289 **20. Time for Acceptance.** Seller has until 5:00 p.m. Pacific Time on **April 21,**  
290 **2008** to accept this offer. Acceptance is not effective until a copy of this Agreement which  
291 has been signed and dated by Seller is actually received by Buyer. If this offer is not so  
292 accepted, it shall expire and the Earnest Money shall be promptly refunded to Buyer and  
293 thereafter, neither party shall have any further right or remedy against the other.  
294

295 **21. Seller's Acceptance and Brokerage Agreement.** By execution of this  
296 Agreement, Seller agrees to sell the Property on the terms and conditions in this Agreement.  
297 Seller further agrees to pay a commission to **First American Title Company** (Escrow) in the  
298 total amount computed in accordance with (i) the listing agreement or other commission  
299 agreement dated: **Seller agrees to pay Principal Broker Jim O'Bryant commission as per**  
300 **fee Agreement** between Seller and Broker; or (ii) if there is no written commission agreement,  
301 Seller hereby agrees to pay a commission of  percent of the purchase price or  \$  
302 \_\_\_\_\_ Seller and Broker agree that the commission is deemed earned as of the earlier of (i)  
303 Closing or (ii) the date Buyer waives all conditions precedent to Closing as set forth in this  
304 Agreement. Unless otherwise provided in a separate written agreement, Seller shall cause  
305 the Escrow Holder to deliver to Broker the real estate commission on the Closing Date or upon  
306 Seller's breach of this Agreement, whichever occurs first. If the Earnest Money is forfeited  
307 and retained by Seller in accordance with this Agreement, in addition to any other rights the  
308 Broker may have, the Broker shall be entitled to the lesser of (A) fifty percent (50%) of the  
309 Earnest Money or (B) the commission agreed to above, and Seller hereby assigns such  
310 amount to the Broker.  
311

312 **22. Execution Date.** The Execution Date is the later of the two dates shown  
313 beneath the parties' signatures below.

314 **23. Governing Law.** This Agreement is made and executed under, and in all  
315 respects shall be governed and construed by the laws of the State of Oregon.  
316

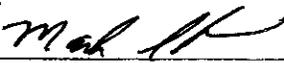
317 CONSULT YOUR ATTORNEY. THIS DOCUMENT HAS BEEN PREPARED FOR SUBMISSION  
318 TO YOUR ATTORNEY FOR REVIEW AND APPROVAL PRIOR TO SIGNING. NO  
319 REPRESENTATION OR RECOMMENDATION IS MADE BY THE COMMERCIAL ASSOCIATION  
320 OF REALTORS® OREGON/SW WASHINGTON OR BY THE REAL ESTATE LICENSEES  
321 INVOLVED WITH THIS DOCUMENT AS TO THE LEGAL SUFFICIENCY OR TAX  
322 CONSEQUENCES OF THIS DOCUMENT.  
323

324 THIS FORM SHOULD NOT BE MODIFIED WITHOUT SHOWING SUCH MODIFICATIONS BY  
325 REDLINING, INSERTION MARKS, OR ADDENDA.

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Buyer:  Date: 4-8-08  
Elwood Martin

Buyer: \_\_\_\_\_ Date: \_\_\_\_\_

Seller: \_\_\_\_\_  
 \_\_\_\_\_  
Northwest Natural Gas Co. Northwest Natural Gas Co.

By: Mark S. Dodson By: \_\_\_\_\_

Title: Chief Executive Officer Title: \_\_\_\_\_

Date: 5-16-08 Date: \_\_\_\_\_

EXHIBIT "A" AGENCY DISCLOSURE

COMMERCIAL ASSOCIATION OF REALTORS® OREGON/SW WASHINGTON  
PURCHASE AND SALE AGREEMENT AND RECEIPT FOR EARNEST MONEY  
(Oregon Commercial Form)

AGENCY ACKNOWLEDGMENT

Buyer shall execute this Acknowledgment concurrent with the execution of the Agreement below and prior to delivery of that Agreement to Seller. Seller shall execute this Acknowledgment upon receipt of the Agreement by Seller, even if Seller intends to reject the Agreement or make a counter-offer. In no event shall Seller's execution of this Acknowledgment constitute acceptance of the Agreement or any terms contained therein.

Pursuant to the requirements of Oregon Administrative Rules (OAR 863-015-0215), both Buyer and Seller acknowledge having received the Oregon Real Estate Agency Disclosure Pamphlet, and by execution below acknowledge and consent to the agency relationships in the following real estate purchase and sale transaction as follows:

- (a)  (agent name) Jim O'Bryant of HCS Commercial Real Estate firm) (Selling Licensee) is the agent of (check one):  Buyer exclusively;  Seller exclusively;  both Seller and Buyer ("Disclosed Limited Agency")
- (b)  (agent name) Steve Walti of Northwest Natural Gas Co. (firm) (Listing Licensee) is the agent of (check one):  Buyer exclusively;  Seller exclusively;  both Seller and Buyer ("Disclosed Limited Agency").

If the name of the same real estate firm appears in both Paragraphs (a) and (b) above, Buyer and Seller acknowledge that a principal broker of that real estate firm shall become the Disclosed Limited Agent for both Buyer and Seller, as more fully set forth in the Disclosed Limited Agency Agreements that have been reviewed and signed by Buyer, Seller and the named real estate licensee(s).

ACKNOWLEDGED

Buyer:  Date: 4-8-08  
Elwood Martin

Buyer: \_\_\_\_\_ Date: \_\_\_\_\_

Seller:  Date: 5-16-08  
Northwest Natural Gas Co.

Seller: \_\_\_\_\_ Date: \_\_\_\_\_  
Northwest Natural Gas Co.

**DISCLOSURE REGARDING AGENCY RELATIONSHIP(S)**  
(As required by Oregon Revised Statutes Chapter 696)  
**(ATTACH TO AGENCY DISCLOSURE ACKNOWLEDGMENT FORM)**

An agency relationship arises whenever two persons agree that one is to act on behalf of the other and in accordance with the other's directions. The creation of an agency relationship imposes certain legal duties on the agent.

Before a seller or a buyer enters into a discussion with a real estate licensee regarding a real property transaction, the seller and the buyer should each understand what type of agency relationship or representation the buyer and the seller may have with each agent in that transaction.

**SELLER'S AGENT**

An agent who acts under a listing agreement with the seller acts as the agent for the seller only. A seller's agent has affirmative obligations (under section 3 of this 1993 Act):

- (1) To the seller: The fiduciary duties of loyalty, obedience, disclosure, confidentiality, reasonable care and diligence, and accounting in dealings with the seller.
- (2) To the buyer and to the seller: Honest dealing and disclosure.

**BUYER'S AGENT**

A real estate licensee other than the seller's agent can agree with the buyer to act as the agent for the buyer only. In this situation, the buyer's agent is not representing the seller, even if the buyer's agent is receiving compensation for services rendered, either in full or in part, from the seller or through the seller's agent. A buyer's agent has the affirmative obligations (under section 4 of this 1993 Act):

- (1) To the buyer: The fiduciary duties of loyalty, obedience, disclosure, confidentiality, reasonable care and diligence, and accounting in dealings with the buyer.
- (2) To the buyer and to the seller: Honest dealing and disclosure.

**SELLERS AND BUYERS**

None of the foregoing duties of the agent in a real estate transaction relieves a seller or a buyer from the responsibility to protect the seller's or buyer's own interests respectively. The seller and the buyer should carefully read all agreements to assure that the agreements adequately express the seller's or the buyer's understanding of the transaction.

**IN-COMPANY SALES**

- (1) A licensee, acting either alone or through one or more licensees within the same real estate organization, may give limited representation to both the seller and the buyer in a real estate transaction.
- (2) In an in-company agreement, the agent acting as an in-company agent has the following affirmative obligations to both the seller and the buyer:
  - (a) Loyalty, obedience, disclosure, confidentiality, and accounting in dealings with both the seller and the buyer. HOWEVER, IN REPRESENTING BOTH THE SELLER AND THE BUYER, THE LICENSEE SHALL NOT, WITHOUT THE EXPRESS WRITTEN PERMISSION OF THE RESPECTIVE PERSON, DISCLOSE TO THE OTHER PERSON:
    - (i) That the seller will accept a price lower than or terms less favorable than the listing price or terms; or
    - (ii) That the buyer will pay a price higher than or terms more favorable than the offering price and terms; or
    - (iii) Other than price and terms, confidential information specifically designated as such in writing by the buyer or seller as set out on form 26 "Agency Disclosure Acknowledgment" attached.
  - (b) Reasonable care and diligence.
  - (c) Honest dealing.

**THE ACTS OF THE AGENTS MAY CAUSE LEGAL LIABILITY  
TO THE PRINCIPALS.**

**A REAL ESTATE LICENSEE IS QUALIFIED TO ADVISE ON REAL ESTATE;  
IF YOU DESIRE LEGAL ADVICE, CONSULT A LAWYER.**

PROMISSORY NOTE  
(For Earnest Money)

\$10,000.00

Date: April 8, 2008

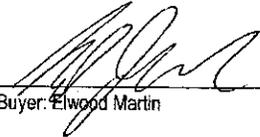
KNOW ALL MEN BY THESE PRESENTS that **Elwood Martin (Buyer)** does hereby promise to pay to the order of **Northwest Natural Gas Co (Seller)** the sum of Ten Thousand Dollars and no/100 ----- Dollars (\$10,000.00) with interest thereon at the rate of zero percent (0%) per annum from the date of this note until paid in -full. This note is due and payable within ~~three days (3) after acceptance of Agreement,~~ or before one day after **satisfaction or waiver by Buyer of the conditions** to Buyer's obligation to purchase the property set forth in the attached agreement between **Elwood Martin and Northwest Natural Gas Co.**

In the event of closing of this transaction, all accrued interest shall be forgiven.

This note is intended to be a deposit of earnest money in the above referenced transaction, and shall be subject to the terms and conditions of that agreement, a copy of which is attached hereto. Said Earnest Money Agreement shall govern and control the effectiveness or cancellation of this note in the event this transaction does not close.

If this note is placed in the hands of an attorney for collection, we promise and agree to pay holder's reasonable attorneys fees, costs, disbursements and other collection costs, even though no suit or action is filed hereon; if a suit or action is filed, the amount of such reasonable attorneys fees shall be fixed by the court or courts in which the suit or action, including any appeal therein, is tried, heard, or decided. HCS Commercial Real Estate, LLC. does not maintain a Client's Trust Account. All money collected shall be immediately deposited at Escrow Company as identified in Purchase and Sale Agreement.

DATED the date first above written, at Salem, Marion County, Oregon.

  
Buyer: Elwood Martin

4-8-08  
Date:

## ADDENDUM TO PURCHASE AND SALE AGREEMENT AND RECEIPT FOR EARNEST MONEY

THIS ADDENDUM TO PURCHASE AND SALE AGREEMENT AND RECEIPT FOR EARNEST MONEY ("Addendum") is made by and between NORTHWEST NATURAL GAS COMPANY, as Seller, and ELWOD MARTIN.

### RECITALS

A. Buyer signed and submitted to Seller that certain Commercial Association of Realtors Oregon/ SW Washington Purchase and Sale Agreement And Receipt for Earnest Money dated April 8, 2008 (the "Sale Agreement").

B. The Sale Agreement concerns the sale by Seller to Buyer of the property described in the Sale Agreement (the "Property"). Seller desires to sell the Property to Buyer and Buyer desires to purchase the Property from Seller upon the terms and conditions set forth in the Sale Agreement, as modified by this Addendum.

C. The parties enter into this Addendum to modify the terms and conditions of the Sale Agreement and evidence such additional agreements as more fully set forth below.

### AMENDMENT OF SALE AGREEMENT

The following Section numbers correspond to the Section numbers of the Sale Agreement and the same are amended and modified as follows:

2. **Earnest Money Deposit.** The amount of earnest money shall be \$25,000 and shall initially be in the form of a promissory note as set forth in Section 2 of the Sale Agreement. Buyer shall, contemporaneously with the execution of this Addendum, execute and deliver to the Title Company the Earnest Money Note.

3A. **Conditions to Purchase – Tax Deferred Exchange.** Section 3A of the Sale Agreement is moved (so that it is no longer a part of Section 3) and fully incorporated in as newly created Section 24 of the Sale Agreement.

4. **Property Inspection.** Buyer shall not perform any invasive testing of the Property without Seller's prior written consent. Prior to entering the Property to conduct any inspection, testing or survey, Buyer shall procure and deliver to Seller evidence reasonably acceptable to Seller that Buyer has in place a commercial general liability insurance policy that names Seller as an additional insured.

5. **Seller's Documents.** The documents that Seller shall deliver to Buyer are listed in Attachment A hereto. Buyer acknowledges that Seller may have other documents relating to the Property. Seller makes no representation or warranty of any kind to Buyer as to the accuracy or completeness of such documents. Buyer acknowledges that Seller is providing these

documents as an accommodation to Buyer and that Buyer shall have no right to rely on the information or conclusions set forth in such documents.

7. **Default, Remedies.** Buyer's remedy for Seller's default shall be limited to specific performance; in no case shall Buyer have an action for damages against Seller.

8. **Closing of Sale.** Seller shall deliver to Buyer at closing a special warranty deed, which shall include an exception for "all matters that would be shown by a true and correct survey."

11. **Condition of Property.** The first sentence of Section 11 is hereby deleted. Buyer acknowledges that Seller has not made and does not make any representations or warranties of any kind concerning the Property. Buyer acknowledges that it is purchasing the Property in its "as is" condition as set forth in Section 11 of the Sale Agreement, as expanded by Additional Provisions, Paragraph 1 below.

13. **Notices.**

(a) Any notice to seller shall be sent to the attention of Sandra K. Hart, Manager, Risk, Environment and Land. Seller's notice address and facsimile number is 220 NW Second Avenue, Portland, Oregon 97209, facsimile number (503) 721-2516. Buyer shall contemporaneously send a copy of any notice to Seller to Margaret Kirkpatrick, Esq., Seller's general counsel, at the address of Seller set forth above. Buyer and Seller shall as a courtesy contemporaneously send a copy of any written notice given under the Sale Agreement by email. Seller's email address for such purpose is [s2h@nwnatural.com](mailto:s2h@nwnatural.com).

(b) Any notice to Buyer shall be sent to the attention of Elwood Martin. Buyer's notice address and facsimile number is P.O. Box 4 Shedd Or. 97377, facsimile number 541 497-6262.

14. **Assignment.** Elwood Martin shall continue to remain liable for the performance of Buyer's obligations under the Sale Agreement notwithstanding any assignment.

16. **Statutory Land Use Disclaimer.** Section 16 of the Sale Agreement is deleted in its entirety and replaced with the following:

"THE PROPERTY DESCRIBED IN THIS INSTRUMENT MAY NOT BE WITHIN A FIRE PROTECTION DISTRICT PROTECTING STRUCTURES. THE PROPERTY IS SUBJECT TO LAND USE LAWS AND REGULATIONS THAT, IN FARM OR FOREST ZONES, MAY NOT AUTHORIZE CONSTRUCTION OR SITING OF A RESIDENCE AND THAT LIMIT LAWSUITS AGAINST FARMING OR FOREST PRACTICES, AS DEFINED IN ORS 30.930, IN ALL ZONES. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON'S RIGHTS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD

CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY THAT THE UNIT OF LAND BEING TRANSFERRED IS A LAWFULLY ESTABLISHED LOT OR PARCEL, AS DEFINED IN ORS 92.010 OR 215.010, TO VERIFY THE APPROVED USES OF THE LOT OR PARCEL, TO VERIFY THE EXISTENCE OF FIRE PROTECTION FOR STRUCTURES AND TO INQUIRE ABOUT THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007."

19. **Addenda; Exhibits.** This Addendum shall be deemed attached to and incorporated within the Sale Agreement.

20. **Time for Acceptance.**

(a) The date by which Seller may execute the Sale Agreement shall be May 8, 2008. Seller shall evidence its execution of the Sale Agreement by signing and dating page 8 of the Sale Agreement and the signature line of this Addendum and delivering to Buyer the entire Sale Agreement and this Addendum.

(b) Buyer shall evidence its acceptance of the modified Sale Agreement by re-executing and dating page 8 of the Sale Agreement and by signing and dating this Addendum and delivering the entire Sale Agreement and this Addendum to Seller.

(c) The "Execution Date" shall be the later of the date that Seller or Buyer executes this Addendum.

21. **Seller's Acceptance and Brokerage Agreement.** Section 21 of the Sale Agreement is deleted in its entirety and replaced with the following:

"If and conditioned upon closing of the sale, Seller shall pay through escrow a real estate commission equal to 3% of the purchase price (that is \$21,300.00) to Jim O'Bryant of HCS NW Commercial Real Estate Services, LLC.  
T.O.

**ADDITIONAL PROVISIONS**

1. **As Is Purchase.** Buyer understands and agrees that the Property is being sold and conveyed, and Buyer agrees to accept the Property, "as is," "where is" and "with all faults" which may exist, without any representation or warranty by Seller. Buyer expressly acknowledges and agrees that (a) Buyer shall be solely responsible for determining the status and condition of the Property, including, without limitation, existing zoning classifications, building regulations and governmental entitlement and development requirements applicable to the Property; and (b) Buyer is relying solely upon such inspections, examination, and evaluation of the Property by Buyer in purchasing the Property on an "as is," "where is" and "with all faults" basis. Buyer further acknowledges that (i) Buyer is a sophisticated investor, knowledgeable and experienced in the financial and business risks attendant to an investment in real property and capable of evaluating the merits and risks of entering into the Sale Agreement and purchasing the Property, (ii) Buyer is entering into the Sale Agreement with the intention of

making and relying upon its own (or its experts') investigation of the physical, environmental, economic and legal condition of the Property, including, without limitation, the compliance of the Property with laws and governmental regulations, and (iii) Buyer is not relying upon any representations and warranties made by Seller or anyone acting or claiming to act on Seller's behalf concerning the Property. Buyer further acknowledges that it has not received from Seller any accounting, tax, legal, architectural, engineering, property management or other advice with respect to this transaction and is relying upon the advice of its own accounting, tax, legal, architectural, engineering, property management and other advisors. Buyer shall purchase the Property in its "AS IS" condition on the Closing Date and assumes the risk that adverse physical, environmental, economic, or other legal conditions may not have been revealed by its investigations.

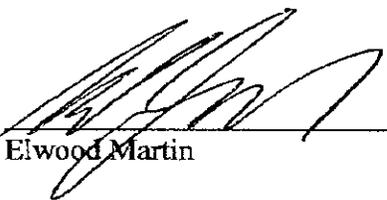
2. **Addendum Control.** Buyer and Seller acknowledge that the terms and conditions of this Addendum shall control over any inconsistencies between this Addendum and the Sale Agreement.

3. **References to Seller and Buyer.** Buyer acknowledges that the correct and full name of Seller is Northwest Natural Gas Company.

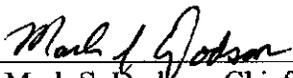
IN WITNESS WHEREOF, Buyer and Seller execute this Addendum as of the dates set forth below.

**BUYER:**

**SELLER:**

  
 \_\_\_\_\_  
 Elwood Martin

NORTHWEST NATURAL GAS COMPANY

By:   
 \_\_\_\_\_  
 Mark S. Dodson, Chief Executive Officer

Execution Date: 5-8-08

Execution Date: 5-16-08

## ADDENDUM TO PURCHASE AND SALE AGREEMENT

### 1. Parties

June 3, 2008

This is an Addendum to a Purchase and Sale Agreement and Receipt for Earnest Money dated: April 8, 2008

Between:

Buyer: Elwood Martin, and/or assigns

Seller: Northwest Natural Gas Company

### 2. The Property

The Seller owns the property described in the Contract:

(a) The real property is located in or near the city of Albany, County of Linn State of Oregon.

(b) The real property commonly known as (street address) Northwest Natural Gas facility, located at: 730 SW 34<sup>th</sup>, Avenue, tax acct: R381398, tax lot: #101 and all improvements thereon.

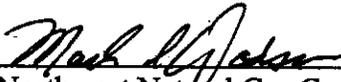
When signed by the Buyer and Seller this addendum will become a part of and will be incorporated by this reference into the Purchase and Sale Agreement and Receipt for Earnest Money referred to above.

- 
- a) **Buyer (Elwood Martin) and Seller (Northwest Natural Gas Company) hereby agree to extend the Buyer's conditions to purchase as stipulated in section 3 of the Purchase and Sale Agreement until July 15, 2008 thus allowing the Buyer, Buyer's lender and environmental consultant time to review and approve of all Seller performed work, documents, testing reports, sampling, analytical conclusions and findings completed, or obtained by the Seller in order to get the NFA letter from DEQ for the previously removed and decommissioned 10,000 gallon underground storage tank. All environmental work performed by Seller to obtain such NFA letter from DEQ shall be completed at the Sellers sole expense.**
- b) **Buyer is aware that the Seller intends to not remove the underground 6,000 gallon poly storage tank that currently resides on the property, Buyer is to complete its own environmental investigations and due diligence related to this specific underground storage tank.**
- c) **Seller hereby agrees to remove all debris piles from the property, and remove all personal property from the subject property before close of escrow.**

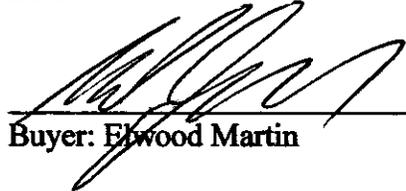
d) **Buyer and Seller hereby agree to extend the close of escrow for this transaction until July 30, 2008**

---

6-12-08  
Date:

  
Seller: Northwest Natural Gas Company

6-4-08  
Date:

  
Buyer: Elwood Martin

**Exhibit J**

A copy of each proposed journal entry to be used to record the transaction upon each applicant's book.

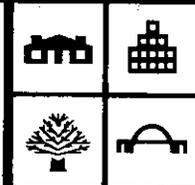
**NORTHWEST NATURAL GAS COMPANY**  
**Proforma Entries**  
**(Thousands)**

		DR	CR
<b>131</b>	<b>Cash</b>	710	
<b>101</b>	<b>Utility Plant</b>		406
<b>102</b>	<b>Gas Plant Purchased or Sold</b>	406	
<b>108</b>	<b>Accumulated Depreciation</b>	187	
<b>102</b>	<b>Gas Plant Purchased or Sold</b>		187
<b>102</b>	<b>Gas Plant Purchased or Sold</b>		710
<b>409</b>	<b>Tax Expense</b>	191	
<b>236</b>	<b>Taxes payable</b>		191
	<i>Sale of Albany property</i>		
<b>102</b>	<b>Gas Plant Purchased or Sold</b>	491	
<b>421</b>	<b>Gain on sale of property</b>		491
	<i>Transfer from 102</i>		
<b>421</b>	<b>Gain on sale of property</b>	491	
<b>409</b>	<b>Tax Expense</b>		191
<b>186</b>	<b>Deferred Gain</b>		300
	<i>Deferral of net gain for refund to customers</i>		
<b>403</b>	<b>Operating Expense-Depreciation</b>		9
<b>409</b>	<b>Income Taxes</b>	3	
	<i>Reduction in depreciation expense net of tax</i>		

## **Exhibit K**

A copy of each supporting schedule showing the benefits, if any, which each applicant relies upon to support the facts as required by subsection (1)(l) of this rule and the reasons as required by subsection (1)(m) of this rule.

- Summary Appraisal Report of the Property



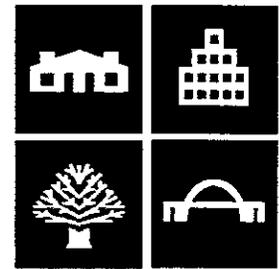
**PGP**  
VALUATION INC

## SUMMARY APPRAISAL REPORT

---

### **NORTHWEST NATURAL GAS FIELD OPERATION CENTER**

730 SW 34<sup>th</sup> Street  
Albany, Oregon



**PGP**  
VALUATION INC

## **SUMMARY APPRAISAL REPORT**

---

### **NORTHWEST NATURAL GAS FIELD OPERATION CENTER**

730 SW 34<sup>th</sup> Street  
Albany, Oregon

### **PREPARED FOR**

---

Mr. Steve Walti  
Risk Environment & Land Supervisor  
Northwest Natural Gas Company  
220 NW 2<sup>nd</sup> Avenue  
Portland, Oregon 97209

### **PREPARED BY**

---

Daniel R. Orman  
Donald R. Palmer, MAI  
PGP VALUATION INC  
110 SW Yamhill, Suite 200  
Portland, Oregon 97204-3024  
(503) 226-0983

### **OFFICES IN**

---

Portland – Seattle – San Diego  
Sacramento – Vancouver



**PGP**  
VALUATION INC

November 13, 2006

Mr. Steve Walti  
Risk Environment & Land Supervisor  
Northwest Natural Gas Company  
220 NW 2<sup>nd</sup> Avenue  
Portland, Oregon 97209

**RE: NORTHWEST NATURAL GAS FIELD OPERATION CENTER**  
730 SW 34<sup>th</sup> Street  
Albany, Oregon

Dear Mr. Walti:

At your request, we have appraised the captioned property using generally accepted appraisal principles and practices. This appraisal report is intended to comply with the report requirements of the *Uniform Standards of Professional Appraisal Practice (USPAP)* as adopted by the Appraisal Institute.

The appraisal is to be used by the client, Northwest Natural Gas, for decision-making purposes. This appraisal presents the "as is" market value of the fee simple estate. The subject is a small, owner-occupied shop/office industrial complex with a large yard area. Based on the subject's owner use appeal and low site coverage, the cost approach and sales approach have been used to value the property. Due to the uniqueness of the property and its location in a smaller community where there is a limitation of data, the income approach has been omitted. The income approach has limited application for properties of the subject's nature, and therefore, the omission of this approach does not limit the value conclusion.

Based upon our investigation and analysis of available information, the concluded value under the requested scenario is:

#### MARKET VALUE

Market Value Scenario	Interest	Date	Value
"As Is" Market Value	Fee Simple	November 1, 2006	\$650,000

This valuation assumes that the site and improvements are free of all hazardous waste and toxic materials. Please refer to the Assumptions and Limiting Conditions section for further discussion regarding these issues.

110 SW Yamhill Street, Suite 200  
Portland, OR 97204  
503.226.0983  
503.273.4273 facsimile  
www.pgpin.com

Real Estate Appraisers and Consultants  
OFFICES IN CALIFORNIA,  
OREGON & WASHINGTON

Mr. Steve Walti  
Northwest Natural Gas Company

November 13, 2006  
Page 2

The analysis has been prepared by the undersigned. If any questions arise concerning this report, please contact the undersigned.

Sincerely,

**PGP VALUATION INC**

*Daniel R. Orman* 

Daniel R. Orman  
OR State Certified General Appraiser  
No. C000179

*Donald R. Palmer* 

Donald R. Palmer, MAI  
OR State Certified General Appraiser  
No. C000060

DRO/DRP  
C061164

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## **APPRAISAL SUMMARY**

**Property Type:** A light industrial complex with surplus yard area.

**Location:** 730 SW 34<sup>th</sup> Street, Albany, Oregon.

**Jurisdictional Entities:** City of Albany

**Reference Parcel Numbers:** 11S-4W-13DD-TL 101

**Market Area:** The subject's neighborhood is a developed industrial area improved primarily with single-tenant industrial buildings, a nearby YMCA, and some secondary commercial uses.

**Site Size:** 3.25 acres (141,570 SF) according to county records.

**Building Size:** Three structures: 1) 4,905 SF office/warehouse; 2) 1,440 SF shop; and 3) 793 SF three sided product storage building. The total building area is (4,905 SF + 1,440 SF + 793 SF) 7,138 SF.

**Site Coverage:** 5 percent (7,138 SF building ÷ 141,570 SF)

**Zoning:** Heavy Industrial (HI) as designated by the City of Albany.

**Highest & Best Use—**

As Vacant: Industrial development.

As Improved: As improved, industrial improvements and surplus land.

### **VALUE SUMMARY**

#### **MARKET VALUE**

<b>Market Value Scenario</b>	<b>Interest</b>	<b>Date</b>	<b>Value</b>
"As Is" Market Value	Fee Simple	1-Nov-06	<b>\$650,000</b>

# **PRELIMINARY APPRAISAL INFORMATION**

## **REPORT ORGANIZATION**

This report is designed to inform the reader of all factors influencing the property's value in a clear and concise manner. The Preliminary Appraisal Information section provides general information associated with the subject property and this appraisal report. The Description section starts with general market area issues and proceeds to more specific issues directly related to the property. The Highest and Best Use section establishes the premise upon which the property is valued. The Valuation includes application of market information to the subject, as well as a narrative discussion of how the valuation conclusion was established.

## **PURPOSE, USE, AND USER OF THE APPRAISAL**

The purpose of this appraisal is to estimate the subject property's "as is" market value of the fee simple estate for decision making purposes. The intended user of the report is Northwest Natural Gas and its representatives. All other uses and users are expressly prohibited. Reliance on this report by anyone other than the clients or other user specifically approved by PGP Valuation Inc for a purpose not described in this section is prohibited. The authors' responsibility is limited to the client.

## **DEFINITION OF MARKET VALUE**

The following definition as defined by the *Code of Federal Regulations*, Title 12, Volume 3, Part 323.2 (12CFR323.2) has been adopted by the Appraisal Standards Board of The Appraisal Foundation and the Appraisal Institute, with the understanding that it conforms with the reporting requirements of the *2006 Uniform Standards of Professional Appraisal Practice (USPAP)*, and the *Appraisal Standards for Federally-Related Transactions* (12CFR225.61).

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

## **PRELIMINARY APPRAISAL INFORMATION (continued)**

### **VALUE SCENARIOS DEFINED**

"As Is" Market Value refers to the scenario under which a property is evaluated in the condition observed upon inspection as then existing under legal allowed uses without hypothetical conditions, assumptions or qualifications as of the relevant date.

### **PROPERTY RIGHTS DEFINED**

**Fee simple interest** is defined in *The Dictionary of Real Estate Appraisal*, Third Edition (1993), as:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

### **LEGAL DESCRIPTION**

A full legal description of the subject property was not available for our review, and is consequently not provided in this report. It is assumed that the tax description accurately describes the subject property.

### **TAX DESCRIPTION**

Tax Lot 101, Section 13DD, Township 11 South, Range 4 West, Willamette Meridian, Linn County, Oregon.

### **OWNERSHIP AND SALES HISTORY**

The subject property is owned by Northwest Natural Gas Co. Corporation. There have been no sale transactions involving the subject within the last three years.

### **ASSESSMENT AND TAX INFORMATION**

The State of Oregon is responsible for the assessment and taxation of the subject. This information is not available. The absence of this data has no detrimental affect on the valuation.

### **EXPOSURE TIME/MARKETING PERIOD**

Exposure time is defined within the *USPAP*, Statement 6, as "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market."

Exposure time is best established upon the experience of recent comparable sales. Sales reviewed in the preparation of this report varied widely in marketing periods and exposure times. Based on the subject's location in a well-defined industrial area in a

## **PRELIMINARY APPRAISAL INFORMATION (continued)**

smaller community, and considering current market conditions and the recent exposure periods of similar industrial properties in the Albany area, and assuming the subject is appropriately priced based upon the values concluded in this report and competently promoted, an exposure time of one year or less is anticipated for the subject property.

Marketing period is very similar to exposure time, but reflects a projected time period to sell the property, rather than a retrospective estimate. As such, a similar time period of one year or less is supported for the subject's marketing period.

### **SPECIFIED FINANCING**

Cash to seller, with or without financing.

### **CASH EQUIVALENCY**

This report presents the cash value of the property. This requires that all comparables utilized must be cash transactions or adjusted to "cash" if advantageous seller financing was involved. No adjustments due to seller financing were required.

### **INSPECTION**

Daniel R. Orman inspected the interior and exterior of the subject property on November 1, 2006, with Nancy Whitley of NW Natural Gas. Donald Palmer, MAI, did not inspect the subject property.

### **SCOPE OF WORK/APPAISAL DEVELOPMENT AND REPORTING PROCESS**

The scope of work for this appraisal is to develop an opinion of market value under Standard 1 and report our findings using Standard 2-2. In preparing this report, the appraisers:

- Inspected the interior and exterior of the subject.
- Inspected the subject's market area.
- Reviewed county records for subject data and tax information.
- Performed a highest and best use analysis.
- Researched and confirmed land and improved sales from immediate and competing market areas.
- Inspected the exterior of all the comparables.
- Analyzed supply and demand conditions in the area.
- Applied the cost and sales approach to determine the subject's "as is" fee simple market value.
- A review of the report by Donald R. Palmer, MAI.

## **PRELIMINARY APPRAISAL INFORMATION (continued)**

- Prepared a summary report to present the analysis.

### **SOURCES OF INFORMATION**

The following sources were contacted and/or utilized to obtain relevant information:

<u>Source</u>	<u>Information</u>
Linn County Assessor's Office	Subject tax and market sales research
City of Albany Planning Department	Zoning and community information
PGP VALUATION INC database	Comparable sales information
Multiple Listing Service (WVMLS)	Comparable sales information
Federal Emergency Management Agency	Subject property flood zone information
Multiple brokers and real estate professionals	Comparable sales information

### **COMPLIANCE AND COMPETENCY RULE**

The authors of this report possess the education, knowledge, technical skills, and practical experience to complete this assignment competently, in conformance with the stated regulations.

### **UNAVAILABILITY OF INFORMATION**

All information necessary to develop an estimate of value of the subject property was available to the appraisers except a legal description (please refer to the Assumptions and Limiting Conditions).

### **PERSONAL PROPERTY, FIXTURES, AND INTANGIBLE ITEMS**

This appraisal reports the value of the improved real estate only, exclusive of the value of personal property, trade fixtures, or intangibles.

### **DEDUCTIONS AND DISCOUNTS**

No deductions or discounts were required for this valuation.

## **ASSUMPTIONS AND LIMITING CONDITIONS**

### **ORDINARY ASSUMPTIONS**

This is a Summary Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the *Uniform Standards of Professional Appraisal Practice* for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analysis that were used in the appraisal process to develop the appraisers' opinion of value. Additional supporting documentation concerning the data, reasoning, and analysis is retained in the appraisers' file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraisers are not responsible for unauthorized use of this report.

The analysis assumes the tax description accurately represents the subject property. A legal description has not been provided to the appraisers. If further verification is required, a survey by a registered surveyor is advised.

We assume no responsibility for matters legal in character, nor do we render any opinion as to title, which is assumed to be marketable.

All existing liens, encumbrances, and assessments have been disregarded, unless otherwise noted, and the property is appraised as though free and clear, under responsible ownership, and competent management.

The exhibits in this report are included to assist the reader in visualizing the property. We have made no survey of the property and assume no responsibility in connection with such matters.

Unless otherwise noted herein, it is assumed that there are no encroachments, zoning, or restrictive violations existing in the subject.

The appraisers assume no responsibility for determining if the property requires environmental approval by the appropriate governing agencies, nor if it is in violation thereof, unless noted.

Information presented in this report has been obtained from reliable sources, and it is assumed that the information is accurate.

This report shall be used for its intended purpose only, and by the parties to whom it is addressed. Possession of the report does not include the right of publication.

The appraisers may not be required to give testimony or to appear in court by reason of this appraisal, with reference to the property in question, unless prior arrangements have been made.

The statements of value and all conclusions shall apply as of the dates shown herein. The appraisers have no present or contemplated future interest in the property, which is not specifically disclosed in this report.

Neither all, nor any part, of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent or approval of the authors. This applies particularly to value conclusions and to the identity of the appraisers and the firm with which the appraisers are connected.

## **ASSUMPTIONS AND LIMITING CONDITIONS (continued)**

This report must be used in its entirety. Reliance on any portion of the report independent of others may lead the reader to erroneous conclusions regarding the property values. No portion of the report stands alone without approval from the authors.

The valuation stated herein assumes professional management and operation of the improvements throughout their lifetime, with an adequate maintenance and repair program.

The liability of PGP VALUATION INC and employees is limited to the client only and only up to the amount of the fee actually received for the assignment. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraisers are in no way responsible for any costs incurred to discover or correct any deficiency in the property. The appraisers assume that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. In the case of limited partnerships or syndication offerings or stock offerings in real estate, the client agrees that in case of lawsuit (brought by lender, partner, or part owner in any form of ownership, tenant, or any other party), any and all awards, settlements, or cost, regardless of outcome; the client will hold PGP Valuation Inc completely harmless.

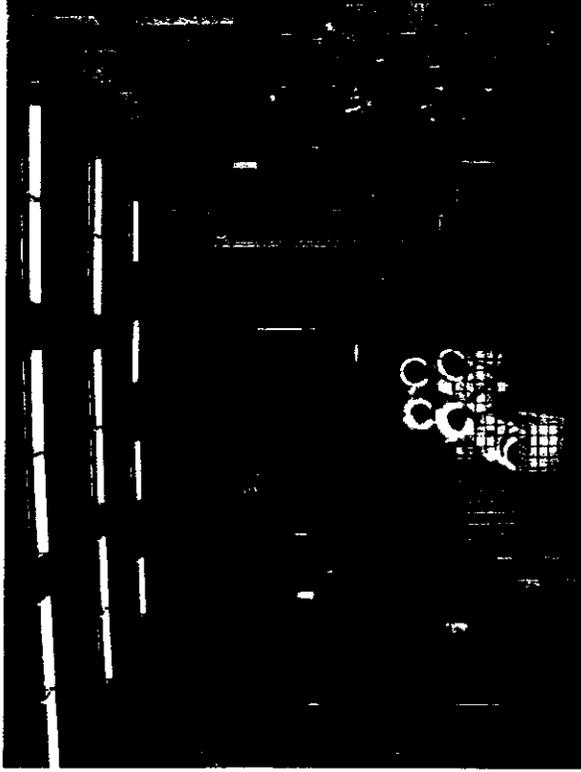
The appraisers are not qualified to detect the presence of toxic or hazardous substances or materials which may influence or be associated with the property or any adjacent properties, has made no investigation or analysis as to the presence of such materials, and expressly disclaims any duty to note the presence of such materials. Therefore, irrespective of any degree of fault, PGP Valuation Inc and its principals, agents, and employees, shall not be liable for costs, expenses, damages, assessments, or penalties, or diminution in value, property damage, or personal injury (including death) resulting from or otherwise attributable to toxic or hazardous substances or materials, including without limitation hazardous waste, asbestos material, formaldehyde, or any smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids, solids, or gasses, waste materials or other irritants, contaminants, or pollutants.

The appraisers assume no responsibility for determining if the subject complies with the *Americans with Disabilities Act (ADA)*, which prescribes specific building standards which may be applied differently to different buildings, depending on such factors as building age, historical significance, amenability to improvement, and costs of renovation. PGP Valuation Inc its principals, agents, and employees shall not be liable for any costs, expenses, assessments, penalties, or diminution in value resulting from non-compliance. Except as otherwise noted herein, this appraisal assumes that the subject complies with all ADA standards appropriate to the subject improvements; if the subject is not in compliance, the eventual renovation costs and/or penalties would negatively impact the present value of the subject. If the necessary renovation costs time period needed for renovation and penalties for non-compliance (if any) were known today, appropriate deductions would be made to the value conclusions reported herein.

**SUBJECT PROPERTY PHOTOGRAPHS**



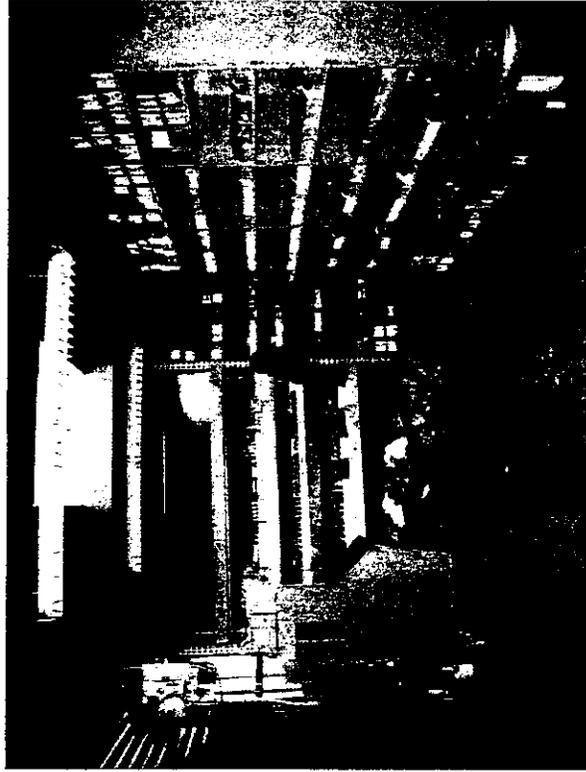
Building 1 – Front Elevation. (C061114-23)



Building 1 – Warehouse. (C061164-08)



Building 1 – Rear Elevation. (C061164-17)

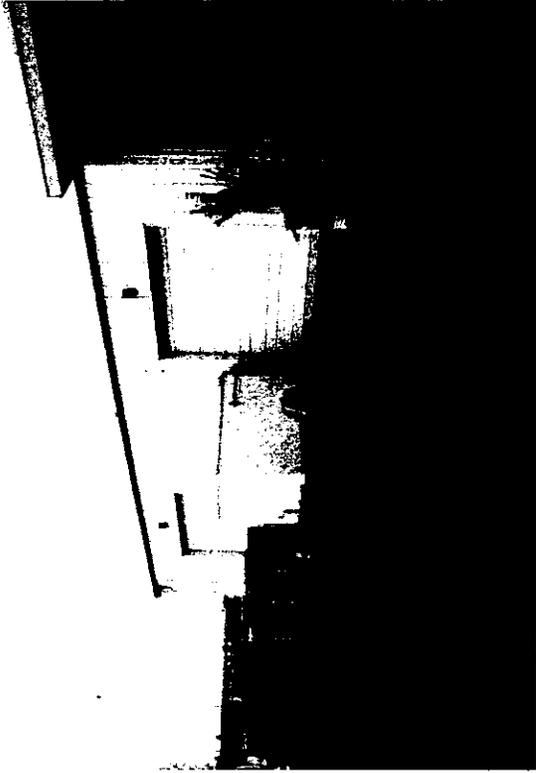


Building 1 – Low Ceiling Warehouse. (C061164-06)

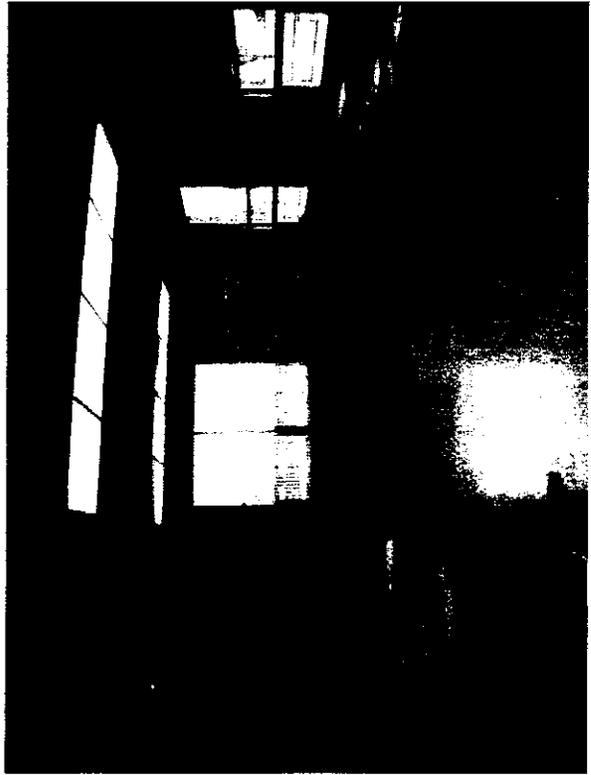
**SUBJECT PROPERTY PHOTOGRAPHS (continued)**



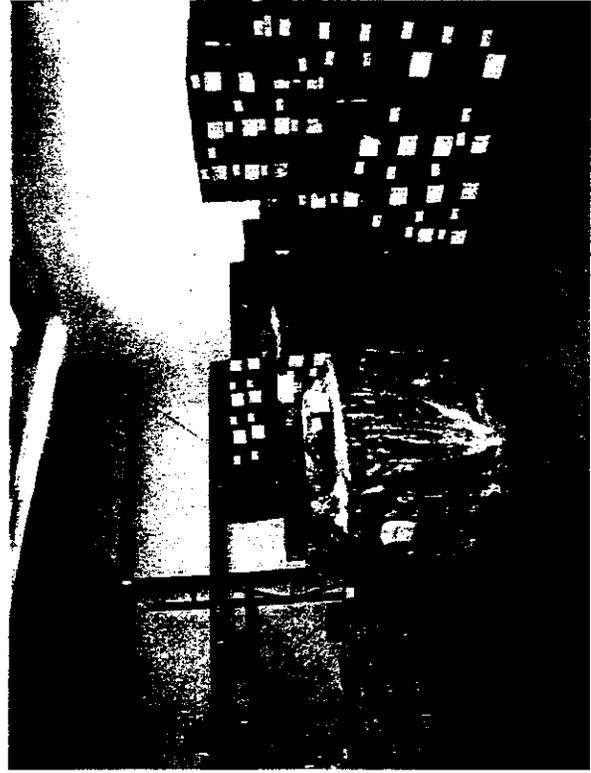
Building 1 - Finished Area. (C061164-04)



Building 2. (C061164-19)

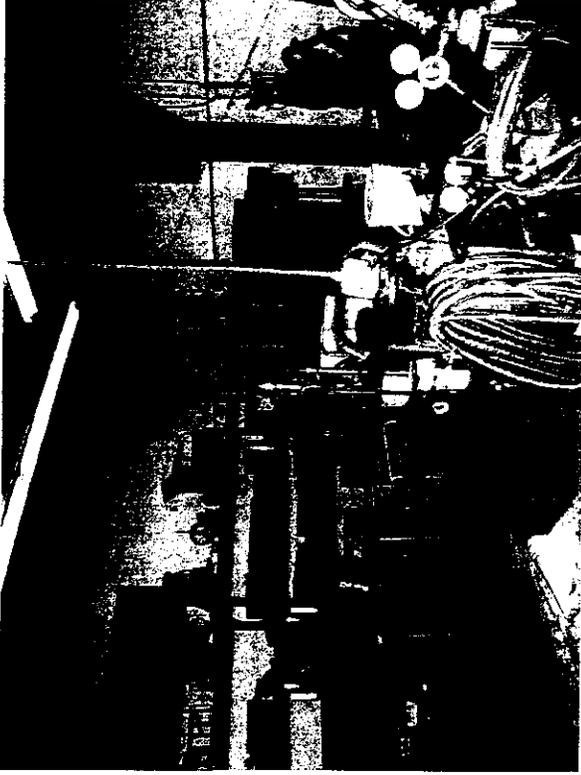


Building 1 - Office. (C061164-05)



Building 2 - Storage Interior. (C061164-10)

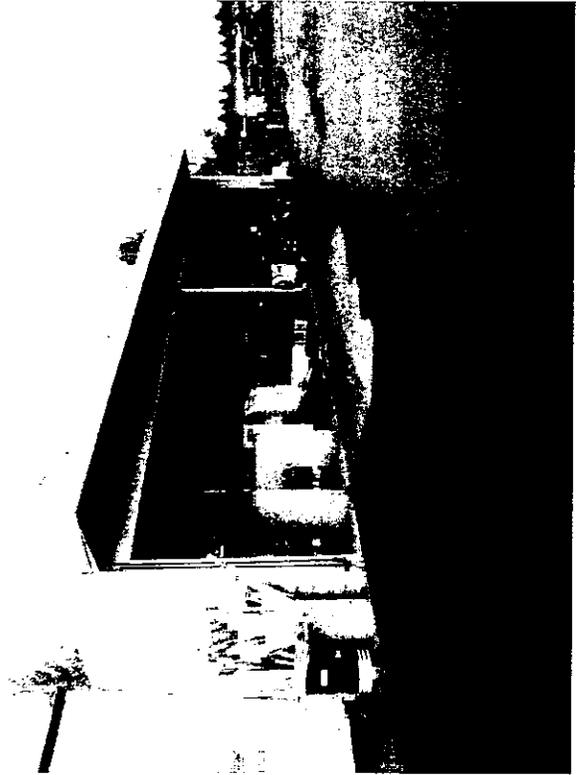
**SUBJECT PROPERTY PHOTOGRAPHS (continued)**



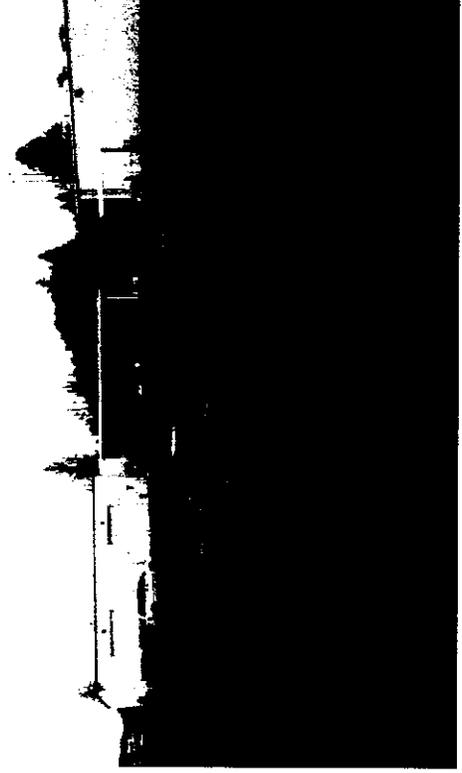
Building 2 – Shop Interior. (C061164-09)



Gravel base yard storage. (C061164-27)



Building 3. (C061164-18)



Asphalt base yard storage. (C061164-22)

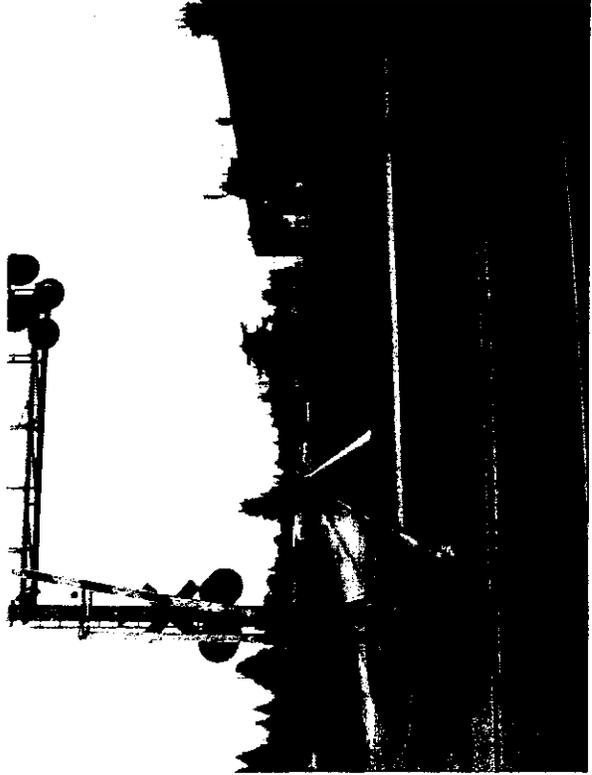
**SUBJECT PROPERTY PHOTOGRAPHS (continued)**



Parking. (C061164-24)



Street Scene: SW 34<sup>th</sup> Street looking east. (C061164-25)

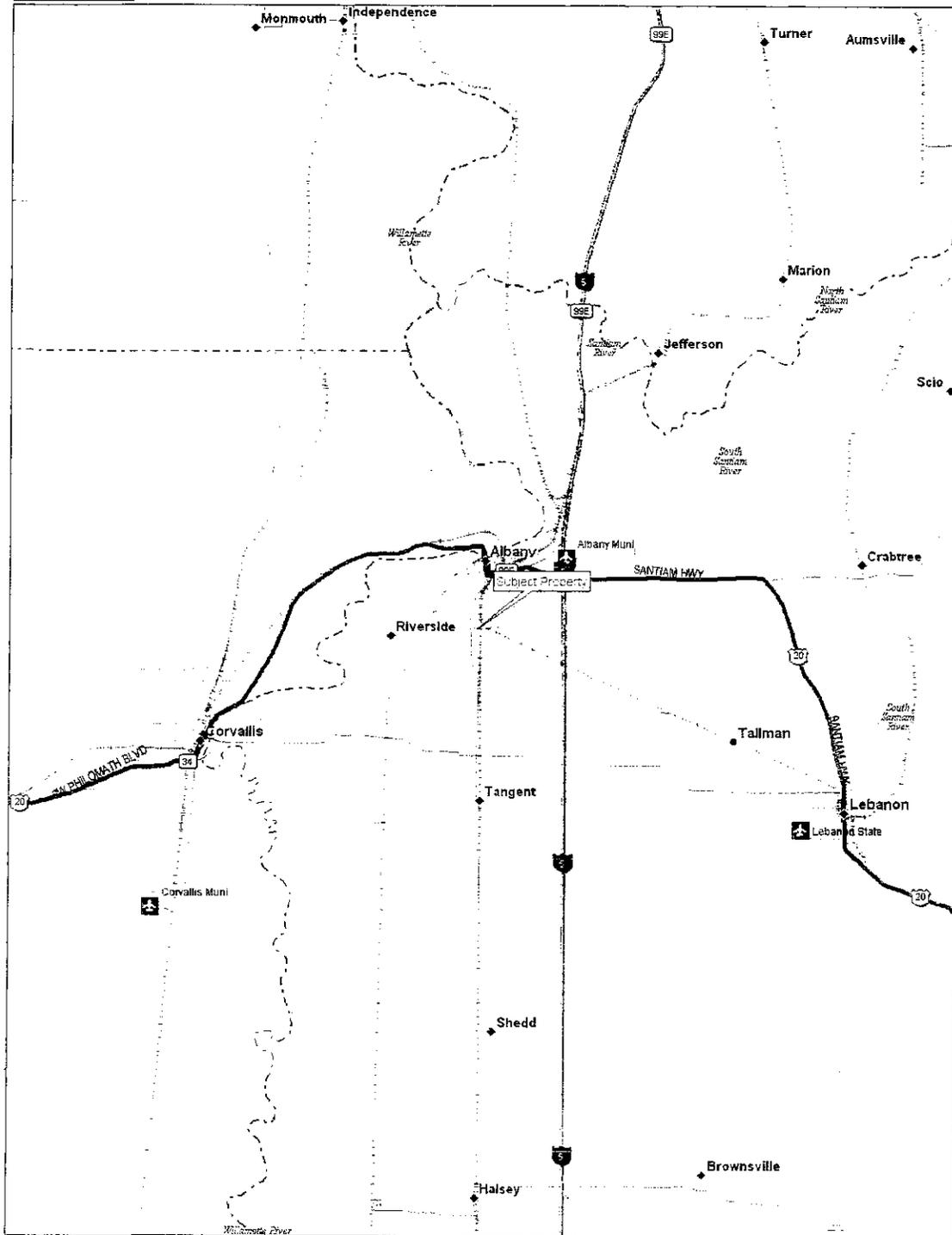


Street Scene: SW 34<sup>th</sup> Street looking west. (C061164-28)

# REGIONAL MAP

DeLORME

Street Atlas USA® 2006



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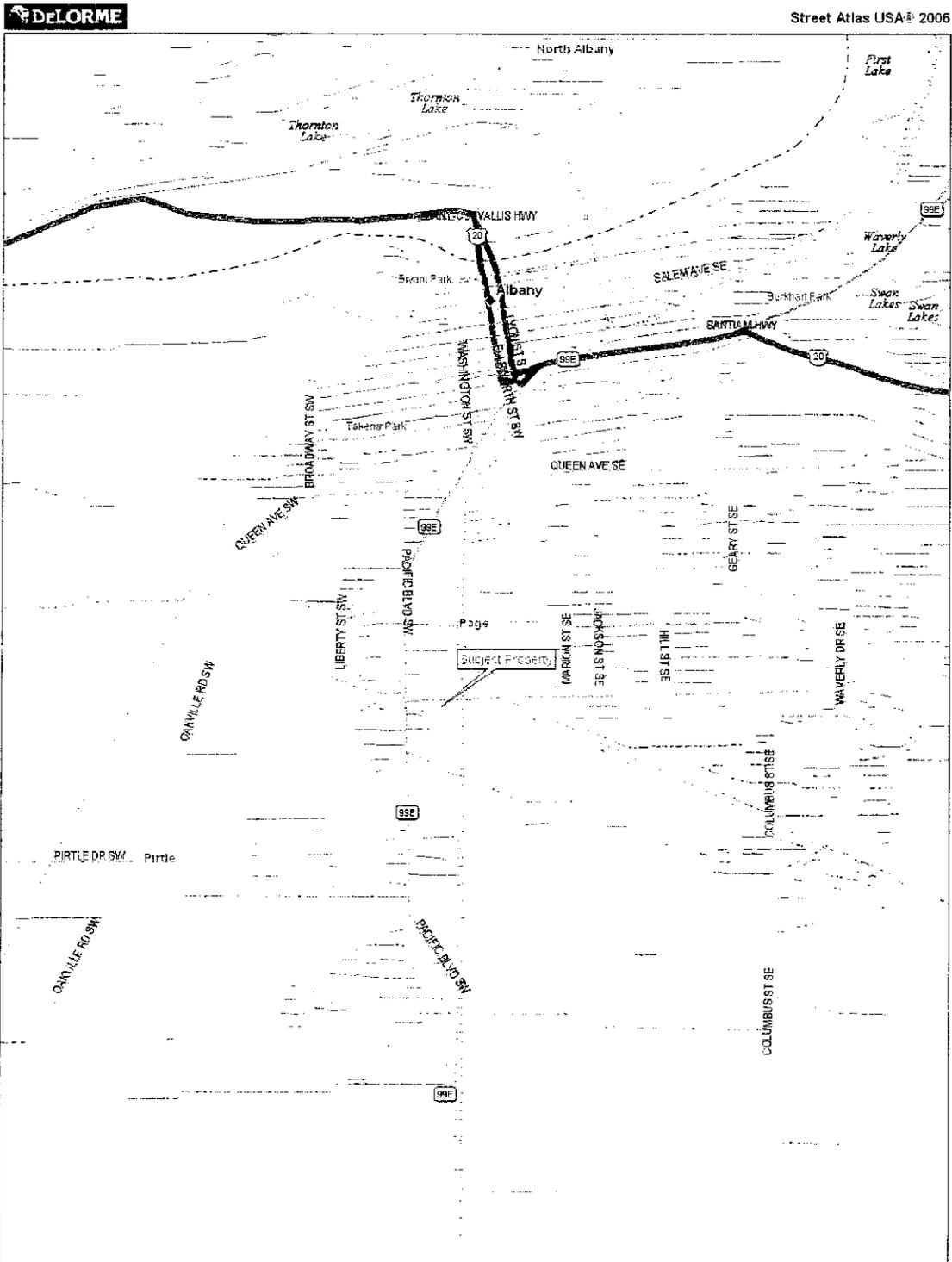
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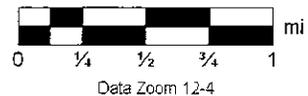


Data Zoom 9-7

# MARKET AREA MAP



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## DESCRIPTION

### MARKET AREA

The city of Albany is located in the Mid-Willamette Valley off Interstate 5 in Linn County. Albany is approximately 24 miles south of Salem, 44 miles north of Eugene, 60 miles east of the Pacific Ocean and 40 miles west of the Cascade Mountains. The local community is well oriented to major transportation routes and recreational opportunities. Interstate 5 is the primary interstate that provides access through Oregon from California and Washington. State Highway 99E is a north/south traffic arterial that runs through the central business district of Albany.

Albany is the county seat of Linn County and is the largest incorporated city in the County. Since 1990, growth has averaged approximately 2.9 percent annually. This average is considerably higher than that of Linn and Benton Counties and the State of Oregon. However, between 2000 and 2005, average annual growth slowed to 2.1 percent in Albany.

	1990	2000	2001	2002	2003	2004	2005	Avg. Annual % Change 1990-2005	Avg. Annual % Change 2000-2005
Albany	29,540	40,852	41,650	42,280	43,600	44,030	45,360	2.9%	2.1%
Linn County	91,227	103,069	103,500	104,000	104,900	106,350	107,150	1.1%	0.8%
Benton County	70,811	78,153	79,000	79,900	80,500	81,750	82,835	1.1%	1.2%
State of Oregon	2,842,321	3,421,399	3,471,700	3,504,700	3,541,500	3,582,600	3,631,440	1.6%	1.2%

Source: Center for Population Research & Census- Portland State University

Linn County's overall unemployment rate continues to stay above the state and national level. According to Oregon Employment Department, the current (September 2006) unemployment rate for Linn County was 5.8 percent; this is below the September 2005 rate of 6.5 percent. The current statewide rate is 4.8 percent and the national rate is 4.4 percent. Neighboring Benton County is consistently lower than Linn County.

Residential development is distributed throughout the city, but primarily concentrations are north and south of Knox Butte Road and east of Interstate 5, in north Albany north of the Willamette River, and in the extreme western portion of the city. Multi-family development is located in pockets around the city and typically serves as a buffer between commercial and industrial zoned land and single family residential development. The majority of the multi-family development was constructed between 1975 and 1983; however, there has been significant new single family residential growth in recent years.

Commercial development is primarily located near Interstate 5, along Highway 99E and Highway 20, and in the downtown area. The Heritage area has seen some of the more recent commercial development in the Albany area. Major projects in this area include the Heritage Mall, an enclosed regional mall, Fred Meyer store, Bi-Mart Center, Heritage Plaza, Periwinkle Plaza, and Albany Plaza. These developments are primarily located between Geary Street and Waverly Drive on the west and east, and 14<sup>th</sup> Avenue and Highway 99E on the south and north. The central business district consists of older service-related businesses and city and country offices. Office development in

## **DESCRIPTION (continued)**

Albany typically consists of smaller, multi-tenant office buildings located off of secondary neighborhood streets and in the downtown area.

The realignment of the Pacific Boulevard and Santiam Highway intersection is the most significant infrastructure change in recent years. This has paved the way for redevelopment of secondary buildings given the improved traffic flow and access. At this intersection, new development includes a Walgreen's, Goodwill, Oil Can Henry's, and a fast food restaurant. In 2006, Mervyn's announced that it will be closing its Albany branch (61,000 SF building); however, Kohl's department store is planning on demolishing this structure and rebuilding a 69,000 square foot commercial building. This is scheduled during 2007.

The industrial development in Albany is concentrated between Pacific Boulevard and Marion Street SE, south of Pacific Boulevard's north boundary and north of 41<sup>st</sup> Avenue. Development varies considerably from owner-occupied properties to single-tenant and multi-tenant leased properties. The majority of the industrial development consists of smaller projects, and most of the newer properties in the market are of steel construction.

In south Albany, along Highway 99, is the Target Distribution Center that is on a 105 acre site. This facility was first developed in the mid 1990's with an addition in 2000. The total building area is approximately 1.4 million square feet. Also in this area, PepsiCo will build a 900,000 square foot production facility and a 400,000 square foot packaging facility on a 200 acre site. Completion is expected by fall 2008, with an estimated 200 employees to be initially hired. In five years, employment could be up to 500.

Albany has a wide range of commercial and retail uses, with significant industry and a supporting residential base. The outlook for the area is positive, with steady, moderate growth anticipated.

## **SITE**

### **Environmental Risks:**

There is an underground fuel tank located near the center of the subject site. Annual testing by the current owner indicates that there has been no leaking. This appraisal assumes that the site is free from all hazardous materials and environmental risks. The appraisers conducted no independent investigation regarding this issue. Please see the Assumptions and Limiting Conditions.

### **Shape/Topography:**

Effectively rectangular (see plat map) and level. The eastern portion of the site is slightly below street grade.

### **Site Size:**

3.25 acres (141,570 SF) according to county records.

### **Access:**

The subject has good overall access and average immediate access for an industrial site.

## **DESCRIPTION (continued)**

### **Street Description and Exposure:**

SW 34<sup>th</sup> Street is a collector street that connects Highway 99 (aka Pacific Boulevard) to the west, with Waverly Drive to the east. SW 34<sup>th</sup> Street has four-lanes and is improved with an asphalt paved surface, sidewalks, curbs, storm drains and street lighting. On-street parking is not allowed. Street exposure is good.

### **Zoning:**

Heavy Industrial (HI) by the City of Albany. This zone is intended primarily for industrial uses and support activities. Contractors and industrial services, manufacturing and production, railroad yard, and warehousing and distributions are allowed with site plan review. Commercial, institutional, and residential uses are not allowed. The subject's existing use and design meet the standards of this zoning and the overlays.

### **Flood Plain Data:**

According to the National Flood Insurance Program Rate Map, Panel 4101370005F, dated July 7, 1999, the subject is in Zone x (not shaded), areas outside the 500-year flood plain.

### **Wetlands:**

Reportedly, there is a small wetland area near the southeast perimeter of the site. This area appears to be a relatively small/narrow area along the south property line. Recognizing the location and size, the wetlands does not diminish the utility of the site. If questions arise regarding this matter, further research is advised.

### **Surrounding Properties:**

SW 34<sup>th</sup> Street to the west that separates the subject from a YMCA campus and an industrial building; railroad tracks to the east and then an industrial building; unimproved industrial land to the south; and a metal scrap yard to the west.

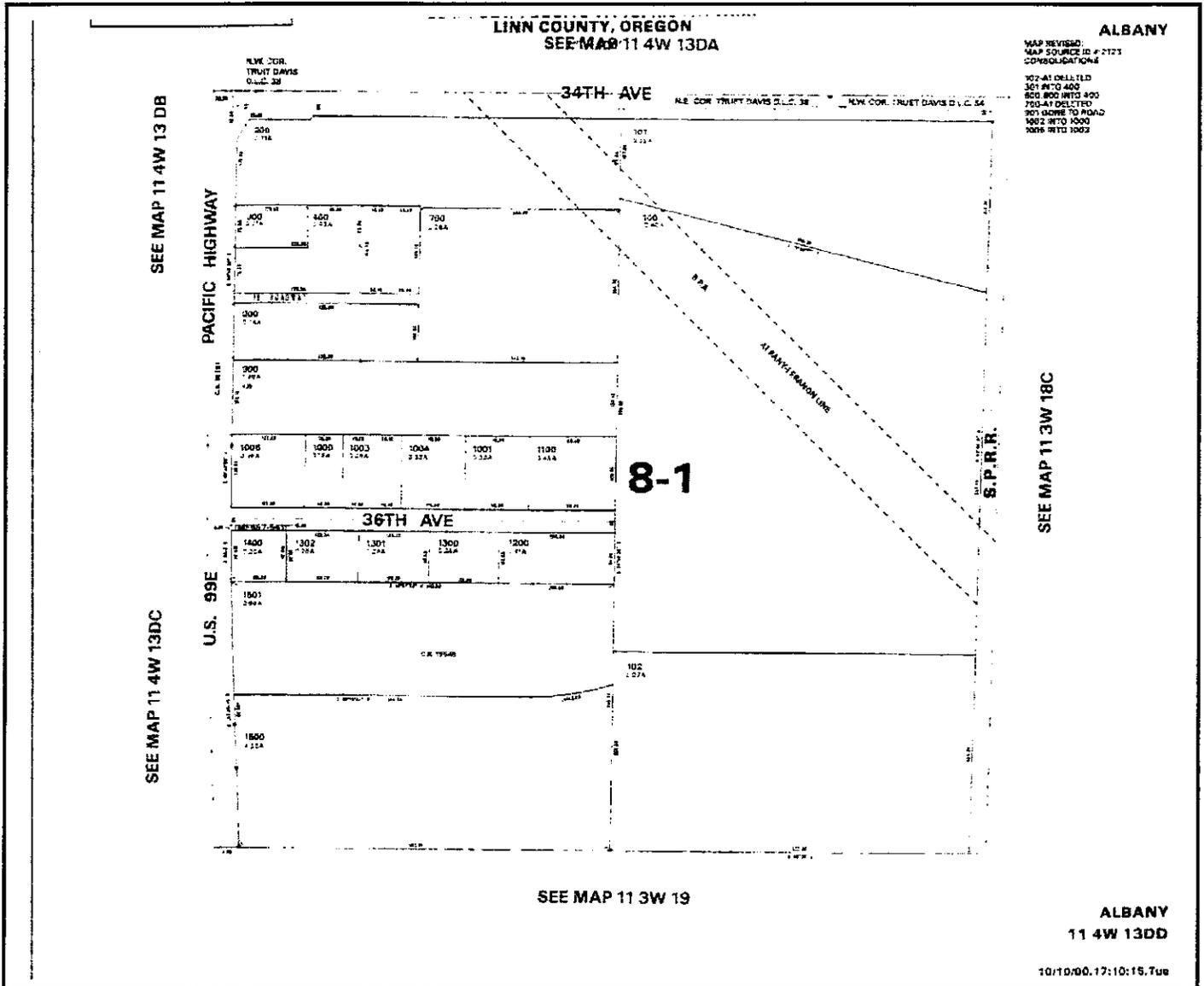
### **Utilities:**

All public utilities are available to the site.

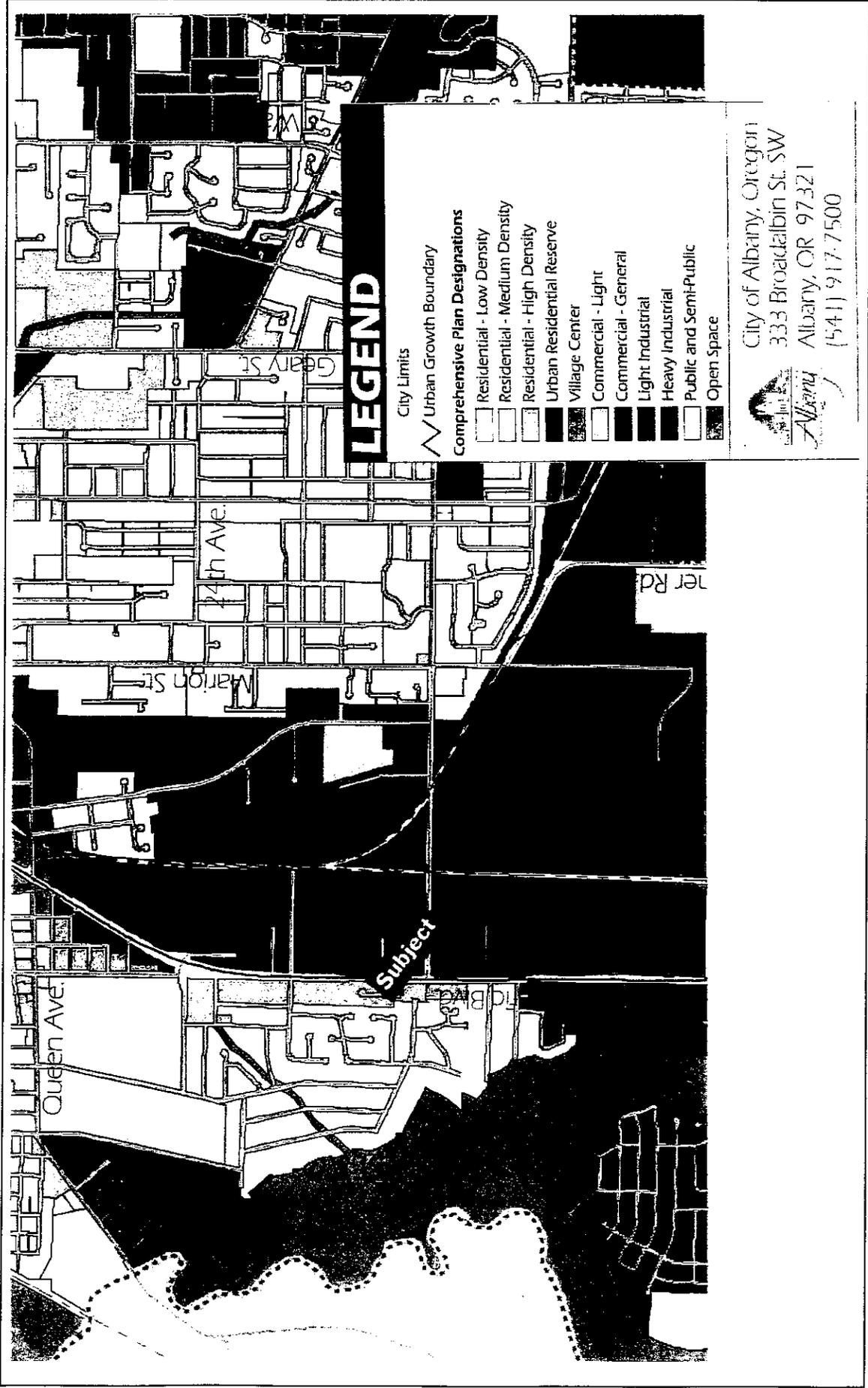
### **Easements, Encroachments and Encumbrances:**

A preliminary title report was not provided to the appraisers. The Plat Map shows a BPA power line easement bisecting the tip of the southwest corner of the site; however, this does not have adverse impact on the subject property. Based upon physical inspection of the site, there does not appear to be any adverse easements or other encumbrances. If questions arise regarding easements, encroachments, or other encumbrances, further research is advised.

# PLAT MAP



# ZONING MAP



# FLOOD MAP

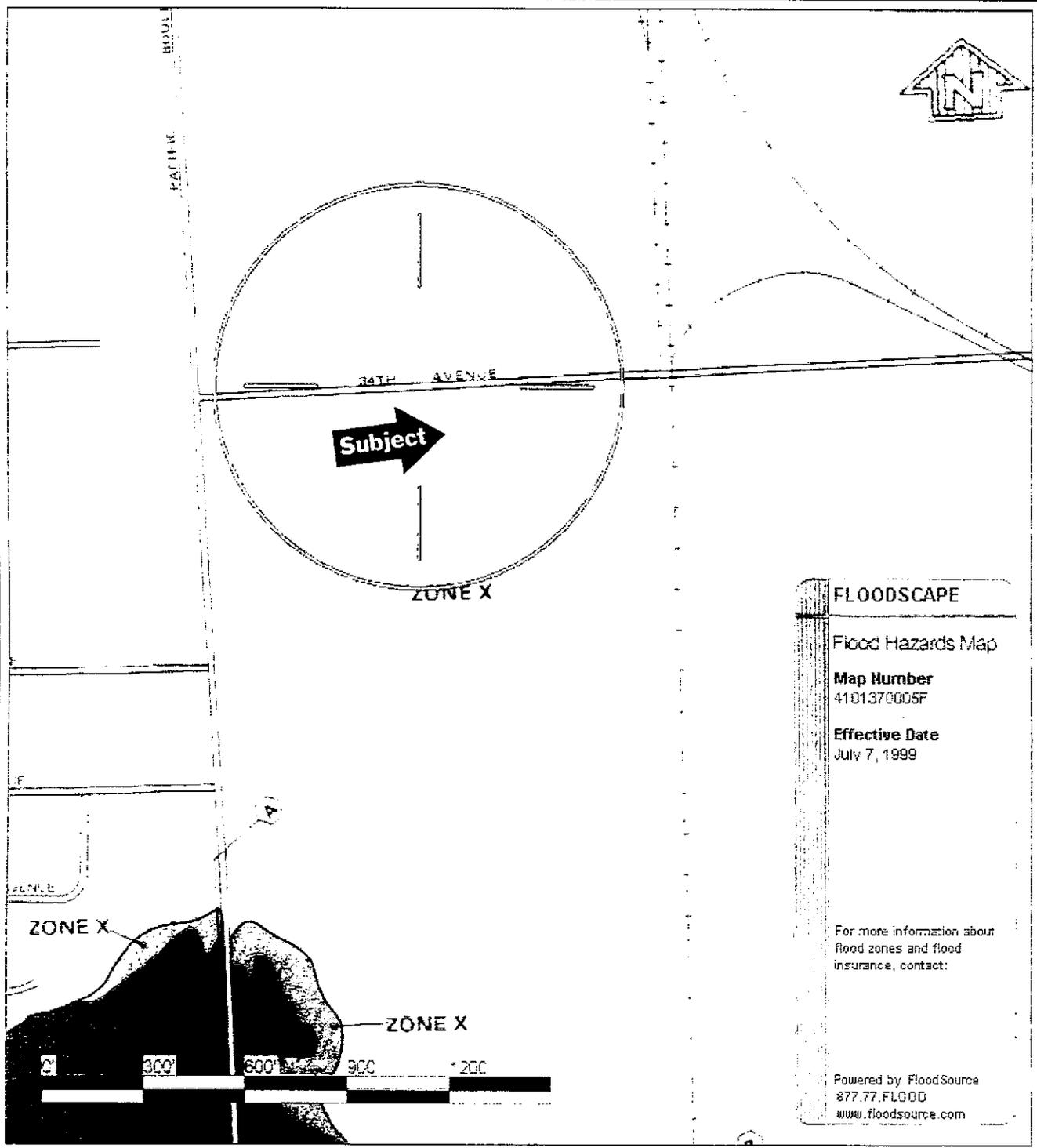
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Prepared for:  
PGP Valuation Inc

730 34th Ave SW  
Albany, OR 97322-3829



## FLOODSCAPE

Flood Hazards Map

**Map Number**  
410137005F

**Effective Date**  
July 7, 1999

For more information about  
flood zones and flood  
insurance, contact:

Powered by FloodSource  
877.77.FLOOD  
www.floodsource.com

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## **DESCRIPTION OF IMPROVEMENTS**

<b>Environmental Risks:</b>	This appraisal assumes the improvements are free of all hazardous materials and environmental risks. The appraisers conducted no independent investigation regarding this issue. Please see the Assumptions and Limiting Conditions.
<b>General Description:</b>	A three building, owner occupied, industrial facility with surplus land.
<b>Year Built—</b>	
Building 1:	1961 with a 1972 addition.
Building 2:	1992
Building 3:	1961
<b>Effective Age:</b>	The estimated average effective age is 25 years.
<b>Building Size:</b>	Three structures: 1) 4,905 SF office/warehouse; 2) 1,440 SF shop; and 3) 793 SF three sided product storage building. The total building area is (4,905 SF + 1,440 SF + 793 SF) 7,138 SF. The building sizes were based on the field appraiser's measurements and calculations.
<b>Office:</b>	There is approximately 2,492 SF of below average quality/condition office space in Building 1. This represents 39% of the total.
<b>Site Coverage:</b>	5 % (7,138 SF building ÷ 141,570 SF). This coverage is low relative to other industrial buildings that have coverage ratios from 20 to 35%. This indicates that excess/surplus land is present. This will be addressed in the highest and best use section.
<b>Construction Materials (Building 1)—</b>	
Foundation:	Concrete slab on grade.
Exterior Walls:	Concrete block.
Roof Structure:	Wood beam and purlins.
Roof Cover:	Assumed built-up composition (or equivalent).
	There is 2,492 SF of interior office in Building 1. This space has vinyl tile square flooring, drop ceiling, recessed fluorescent tube lighting, and gypsum board demising walls. There is a small women's restroom (toilet/sink) and a large men's locker room (with showers, two toilets, two urinals, and two sinks). This locker room has non-slick floors. The office has heating and air conditioning. The quality and condition is fair to average.

## **DESCRIPTION OF IMPROVEMENTS (continued)**

There are two warehouse areas in Building 1: 1,657 SF that has approximately 16 to 18-foot clear height, and 756 SF that has an approximate 10-foot clear height. Both of these areas have exposed concrete floors and exposed roof beams. Heat only is provided by suspended gas heaters. Grade level overhead truck doors serve both warehouse areas.

### **Construction Materials (Building 2)—**

Foundation:	Concrete slab on grade.
Framing:	Light metal construction.
Exterior Walls:	Metal clad siding.
Roof Structure:	Metal roof truss.
Roof Cover:	Standing seam metal.

This building is divided into two spaces. One space is used as a welding shop and the other side for storage, with a grade level overhead door serving both sides. The flooring is concrete, the ceiling trusses and insulation (wall & ceiling) are exposed. Heat only is provided by suspended gas heaters, and lighting is by hanging fluorescent tube fixtures. There is no plumbing.

### **Construction Materials (Building 3)—**

Foundation:	Concrete slab on grade.
Exterior Walls:	Concrete block.
Roof Structure:	Wood truss.
Roof Cover:	Standing seam metal.

This is a three sided building that is open on the north side. It is used for product storage. There is no plumbing or electrical, the flooring is concrete.

### **Deferred Maintenance:**

None noted during the inspection.

### **Fuel Pump/Storage:**

There is one fuel pump/dispenser, and a small underground diesel fuel tank (double wall construction; installed in 1992). It was reported that an annual pressure test for leaks is performed, and no leaking has been detected. Please refer to the Assumptions and Limiting Conditions for a disclaimer.

### **Site Improvements:**

The subject property is fenced on all sides with an approximate 6-high cyclone fence and three strand barbed wire. Approximately 2.09 acres of the site has an asphalt paved surface, with the balance of the site being graveled. The asphalt is in average condition. There is no significant landscaping.

**DESCRIPTION OF IMPROVEMENTS (continued)**

**Improvement Summary:**

In its current condition, the subject is a three building industrial facility that has surplus land. Building 1 is fair to average with regard to condition and quality, and Building 2 is above average. These two buildings have utility for shop, warehouse, and light manufacturing, with Building 3 having utility for product storage.

## **HIGHEST & BEST USE**

The highest and best use of a property is defined as that reasonable and most probable use that will support its highest present value. The highest and best use, or most probable use, must be legal, physically possible, and marketable. This concept is based upon traditional appraisal theory and reflects the attitudes of typical buyers and sellers who recognize that value is predicated on future benefits. This theory is based upon wealth maximization of the owner, with consideration given to community goals. A use, which does not meet the needs of the public, will not meet the above highest and best use criteria.

The highest and best uses of the subject site "as vacant" and "as improved" is discussed below.

### **"AS VACANT"**

Based on the subject's industrial zoning (Hi), the number of industrial uses surrounding the site, and the subject's overall location and access, industrial development is supported as the highest and best use of the site "as vacant". This use is supported by market conditions, with no adverse supply and demand conditions noted. Therefore, the highest and best use of the site as though vacant is for industrial development.

### **"AS IMPROVED"**

As discussed previously, legal and location characteristics support an industrial use. The subject's current development and use are allowed in the HI zone. As noted in the improvement description, the subject is a functional light manufacturing/shop complex. Building 1 of the subject has utility for light manufacturing, warehouse, and supporting office. Building 2 has utility for shop/warehouse use, and Building 3 for product storage. There is a large amount of surplus land that is currently used for parking and yard storage, but also has utility for expansion. Properties with ample yard space are highly desirable for many industrial users. Improved Sale 2, 4 and 5 each had surplus land areas that were fully utilized for yard storage. Overall, the subject's design provides utility to a wide range of industrial users.

Based upon legal and physical considerations, the property's current use, a light industrial building with surplus land is supported as its highest and best use "as improved."

In addition to legal, physical, and locational considerations, analysis of the subject property "as improved" requires the treatment of two important issues: (1) consideration of alternative uses of the property; and (2) the marketability of the most probable use. The five possible alternative treatments of an improved property are: demolition, expansion, renovation, conversion, and continued use "as improved". Each of these uses has been considered with the continued use "as improved" being the maximally productive use relative to the other options, with expansion possible due to the presence of surplus land.

## **HIGHEST & BEST USE (continued)**

Regarding the marketability of the subject, the Albany marketplace appears to be in a relatively good state of balance. The comparables used in the sales comparison approach each sold within nine months, indicating good marketability. Also, four of the five sales were sold to owner users, suggesting that the subject would likely sale to an owner occupant (versus an investor). Overall, market conditions support an industrial use with surplus land. Potential buyers would include: 1) a user that requires the surplus land for parking and/or yard storage; 2) a user that will expand the facility with other buildings; or 3) a user requiring the buildings and supporting land and potentially sell the surplus land area as excess. All scenarios would render an approximate equivalent value.

Overall, the subject's current use is supported as the highest and best use of the property.

## **VALUATION**

The next part of the appraisal deals directly with the valuation of the property. Traditional appraisal methods to valuation include the cost approach, income approach, and sales comparison approach. The valuation methodology utilized is summarized below.

### **METHODOLOGY**

The **cost approach** is based upon the principle that the value of property is significantly related to its physical characteristics and that no one would pay more than the cost to build a like facility in today's market on a comparable site. In this approach, the market value of the site is estimated and added to the depreciated value of the improvements. In addition, entrepreneurial profit is added. For proposed or newer properties, this approach may have significant relevance. Considering the subject's low site coverage (i.e., significant value is created by the land component) and the construction characteristics, the cost approach will be presented.

The **income capitalization approach** is based on the premise that industrial properties are income producing, and that investors purchase these properties based on their income-producing ability. In the Income Capitalization Approach, market rents for the subject are estimated, the applicable operating expenses are deducted, and the resulting net income is capitalized into a value estimate. However, the subject property's design is primarily attractive to owner-users, not investors. Owner-users place little emphasis on the income approach when making purchasing decisions. In addition, the small building size, low coverage ratio, and varying building types create limitations on the number of similar lease comparables. Consequently, this approach has been omitted from this analysis.

The **sales comparison approach** is based on the principle of substitution. This principle states that no one would pay more for the subject than the value of a similar property in the market. In active markets, with a large number of physically similar comparables, this approach is generally considered to be a good indicator of value. For atypical properties like the subject, this approach can be limited due to the wide variance in property specific characteristics.

### **ANALYSIS OF VALUE CONCLUSIONS**

The approaches used to value the subject property (cost and sales) are correlated into a final fee simple market value estimate at completion in the Analysis of Value Conclusions section.

## **COST APPROACH**

In this section, the subject's concluded site value will be added to the depreciated replacement cost of the improvements, which accounts for estimated improvement costs, absorption costs, and entrepreneurial profit and overhead, less estimates for accrued depreciation.

### **SITE VALUATION**

The market value of the subject site will be estimated utilizing the sales comparison approach in which sales of industrial land in the subject's market area and directly competing market areas are compared to the subject site to indicate value. The limited number of comparable sales in the subject's market area and lack of uniformity within this market prevents direct extraction of adjustments from the marketplace. General analysis reflecting market behavior is utilized to determine which comparables are superior or inferior to the subject. This analysis establishes value parameters for the subject, allowing for a final conclusion of value.

The price per square foot unit of comparison will be used in this analysis. This indicator best reflects the behavior of the typical buyer and seller in the subject's market. Located on the following pages are a Land Sales Tabulation Chart and Land Sales Location Map, which summarize the comparables used in this analysis.

The four comparable land sales indicate a range in price from \$2.63 to \$3.50 per square foot. Although some of the comparables are slightly dated, land values have remained generally stable over the past few years, and therefore, a time adjustment is not required.

**Comparable 3 (\$3.50/SF)** is a 2001 industrial land sales in the subject's Albany market area. It has similar size and site characteristics (topography/shape), but the comparables frontage along Interstate 5 freeway has enhanced its marketability and value, noting that a furniture retailer was the buyer. Due to this, it is a high indicator for the subject.

**Comparable 2 (\$2.83/SF)** is the 2003 sale of a smaller industrial parcel located near the subject. This location, and general site characteristics, makes Comparable 2 a reasonable indicator for the subject.

**Comparable 1 (\$2.60/SF)** is the recent sale of a smaller industrial site located in the subject's industrial area, with superior direct access and exposure. The smaller size and superior access and exposure make this a high indicator.

**Comparable 4 (\$2.73/SF)** is a current listing in the subject's industrial area, with similar access and exposure. Secondary weight is placed on this comparable due to its listing status.

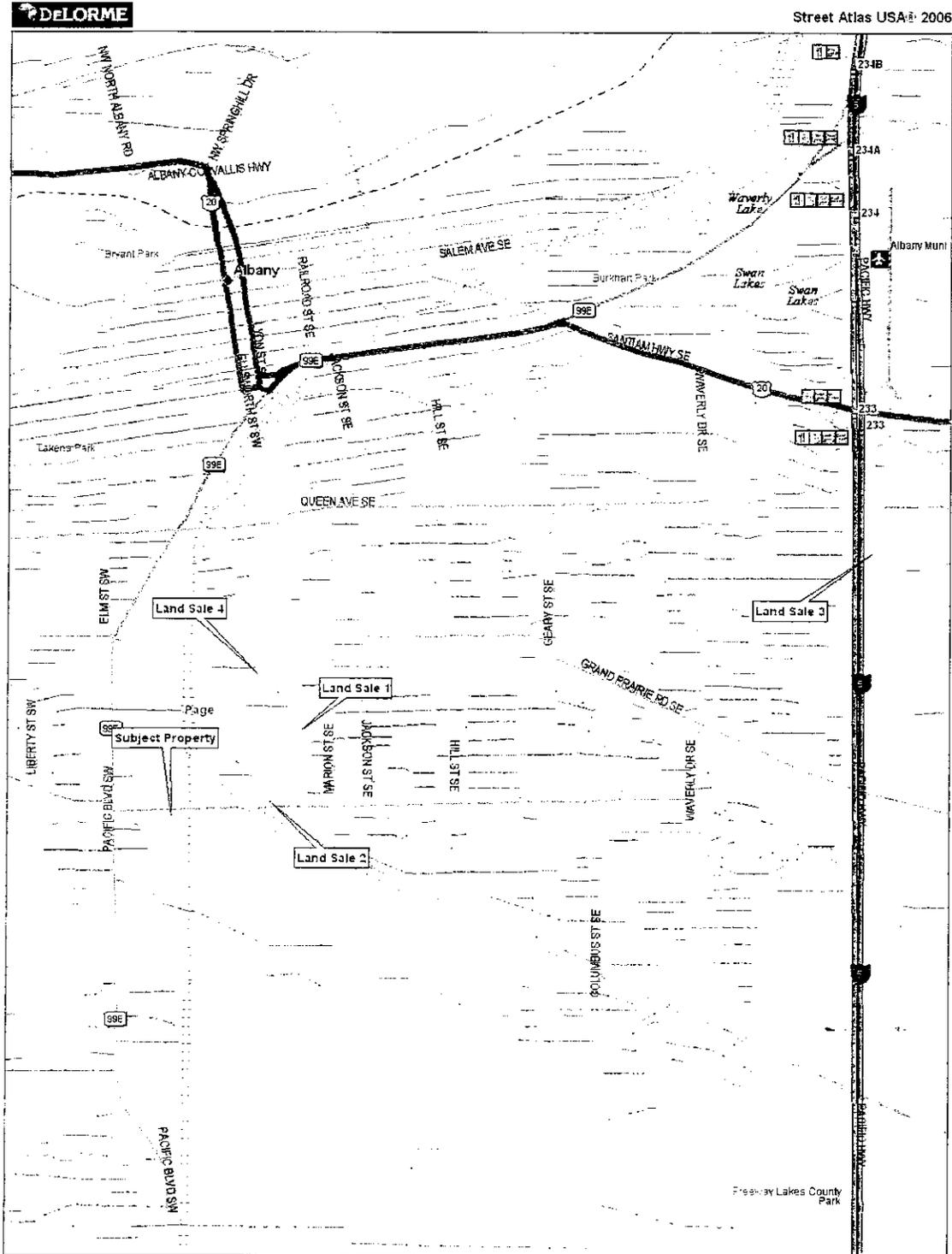
In addition to the preceding data, anecdotal data is considered. Jim O'Bryant, an active industrial broker in Albany, reported industrial land values varying from \$2.50 to \$3/SF. Also, Rob Richards of Coldwell Banker – Albany, suggested a \$2.50/SF value for industrial land similar to the subject.

Narrative continues on page 29.

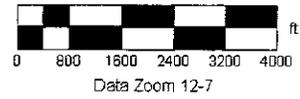
## LAND SALES TABULATION CHART

LOCATION INFORMATION	COMPARABLE 1	COMPARABLE 2	COMPARABLE 3	COMPARABLE 4
Address: City/State:	East Side of Ferry Street, South of 29th Ave SW Albany, OR	34th Avenue, east of Pacific Highway Albany, OR	1958-1984 Fescue Street SE Albany, OR	2500 Ferry Street SW Albany, OR
<b>PHYSICAL INFORMATION</b>				
Allowed Use:	Industrial	Industrial	Industrial	Industrial
Gross Site Size (acres):	1.81	2.23	3.12	2.10
Gross Site Size (sf):	78,844	97,139	135,821	91,476
Net Site Size (acres):	1.68	2.23	3.12	2.10
Net Site Size (sf):	73,181	97,139	135,821	91,476
Zoning:	IP, Industrial Park	LI, Light Industrial	LI, Light Industrial	LI, Light Industrial
Shape:	Rectangular	Irregular	Rectangular	Rectangular
Topography:	Level	Level	Level	Level
Access:	Average	Average	Average to good	Average
Exposure:	Average to good	Average	Excellent	Average
Corner:	No	No	No	No
Utilities:	All	All	All	All
<b>SALE INFORMATION</b>				
Transaction Date:	3/13/2006	3/6/2003	7/18/2001	
Transaction Status:	Recorded	Recorded	Recorded	Listing
Transaction Price:	\$190,000	\$275,000	\$476,000	\$250,000
Analysis Price:	\$190,000	\$275,000	\$476,000	\$250,000
Rights Transferred:	Fee Simple	Fee Simple	Fee Simple	Fee Simple
<b>Price per Net SF:</b>	<b>\$2.60</b>	<b>\$2.83</b>	<b>\$3.50</b>	<b>\$2.73</b>
Remarks:	A rectangular industrial site located in an established industrial area in Albany. Average access, average to good exposure.	An irregularly shaped industrial site that was purchased for development of a mini-storage. The buyer approached the seller.	A rectangular industrial site that was on the market for seven months. Developed with the Parrott's furniture retail store. Excellent exposure to Interstate 5.	A generally rectangular site located in an established industrial in Albany. The site is one lot off Ferry Street and has average access and exposure. This site was listed since October 2005 and can only be sold in conjunction with or after the adjacent in conjunction with, or after an adjacent improved property sells.

# LAND SALES LOCATION MAP



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## **COST APPROACH (continued)**

Considering the subject's overall location and physical characteristics, as well as the previous comparable analysis and anecdotal information, a unit value of \$2.75/SF is estimated for the subject's site, or (141,570 SF x \$2.75/SF) \$390,000, rounded.

### **IMPROVEMENT COST ANALYSIS**

To estimate the replacement cost of the subject's improvements, we have relied on the *Marshall Valuation Service*, a national cost-estimating guide that publishes the average cost of various building types. The costs include the following: construction interest, permits, architect's and engineering fees, taxes during construction, contractor's overhead and profit, and standard tenant improvements. The costs do not include miscellaneous indirect costs, absorption costs, entrepreneurial profit and overhead, and land acquisition. The *Marshall Valuation Service Calculator Cost Method* gives average costs for typical buildings of each type, based on averages of detailed construction estimates, actual cost breakdowns, and total end costs of many actual projects. However, because each building is in some way unique, these average cost figures must be further refined.

The following base cost estimates were provided by *Marshall Valuation Service*:

- Building 1 shell has a base cost of \$19.97/SF (Low Cost Class C) and the interior office has a base cost of \$32/SF (Low/Average Cost);
- Building 2 has a base cost of \$17.21/SF (Low Cost Class S); and
- Building 3 has a base cost of \$11.68/SF (Low Cost Class C Material Storage Shed).

The following chart summarizes the subject's building improvement cost analysis.

<b><i>Marshall Valuation Service</i></b>				
<b>COMPONENT</b>	Shell	Office	<b>Building 2</b>	<b>Building 3</b>
	<b>Building 1</b>	<b>Building 1</b>		
<b>BASE SQUARE FOOT COST</b>	\$19.97	\$32.00	\$17.21	\$11.68
<b>SQUARE FOOT REFINEMENTS--</b>				
Heating, cooling, ventilation	\$1.65	\$2.25	\$1.65	\$0.00
Adjusted Square Foot Cost	\$21.62	\$34.25	\$18.86	\$11.68
<b>HEIGHT &amp; SIZE REFINEMENTS--</b>				
Number of stories-multiplier	1.0000	1.0000	1.0000	1.0000
Height per story multiplier	1.0000	1.0000	1.0000	1.0000
Floor area-perimeter multiplier	1.192	1.192	1.192	1.192
Combined height & size multiplier	1.1920	1.1920	1.1920	1.1920
<b>FINAL CALCULATIONS--</b>				
Refined square foot cost	\$25.77	\$40.83	\$22.48	\$13.92
Current cost multiplier	1.04	1.04	1.05	1.04
Local multiplier	1.04	1.04	1.06	1.04
Final Square Foot Cost	\$27.87	\$44.16	\$25.02	\$15.06
Size (SF)	4,905	2,492	1,440	793
<b>REPLACEMENT COST NEW (ROUNDED)</b>	<b>\$136,700</b>	<b>\$110,000</b>	<b>\$36,000</b>	<b>\$11,900</b>
<b>TOTAL RCN</b>	<b>\$294,600</b>			

The total *Marshall Valuation Service* estimate of \$294,600 excludes costs associated with site improvements and miscellaneous indirect expenses.

## **COST APPROACH (continued)**

- Miscellaneous indirect costs that are excluded from the direct cost estimate includes legal fees, taxes during construction, escrow fees, appraisal fees, environmental report fees, traffic impact fees, and other consulting or miscellaneous fees. This analysis estimates indirect costs at 5 percent of direct cost, or \$15,000, rounded ( $\$294,600 \times 5\%$ ).
- Site improvements include a paved parking area (\$135,000), gravel parking (\$30,000), and perimeter fencing (\$25,000). Total site improvement costs are ( $\$135,000 + \$30,000 + \$25,000$ ) \$190,000.

Adding these three cost components indicates a total improvement cost for the subject of ( $\$294,600 + \$15,000 + \$190,000$ ) \$499,600, or \$69.99 per square foot of gross building area.

The concluded cost estimate includes all hard and soft costs, such as loan fees, interest during construction, professional fees, and city permits and fees. It excludes absorption costs, entrepreneurial incentive, and land acquisition.

### **ABSORPTION COSTS**

Considering the subject's small size and owner/user appeal, no absorption costs are estimated.

### **ENTREPRENEURIAL INCENTIVE**

Entrepreneurial incentive compensates the developer/owner for project risk and management. It is unlikely that a developer/owner would proceed with a development unless adequate profit is available to justify the effort. This cost component includes office overhead, staff, and profit. Entrepreneurial profit and overhead generally range between 5 and 20 percent of the total improvement and land cost, depending upon project size, location, and marketability. Recognizing the low interest rates, high construction costs, and generally lower profit percentage achieved for a typical owner/user building, an entrepreneurial profit/overhead of 5 percent will be utilized.

### **TOTAL REPLACEMENT COST NEW**

Improvement costs, absorption costs, and entrepreneurial profit and overhead were analyzed in this section. Based on these individual cost estimates, total replacement cost new is estimated at \$543,600, as shown on the Cost Approach Summation Table at the end of the Cost Approach.

### **DEPRECIATION**

From the improvement replacement cost new, a dollar amount of depreciation may be deducted. There are three types of depreciation: physical, functional, and external:

- **Physical depreciation** is the result of physical wear and tear on the improvements. Physical depreciation is divided into short-term or curable depreciation and long-term or incurable depreciation. Short-term depreciation consists of items that are

## **COST APPROACH (continued)**

often repaired or fixed over the typical life of a building. Long-term depreciation represents general deterioration that cannot be cured without a complete structural renovation of a building.

- **Functional obsolescence** is the result of design or physical problems that reduce the income-producing ability or desirability of the subject property.
- **External obsolescence** is the result of outside influences (economic, market area) that decrease the value of the property.

All three types of depreciation have been considered. Functional obsolescence does not apply because the subject was designed with no design or physical problems. External obsolescence does not apply because the facility is located near major transportation routes in an industrial area where activity is stable.

As for physical depreciation, the average effective age of the subject is estimated to be 25 years and the economic life is approximately 40 years. Using *Marshall Valuation Service* depreciation tables, the indicated depreciation is 43%. Based on this, total physical depreciation is \$234,000.

## **VALUE CONCLUSION**

The Cost Approach is summarized on the chart on the following page. Adding the estimated depreciated replacement cost of the subject's improvements (\$309,600) to the land value (\$390,000) indicates a market value estimated by the Cost Approach of \$699,600, rounded to:

**\$700,000**

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### Cost Approach Summation Table

---

**Replacement Cost New--**

Improvement Cost	7,138 SF x	\$69.99 /SF =	\$499,600
Developer's Overhead & Profit	5.0% x	\$889,600 =	<u>\$44,000</u>

**Total Replacement Cost New** = \$543,600

**Less Depreciation--**

Physical - Long Term	43.0%	\$234,000
Functional		\$0
Economic		<u>\$0</u>

Total Depreciation = (\$234,000)

**Depreciated Replacement Cost** = \$309,600

**Plus Site Value** \$2.75 /SF x 141,570 SF = \$390,000

**Market Value (Rounded)** = \$700,000

---

## **SALES COMPARISON APPROACH**

The Sales Comparison Approach compares improved sales to the subject property based on an appropriate unit of comparison. Industrial properties in the subject market are typically analyzed on a price per square foot of gross building area. Therefore, this unit of comparison will be used in this analysis. When analyzing comparables, primary consideration is given to: physical characteristics such as age, construction type, condition, percentage of office area, and quality; overall building size; and location.

### **ADJUSTMENT TO SALE COMPARABLES**

The following sales are located in the subject immediate marketplace, noting that the abutting Millersburg and Tangent locations effectively represent the same marketplace as Albany. To reflect the varying percentage of site coverage ratios, the land values for each of the comparables has been estimated<sup>1</sup> and deducted from their respective purchase price to indicate the contributory value of the improvements only (aka building residual value). After extracting the land, the building residual will be analyzed on a price per square foot basis. The estimated value of the building component will then be added to the previously concluded land value and thereby, indicating a total value by the sales comparison approach.

In addition to the land adjustment, the comparable sales are adjusted for atypical financing, conditions of sale, or necessary expenditures in addition to sale price when applicable. Given the lack of directly comparable improved sales, market supported quantitative adjustments are not reasonable. Rather, qualitative analysis has been conducted to determine which comparables are superior or inferior to the subject. This analysis establishes value parameters for the subject, allowing for a final conclusion of value.

### **PRESENTATION**

On the following pages, an Improved Sales Tabulation Chart and Improved Sales Location Map are presented, which summarize the sales used in this analysis. Photographs of each comparable are also included.

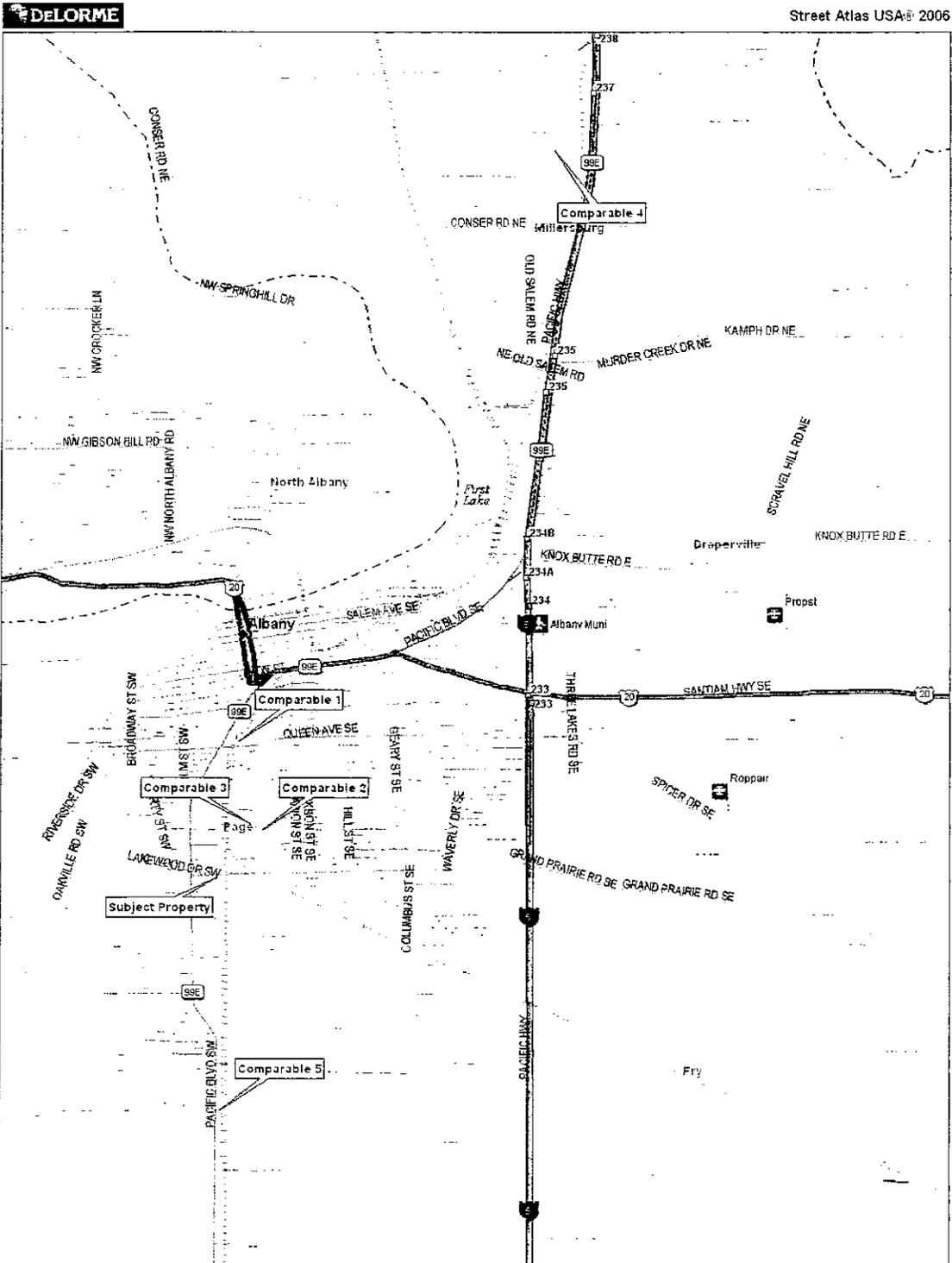
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<sup>1</sup> Land values are estimated by comparables and estimates made by the selling brokers. The exception is Comparable 3 where the land value was estimated by the County Assessor's records

**SALE COMPARABLE TABULATION CHART**

LOCATION INFORMATION		COMPARABLE 1	COMPARABLE 2	COMPARABLE 3	COMPARABLE 4	COMPARABLE 5
Property Name:	Warehouse/Shop Building	Light Manufacturing Building	Manufacturing Building	Aprta Building	United Pipe & Supply	
Address:	1624 Ferry Street SW	168 29th Avenue SW	353 29th Avenue SW	5253 Old Salem Road	34403 Highway 99E	
City/State:	Albany, OR	Albany, OR	Albany, OR	Millersburg, OR	Tangent, OR	
County:	Linn	Linn	Linn	Linn	Linn	
APN:	T11S, R3W, Sec 7CB, TL 2500	T11S, R3W, Sec 18B, TL 1013	T11S, R3W, Sec 18B, TL 1010		11S-3W-30 TL 1000, R129292	
<b>SALE INFORMATION</b>						
Transaction Date:	7/14/2006	2/26/2006	8/15/2005	5/9/2005	5/21/2003	
Transaction Status:	Recorded	Recorded	Recorded	Recorded	Recorded	
Transaction Price:	\$95,000	\$425,000	\$605,000	\$407,000	\$875,000	
Analysis Price:	\$105,500	\$425,000	\$605,000	\$407,000	\$875,000	
Analysis Price Comments:	Buyer paid an additional \$5,500 to hook up to city water.					
Estimated Land Price	\$37,025	\$148,539	\$135,620	\$133,293	\$286,408	
<b>Estimated Building Price (Residual)</b>	<b>\$68,475</b>	<b>\$276,462</b>	<b>\$469,380</b>	<b>\$273,707</b>	<b>\$588,593</b>	
Recording Number:	2006-17224	2006-04798	1749-254	1709-467	1428-194	
Rights Transferred:	Fee Simple	Fee Simple	Fee Simple	Leased Fee	Fee Simple	
Financing:	Cash to seller	Cash to seller	Cash to seller	Cash to seller	Cash to seller	
Conditions of Sale:	Arm's Length	Arm's Length	Arm's Length	Arm's Length	Arm's Length	
Market Time:	9 Month(s)	3 Month(s)	6 Month(s)	4 Month(s)	4 Month(s)	
<b>PHYSICAL INFORMATION</b>						
Site Size (acres):	0.34	1.24	2.64	1.02	2.63	
Site Size (sf):	14,810	54,014	114,998	44,431	114,563	
Zoning:	L1, Light Industrial	L1, Light Industrial	L1, Albany	L1, Light Industrial	L1, Light Industrial	
Site Coverage Ratio:	20%	10%	9%	14%	15%	
Project Type:	Single-Tenant	Single-Tenant	Single-Tenant	Single-Tenant	Single-Tenant	
Gross Building Area (sf):	3,030	5,600	10,408	6,161	17,300	
Leasable Area (sf):	3,030	5,600	10,408	6,161	17,300	
No. of Buildings:	1	1	1	1	1	
Year Built:	1970s Exact date unknown	1997	1999	1993	1975	
Quality:	Fair	Average/Good	Average	Average	Average	
Condition:	Fair	Average/Good	Good	Average	Average	
Appeal:	Fair	Good	Average	Average	Average	
Construction Type:	Wood frame	Steel	Steel	Concrete block	Steel	
% of Office Build-out:	None	8%	12.40%	19.5%	13.20%	
Loading Doors:	Grade Level	1-Grade Level	1-Grade Level	2-Dock high & Grade Level	6-Dock high & Grade Level	
HVAC:	Gas heat only.		Warehouse Heat, AC in Office	Warehouse Heat, AC in Office		
Physical Comments:		A 400 SF storage mezzanine is excluded from the 5,600 SF.	the building is on the usable portion of the site.			
<b>ANALYSIS INFORMATION</b>						
NOI:	N/A	N/A	N/A	\$26,790	N/A	
Cap Rate:	N/A	N/A	N/A	6.58%	N/A	
Price/SF (Overall):	\$34.82	\$75.89	\$58.13	\$86.06	\$50.58	
<b>Building Only Value/SF (Excludes Land)</b>	<b>\$23</b>	<b>\$49</b>	<b>\$45</b>	<b>\$44</b>	<b>\$34</b>	
<b>CONFIRMATION INFORMATION</b>						
Contact:	Rob Richards	Jim O'Bryant	Curt Arthur	Bill MacHugh	Jim O'Bryant	
Company:	Coldwell Banker - Albany	HCS Commercial	Coldwell Banker Commercial	Investment Realty, Inc.	HCS Commercial	
Remarks:	Originally a cabinet shop that was used by the seller for warehousing. The buyer plans to renovate the building to office/warehouse. The yard area is graveled; there is no office space. The broker estimated the land value at \$2.50/SF, or \$37,025.	This is a steel framed building with metal clad siding. There is surplus land that will be used in the near term by the buyer for storage. The broker reported that all land area contributed the same value (estimated at \$3/SF). A small wetland area (50x50) also contributed full value.	A manufacturing building that will be occupied by Tek-Fab. Located in an industrial district in the City of Albany. The office interior was reported to be in good condition and quality. (C051001-38)	Located in Millersburg, a small community along the Interstate 5 corridor and adjacent to the City of Albany. Located in an industrial district with nearby access to I-5. The tenant plans to renew their lease. The tenant (Aprtia) is a national tenant. (C051001-39)	Steel frame, metal sided building with excellent exposure to Highway 99E. Purchased for owner occupancy by United Pipe & Supply. (C040567-72)	

# IMPROVED SALES LOCATION MAP



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 www.delorme.com



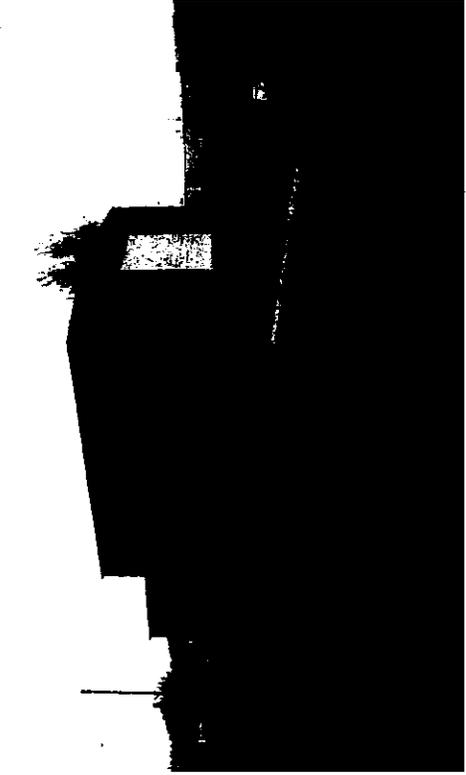
**IMPROVED SALES PHOTOGRAPHS**



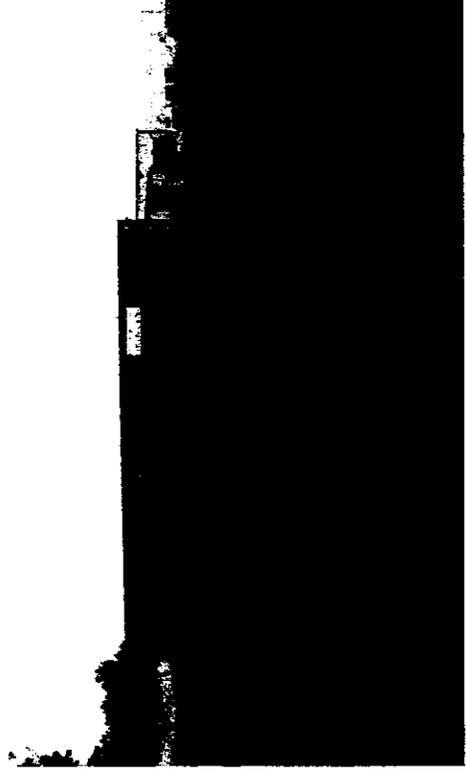
Comparable 1. (C061164-29)



Comparable 3. (C051001-38)



Comparable 2. (C061164-16)



Comparable 4. (C051001-39)

**IMPROVED SALES PHOTOGRAPHS (continued)**



Comparable 5. (C040567-72)

## **SALES COMPARISON APPROACH (continued)**

### **DIRECT COMPARABLE ANALYSIS**

The comparables range from \$23 to \$49 per square foot (building only value). The comparables bracket the subject well in terms of overall size, construction type, and overall appeal.

**Comparable 1 (\$23/SF - adjusted)** sets the low end of the range. This comparable is an inferior quality industrial shop building due to its wood frame construction, no office space, and no site improvements. The condition of the building is also inferior. It is a low indicator of value.

**Comparable 2 (\$49/SF - adjusted)** and **Comparable 3 (\$45/SF - adjusted)** represent the upper end of the range. They are both near the subject with similar locational features. They are both newer buildings that are in superior overall construction. Also, the interior condition of the office space, as well as its quality, is superior. These two comparables are high indicators of value.

**Comparable 4 (\$44/SF - adjusted)** is similar to the subject with respect to its concrete block construction and small size. The building is newer and its condition is superior. Also, the interior condition and quality of the office space is superior. It too is a high indicator of value.

**Comparable 5 (\$34/SF - adjusted)** is over twice the size as the subject, which puts some downward pressure on unit value. This comparable has similar condition and quality as the subject; however, the generally utility for industrial use is slightly superior (better clear heights throughout). Overall, it is a reasonable indicator of value.

Considering the preceding comparable analysis, a building only value of \$35/SF is estimated. Each of the comparables represents fully enclosed improvements, with no three sided buildings (like the subject's Building 3). Therefore, this value estimate will be applied to Building 1 and 2 (4,905 SF + 1,440 SF = 6,345 SF), which indicates a building value of (\$35/SF x 6,345 SF) \$222,000, rounded.

Regarding the three sided building (793 SF), due to the absence of similar sales, the value contribution of this building will be estimated using depreciated replacement cost analysis. As presented in the cost approach section, the estimated depreciated replacement cost of this structure is approximately \$7,000 [(\$11,900 RCN x 1.05 Profit) - 43% depreciation].

The total estimated value of the three structures is (\$222,000 + \$7,000) \$229,000. Adding this figure to the previously estimated land value of \$390,000 indicates a total "as is" fee simple value of \$619,000, rounded to:

**\$620,000**

## **ANALYSIS OF VALUE CONCLUSIONS**

The Analysis of Value Conclusions is the final step in the appraisal process and involves the weighing of the individual valuation techniques in relationship to their substantiation by market data, and the reliability of each valuation technique to the subject.

### **INDICATED VALUES**

Cost Approach:	\$700,000
Income Capitalization Approach:	Not Presented
Sales Comparison Approach:	\$620,000

For properties with very low site coverage ratios where much of the value lies in the land component, the **Cost Approach** is a good indicator of value. While, our land value estimate is considered reliable, the limiting factor of this approach exists when estimating depreciation. Buyers of owner/user properties with low site coverage would typically consider this approach when making a purchase decision. Overall, significant emphasis is placed on this approach in the final analysis.

The **Income Capitalization Approach** was not presented as described earlier.

The **Sales Comparison Approach** included five comparable sales from which to derive a value estimate for the subject's improvements. Although this approach is the best indicator of value, it is believed that some of the value associated with excess site improvements was not fully realized in our estimate. Primary emphasis is placed on this approach.

Based on the previous discussion, the final conclusion of the "as is" fee simple market value, as of November 1, 2006, is:

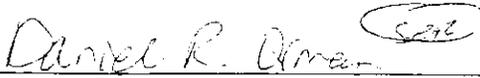
**\$650,000**

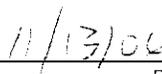
## CERTIFICATION OF APPRAISAL

We certify that, to the best of our knowledge and belief:

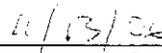
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- I, Daniel R. Orman, have made a personal inspection of the interior and exterior of the property that is the subject of this report and have inspected the exterior of all the comparables.
- I, Donald R. Palmer, MAI, have not made a personal inspection of the property that is the subject of this report or the comparables, I have thoroughly reviewed the analysis procedures and valuation presented herein and concur with the contents of this report.
- No one provided significant real property appraisal assistance to the persons signing this certification.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, I, Donald R. Palmer, MAI, have completed the continuing education program of the Appraisal Institute.

  
\_\_\_\_\_  
Daniel R. Orman  
OR State Certified General Appraiser  
No. C000179

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Donald R. Palmer, MAI  
OR State Certified General Appraiser  
No. C000060

  
\_\_\_\_\_  
Date

**ADDENDA**

**QUALIFICATIONS OF PGP VALUATION INC**

# PGP VALUATION INC

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## **QUALIFICATIONS**

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PGP VALUATION INC was established in 1978 as a partnership, and incorporated in 1993. Our primary goal is to serve our clients in an effective and timely manner by preparing appraisal and feasibility reports which can be relied upon for decision-making purposes by our clients. Our reports utilize current analytical tools and recognized appraisal methods. The members of our firm adhere to the Code of Ethics established by the Appraisal Institute, and strive to maintain a high level of professional integrity. Services are provided throughout the United States with local offices in Portland, Oregon; Sacramento and San Diego, California; Seattle and Vancouver, Washington.

---

## **PROFESSIONAL SERVICES**

---

Our firm offers a wide range of services in the evaluation of real estate:

- |                                |  |
|--------------------------------|--|
| <b>Real Estate Appraisals:</b> | Valuation estimates on all type of properties including residential, commercial, and industrial.   |
| <b>Market Research:</b>        | Market analysis and feasibility studies of all property types. Additional services include fiscal and socio-economic impact assessment; benefit-cost analysis; forecasting and modeling; public need assessment, site evaluation; highest and best use analysis; questionnaires and surveys. |
| <b>Consultation:</b>           | Analysis of real estate regarding values, site development potential, market standard versus competitive edge amenities, market conditions, et cetera.   |
| <b>Court Testimony:</b>        | Professional opinions as expert witnesses regarding the valuation of real estate.  |
| <b>Property Tax Analysis:</b>  | Representation before government agencies regarding ad valorem taxes, including preliminary value consultation, appraisals, Board of Equalization and Tax Court presentations.   |

---

## **IMPORTANT ASSIGNMENTS AND REFERENCES**

---

PGP VALUATION INC provides appraisals on all property types (multiple family, industrial, retail, office, and special purpose properties), and we serve lenders, government agencies, attorneys, corporations, and investors. Please contact us for references.

# PGP VALUATION INC

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Daniel K. Young

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Steven J. Gentzkow, MAI

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Scott Shouse  
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Bobby Hastings  
John Holmstrom  
Rebecca Horvat  
Randy King  
Jared Mathews  
Russell McCoy  
Matthew Reynolds  
Kevin Ritter  
Shoeyb Yousofy

# PGP VALUATION INC

## CLIENTS

### Portland Office

#### ATTORNEYS

Ater Wynne LLP  
Ball Janik LLP  
Black Heltterline LLP  
Brownstein, Rask, Arenz, et al  
Bullivant Houser Bailey  
Carney, Buckley, Kasameyer & Hays  
Copeland, Landye, Bennett & Wolf LLP  
Davis Wright Tremaine  
Dunn Carney Allen Higgins & Tongue  
Foster Pepper & Sheffelman, LLP  
Garvey, Schubert & Barer  
Gevurtz Menashe  
Lane Powell, LLP  
Miller, Nash, Weiner, Hager & Carlsen LLP  
Preston Gates & Ellis LLP  
Perkins Coie LLP  
Stahancyk Gearing Rackner and Kent, PC  
Stoel Rives, LLP  
Sussman Shank Caplan Wapnick & Stiles LLP  
Tonkon Torp LLP  
Williams Fredrickson & Stark LLP

#### CONSULTANTS

CIDA, Inc.  
David Evans & Associates  
Geller, Silvis & Associates  
Shiels Obietz Johnson LLC  
W&H Pacific  
WRG Design Inc.

#### CORPORATIONS

Cascade General  
City Center Parking  
Epson Portland  
Goodwill Industries  
IBM Corp.  
Intel Corporation  
Kaiser Permanente  
Legacy Health System  
Louisiana Pacific  
McDonald's Corporation  
Nike, Inc.  
Northwest Natural  
Portland General Electric  
Providence Health System  
Standard Insurance  
Sulzor Pumps (US) Inc.  
Texaco Marketing Co.  
Tosco Marketing Co.  
Union Pacific Railroad

#### DEVELOPERS/OWNERS

Andersen Construction Company  
Archstone-Smith Communities  
ASA Properties  
Bean Investment Real Estate  
Bircher Properties  
Brian McCarl & Co.  
Burnham Pacific  
C.E. John Company, Inc.

Equity Residential  
Gramor Oregon, Inc.  
Guardian Management Corporation  
H. Naito Properties  
Harsch Investment Corp.  
James Property Investments  
Koll Development Group  
Louis Dreyfus Property Group  
McMenamins  
Melvin Mark Companies  
National Retail Partners  
North Pacific Management  
Octagon Development Co.  
Pacific Realty Associates, L.P.  
PanPacific Realty  
Principal Capital Management  
Schnitzer Investment Corp.  
The Specht Company  
Three Oaks Development  
TN Development  
Trammell Crow Company  
Watumull Properties  
West Hills Development Co.  
WinCo Foods  
Winkler Development Corp.

#### GOVERNMENT/INSTITUTIONAL

City of Canby  
City of Hillsboro  
City of Lake Oswego  
City of McMinnville  
City of Milwaukie  
City of Portland  
City of West Linn  
City of Wilsonville  
Clackamas County  
Clatskanie School District  
Housing Authority of Portland (HAP)  
Lewis & Clark College  
Metro  
Multnomah County  
North Clackamas School District  
Oregon Department of Revenue  
Oregon Department of State Lands  
Oregon Health Sciences University  
Oregon Housing & Community Services  
Oregon State University  
Port of Hood River  
Port of Portland  
Port of St. Helens  
Portland Development Commission  
Portland Public Schools  
Portland State University  
State of Oregon  
The Nature Conservancy  
The Trust for Public Lands  
The Waldorf School  
U.S. Fish & Wildlife  
U.S. Marshals Service  
Washington County  
Washington Department of Revenue  
Yamhill County

#### LENDERS

AEGON USA Realty Advisors, Inc.  
Albina Community Bank  
Bank of Astoria  
Bank One Corporation  
Bank of America  
Bank of the West  
Centennial Bank  
Clackamas County Bank  
Continental Savings Bank  
Finova Realty Capital Inc.  
First Security Bank  
GE Capital Corp.  
Green Park Financial  
Holliday, Fenoglio, Fowler, L.P.  
Interest Mortgage Investment  
JP Morgan Capital Terrace  
Key Bank National Association  
LJ Melody  
Manufacturers and Traders Trust Company  
M&T Bank  
Merchants Bank  
Midland Loan Services  
National Mortgage Co.  
New York Life Insurance Co.  
Norris Beggs & Simpson  
Oregon Business Bank  
Pacific Continental Bank  
Pacific NW Bank  
Prudential Mortgage Capital  
St. Helens Community Federal Credit Union  
Seattle Mortgage  
Shore Bank Pacific  
Sterling Savings Bank  
U.S. Bank  
Washington Federal  
Washington Mutual Bank  
Wells Fargo Bank  
West Coast Bank  
West Coast Mortgage

#### NON-PROFIT

Affordable Community Environments  
Central City Concern  
Network for Oregon Affordable Housing  
(NOAH)  
Reach Community Development  
Specialized Housing Inc.

#### OTHER

Archdiocese of Portland  
ASB Capital Management, Inc.  
Church of the Nazarene  
Cushman & Wakefield of Oregon  
Ernst & Young LLP  
First American Title Insurance  
GE Capital Investment Advisors  
Grubb & Ellis Company  
KPMG, LLP  
Moss Adams LLP  
NW General Presbyterian  
Rubicon International  
Seventh-Day Adventist Church  
Sisters of the Holy Names

**QUALIFICATIONS OF APPRAISERS**

**Qualifications of**  
**DANIEL R. ORMAN**  
**Commercial Appraiser**

Dan Orman has been an appraiser with PGP VALUATION INC since 1988. His specialties include retail, office, and industrial properties. Dan is married, has three children, and resides in Corvallis.

**PROFESSIONAL EDUCATION**

Oregon State University ♦ Corvallis, Oregon ♦ 1985  
Bachelor of Science Degree ♦ Health Care Administration

**APPRAISAL INSTITUTE COURSES**

Real Estate Appraisal Principles  
Basic Valuation Procedures  
Capitalization Theory and Techniques A & B  
Standards of Professional Practice  
Case Studies  
Report Writing  
Condemnation Appraising  
Partial Interest Valuation  
Highest & Best Use and Market Analysis

**REAL ESTATE EXPERIENCE**

PGP VALUATION INC ♦ Portland, Oregon  
Commercial Appraiser ♦ 1988 to Present  
City of Portland ♦ Portland, Oregon  
Real Property Technician

**LICENSE AND CERTIFICATION**

Certified General Real Estate Appraiser ♦ State of Oregon  
Certificate No. C000179

**Qualifications of**  
**DONALD R. PALMER, MAI**  
**Principal**

Don Palmer was born in Sunnyside, Washington in 1948. Don spent his early years in the lower Yakima Valley, graduating from Washington State University in 1970 with a Bachelor of Arts in Business Administration. Since graduating, he has resided in Portland, Oregon, and has been active in the Appraisal Institute, the Oregon Mortgage Bankers Association, the Portland Metro Building Owner's Association, Multnomah Athletic Club, and Tualatin Country Club.

**PROFESSIONAL EDUCATION**

Washington State University ♦ 1970  
Bachelor of Arts Degree ♦ Business Administration

**CONTINUING EDUCATION**

<b><u>Course</u></b>	<b><u>Date</u></b>	<b><u>Sponsor</u></b>
Eminent Domain	04/2005	The Seminar Group
USPAP	09/2005	Appraisal Institute
Non-USPAP Appraiser Regulatory	07/2004	Bob Keith Appraiser Seminar
USPAP	09/2004	Appraisal Institute
Land Valuation Adjustment	09/2004	Appraisal Institute
The Road Less Traveled	09/2004	Appraisal Institute

**GUEST LECTURER**

Washington Eminent Domain Conference ♦ 2005  
Oregon Eminent Domain Conference ♦ 2005

**REAL ESTATE EXPERIENCE**

Principal ♦ PGP VALUATION INC (formerly Palmer, Groth & Pietka, Inc.)  
Real Estate Appraiser ♦ Curtis & MacKenzie  
Appraiser ♦ Assessor's Office, Multnomah County, Oregon

**LICENSE AND CERTIFICATION**

Certified General Real Estate Appraiser ♦ State of Oregon  
Certificate No. C000060  
Certified General Real Estate Appraiser ♦ State of Washington  
License No. 27011 1100446

**PROFESSIONAL AFFILIATIONS**

Appraisal Institute  
Oregon Mortgage Bankers Association

**Qualifications of Donald R. Palmer, MAI (continued)**

**PROFESSIONAL DESIGNATIONS**

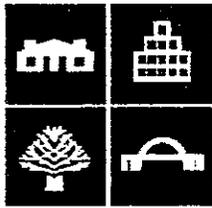
MAI ♦ Appraisal Institute

**COMMUNITY SERVICES**

Board of Directors, 1983-1984 - Athletic Association, Portland State University  
Board of Directors, 1985-1986 - Parry Center  
Board of Directors, 1987-1990 - Appraisal Institute  
President, 1989 - Appraisal Institute  
Board of Directors, 1988-1989 - Oregon Mortgage Bankers Association  
Real Estate Advisory Committee - Boy Scouts of America  
Board of Directors, 1987-1990 - Portland Metro Buildings & Owners Association  
Board of Directors, 1990-1991 - State of Oregon, Real Estate Agency  
President, 1992 - Portland Metro Buildings, Owners, & Managers Association  
Cathedral School Board, 1991-1992  
Board of Directors, President, Vice President, Treasurer, 1995 to 2001 – Tualatin Country Club  
SW Community Center Task Force, 1998 – City of Portland  
Washington State University Planned Giving Advisory Board, 2002-Present  
St. Mary's Auction Chairperson, 2002

**COMMUNITY AWARDS**

Portland Metro Builders & Owners Association  
Member of the Year, 1985



# PGP VALUATION INC

REAL ESTATE APPRAISERS & CONSULTANTS  
110 SW YAMHILL • SUITE 200 • PORTLAND OREGON 97204  
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FOR SERVICES RENDERED — PLEASE REFER TO JOB NUMBER WHEN REMITTING — THANK YOU

## INVOICE

Steven A. Walti  
Supervisor Risk Envir. & Land  
NW Natural Gas  
220 NW 2nd Avenue  
Portland, Oregon 97209

Job No. C061164  
November 13, 2006  
Federal Tax ID #93-1114929

**SUMMARY APPRAISAL REPORT**  
NW Natural Service Center  
730 W 34th Avenue  
Albany, Oregon

Professional Fee  
Total Due

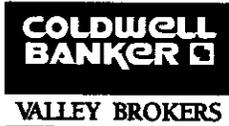
\$4,000.00  
\$4,000.00

Payment is due upon receipt. A service fee of 1.5% per month will be charged on all accounts in excess of 30 days past due.

APPROVED FOR PAYMENT  
 APPROVED *And K. Hart*  
 APPROVED \_\_\_\_\_  
 Vendor # \_\_\_\_\_ Bus \_\_\_\_\_  
 Mail Code \_\_\_\_\_ Date Due *11/14/06*

Unit	Acres	Acres	City	Amount
<i>51020</i>	<i>5024</i>	<i>925</i>	<i>1505</i>	<i>\$4,000.00</i>

*Recd Payment  
11/27/06*



2225 Pacific Blvd. SE - Suite 101  
Albany, OR 97321  
Ph. (541) 928-6317  
Fax (541) 928-0223

April 18, 2007

Steve Walti  
Risk Environment & Land Supervisor  
Northwest Natural Gas Co.  
220 NW Second Avenue  
Portland, OR 97209

Subject: **Market Analysis - 730 34<sup>th</sup> Ave. SW - Albany, OR**

Dear Mr. Walti:

As we discussed I have performed a Comparable Market Analysis on the Northwest Natural Gas property located at 730 34<sup>th</sup> Ave. SW in Albany Oregon. This property was formally used for the Gas Company's service operation. The property has a service building (see floor plan) and also out building(s). The property includes 3.27 acres and is totally enclosed with cyclone/security fencing. The zoning is currently HI - Heavy Industrial.

**Opinion of Value:** As with many commercial properties, their uniqueness makes the availability of comparable sales difficult to find. We have included 9 comparable properties for your review. The properties statuses are a combination of Active, Pending and Sold.

- Prices of properties ranged from \$425,000 to \$800,000
- Size of Land ranged from 1 to 4 acres
- Days on the Market ranged from 96 to 516

Using this market data, and factoring in the value of the improvements our recommendation would be to use an initial list price at \$705,000 to \$725,000. ***This is an opinion only and does not replace a professional appraisal.*** If you have any questions please give us a call at (541) 928-6317.

Regards,

*Bill Ekman Rob Richards Ana Norlander*

Bill Ekman. Rob Richards & Ana Norlander - Broker(s)

***Note:*** *There appears to be underground storage tanks still located on the premises. The condition and status of these tanks will impact the value and ability to market this property.*

This Market Analysis is an opinion only and does not replace a professional appraisal. Information used in this analysis was taken from Public Tax Records and/or the Willamette Valley Multiple Listing Service. This information is deemed reliable, but not guaranteed.

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