

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

550 CAPITOL ST NE STE 215

SALEM, OR 97301-2551

IN THE MATTER OF THE APPLICATION OF) UTILITY L.S.N. APPLICATION
NW NATURAL)
) NO. _____
TO WAIVE STATUTORY NOTICE.)

NOTE: ATTACH EXHIBIT IF SPACE IS INSUFFICIENT

1. GENERAL DESCRIPTION OF THE PROPOSED SCHEDULE(S) ADDITION, DELETION OF CHANGE. (SCHEDULE INCLUDES ALL RATES, TOLLS AND CHARGES FOR SERVICE AND ALL RULES AND REGULATIONS AFFECTING THE SAME)

Adds new special contracts that represent the settlement agreements for sales and transportation service entered into with Esco Corporation, Bullseye Glass Company, Portland State University, Consolidated Metco, McCall Oil & Chemical Company, Norpac Foods, Inc., BrucePac, Inc., Supreme Perlite, Blue Heron Paper Company, Hexion Specialty Chemicals, Emerald Forest Products, Kraft Foods North America/Nabisco, Rainier Wood Products, and Johnson Controls.

2. APPLICANT DESIRES TO CHANGE THE SCHEDULE(S) NOW ON FILE KNOWN AND DESIGNATED AS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE, AND ITEM)

Tariff P.U.C. Or. 24; Original Sheet 60A-1 and Second Revision of Sheet 60A-2.

3. THE PROPOSED SCHEDULE(S) SHALL BE AS FOLLOWS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE, AND ITEM)

Tariff P.U.C. Or. 24; First Revision of Sheet 60A-1, Third Revision of Sheet 60A-2, Original Sheet 60A-3, Settlement Agreement Sales Service Original Sheets 60-18.1 through 60-18.10, and Transportation Service Settlement Agreement Original Sheets 60-19.1 through 60-19.10.

4. REASONS FOR REQUESTING A WAIVER OF STATUTORY NOTICE:

A waiver of statutory notice is requested so that the Company can send invoices on or after February 8, 2006 that further effectuate the settlements.

5. REQUESTED EFFECTIVE DATE OF THE NEW SCHEDULE(S) OR CHANGES(S): FEBRUARY 8, 2006

6. AUTHORIZED SIGNATURE:	TITLE	DATE
/s/ Onita R. King	Manager, Tariffs & Regulatory Compliance	February 1, 2006

PUC USE ONLY

APPROVED

DENIED

EFFECTIVE DATE OF APPROVED SCHEDULE(S) OR CHANGE

AUTHORIZED SIGNATURE:

DATE

Rates and Regulatory Affairs
Facsimile: 503.721.2532



February 1, 2006

NWN Advice No. OPUC 06-2

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street, Northeast, Suite 215
P. O. Box 2148
Salem, Oregon 97308-2148

Attention: Filing Center

Re: **Schedule 60: Special Contracts
Settlement Agreement Related to Rate Schedule 32: Large Volume Non-
Residential Sales and Transportation Service. (Application for Approval on
Less than Statutory Notice Enclosed)**

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith, the following revisions and additions to its Tariff P.U.C. Or. 24, stated to become effective on and after February 8, 2006:

First Revision of Sheet 60-A-1,
Special Contracts Index;

Third Revision of Sheet 60A-2,
Special Contracts Index (continued);

Original Sheet 60A-3,
Special Contracts Index (continued);

Original Sheets 60-18 through 60-18.10,
Schedule 60,
"Special Contracts (continued)"; and

Original Sheets 60-19 through 60-19.8,
Schedule 60,
"Special Contracts (continued)".

As the Commission is aware from the investigation it opened on December 6, 2005, *Investigation To Determine If Company Provided Adequate Customer Info*, UM 1236, a disagreement had arisen over the terms of the service that applied to industrial customers who had recently elected to change from Transportation

to Sales service. After negotiations, the Company has successfully concluded settlements with 18 customers, 14 of which are Oregon customers. For the Commission's information, the WUTC approved on January 11, 2006, the other 4 settlement agreements in the exact same templates as submitted here.

The Company was able to conclude these settlements with these 14 Oregon customers because of the relative size of their respective loads, changes in the natural gas commodity market, resolution of prospective tariff timing for sales service elections for all industrial customers, and the amounts of consideration the Company was able to negotiate as settlement in resolution of all related Claims.

There are two forms of settlement that are being filed: the Sales Settlement Agreement and the Transportation Settlement Agreement. These are not typical settlements. Part of the monetary compensation in the settlements, which are referred to in the settlements as "credits," is calculated by multiplying fractional dollar amounts by different natural gas volumes. In the case of the Transportation Settlement Agreement, part of the monetary compensation is calculated by multiplying a percentage by the Permanent Margin. Because this kind of mechanism is ordinarily used to determine and collect revenues for service performed by the Company and is within the jurisdiction of the Commission, the Company is seeking permission from the Commission to use this mechanism to calculate the monetary compensation to settle the claims and disputes. There are, of course, different ways that monetary compensation could have been determined. This mechanism or vehicle for calculating monetary compensation appeared to be appropriate in this case because the Company was dealing with two complaints and multiple potential complaints. Customers, potentially, at least, could have alleged claims for damages based upon alleged higher gas costs, which, in turn, would have been derived from natural gas volumes. In other words, the settlements used what are referred to as "credits" because it provided a convenient method for determining the consideration and for settling the cases. There would have been other ways to "monetize" the settlement amounts, but this method seemed appropriate in this case.

The Sales and the Transportation Settlement Agreements are bargained-for "entire" single settlement agreements. The settlement agreements encompass settlements of claims that arise outside of the Commission's jurisdiction. Although the agreements each contain different mechanisms for determining the amount of consideration, every promise and condition is consideration for and is mutually dependent upon the other. No part of an agreement is severable or independent of the rest of the agreement. These agreements are not intended to be precedential. They are settlements between a public utility and each of 14 sophisticated large customers who are able to effectively determine their interests.

The Company is paying for these settlements. Other customers will not be adversely affected by the settlement agreements. The Company has not and will

not seek any added costs associated with these settlement agreements in rates from any other customers. The added costs will not be included in any purchased gas adjustments or any other account used in the calculation of rates, and will not be included as an operating expense in any test year in any future rate case.

PUC Staff will be able to audit the Company to ensure that other customers are not adversely affected by the settlements. Thirty days after the Company has concluded providing service under the agreements, the Company will submit to PUC Staff all information about and an accounting for its performance of the agreements. As noted above, information about each customer's specific volumes is considered to be trade secret and confidential by those customers, and that customer specific volume information will be submitted to PUC Staff as "trade secrets" or other records that are exempt from disclosure under ORS 192.501.

The following customers entered into the Sales Settlement Agreement:

Bruce Packing Co., Inc.
Bullseye Glass Company
Consolidated Metco, Inc.
Esco Corporation
McCall Oil and Chemical Corporation
Norpac Foods, Inc.
State of Oregon, acting by and through the State Board of Higher
Education, on behalf of Portland State University
Supreme Perlite Co.

The following customers entered into the Transportation Settlement Agreement:

Blue Heron Paper Company
Emerald Forest Products (Eugene)
Hexion Specialty Chemicals
Johnson Controls, Inc.
Kraft Foods North America
Rainier Wood Products, Inc.

The Sales Settlement Agreement provides that the Company:

- (1) pays \$30,000 to the customer;
- (2) pays \$109,000 to NWIGU (one common payment for all agreements) for attorney and consultant fees;

(3) makes monetary compensation, referred to as “credits,” related to the time period October 2005 to March 31, 2006, and calculated as follows: Customers who elected to and did start sales service in October 2005 and did not withdraw the election prior to January 10, 2006 (“October Group”), will receive a “credit” such that the amount the customer is invoiced and pays for its actual October 2005 gas usage is \$7.35/Dth, and for its actual November 2005 gas usage is \$8.855 D/th grossed up for the Revenue Sensitive Adjustment. Customers who elected to and did start sales service in November 2005 and did not withdraw the election prior to January 10, 2006 (“November Group”), will receive a “credit” such that the amount the customer is invoiced and pays for its actual November 2005 gas usage is \$7.35/Dth. In addition, both groups of customers can choose Option A or Option B. If a customer chooses Option A, the customer will receive a “credit” such that the customer is invoiced and pays for its actual gas usage for the period beginning December 1, 2005 and ending March 31, 2006 is \$10.02/Dth less \$0.25, or \$9.77/Dth, grossed up for the Revenue Sensitive Adjustment. If a customer chooses Option B, the customer will receive a “credit” such that the customer is invoiced and pays for its actual gas usage for the period beginning December 1, 2005 and ending March 31, 2006 is \$10.02/Dth less the actual Winter Storage Savings Rate Credit, grossed up for the Revenue Sensitive Adjustment. If a customer chooses Option B, the customer will actually pay at an interim billing rate of \$10.00/Dth and then at the conclusion of March 2006, the Company will calculate the Winter Storage Savings Rate Credit and the customer’s account will be reconciled in a lump sum billing credit by May 31, 2006.

(4) makes monetary compensation, referred to as “credits,” related to the time period April 1, 2006 to October 31, 2006, and calculated as follows: Customers can choose an additional, and different, Option A, Option B, or Option C. If a customer chooses Option A, the customer elects to end sales service as of April 1, 2006, and the customer will receive a “credit” of \$0.75/Dth of the customer’s cumulative gas usage from April 1, 2005 through September 30, 2005 (October Group) or October 31, 2005 (November Group). The “credit” will be given no later than February 15, 2006. If a customer chooses Option B, the customer elects to remain on sales service through the remainder of its 2005/06 term of service, and the amount the customer is invoiced and pays for actual gas usage for the period April 1, 2006 through the end of the term is \$9.04/Dth, grossed up for the Revenue Sensitive Adjustment. If a customer chooses Option C, the customer elects to maintain the right to shift from sales service to transport between January 15, 2006, but no later than March 15, 2006, and the then-applicable price for sales service is indeterminate. The agreement sets forth the factors that will affect the price.

(5) will not charge a customer for pipeline capacity demand charges in applying the incremental gas supply cost provisions of Schedule T of the

Company's applicable tariff for the time period beginning with the customer's 2005/06 sales service term and ending (i) March 31, 2006 if a customer elects to return to transport as of that date, or (ii) the completion of the relevant 12 month term of service. (Variable (incremental) upstream pipeline transportation costs will be allocated to and paid by the customers who sign the Sales Settlement Agreement but the customers who sign the Sales Settlement Agreement will not be allocated or charged for already existing fixed pipeline capacity costs. This way core customers will be kept neutral, i.e., not adversely affected by the settlement.)

The Transportation Settlement Agreement provides that the Company:

(1) pays \$30,000 to the customer;

(2) pays \$109,000 to NWIGU (same one payment) for attorney and consultant fees;

(3) makes monetary compensation, referred to as "credits," for the time period November 1, 2005 and ending October 31, 2006. The monetary compensation will be made for transportation services based upon Permanent Margin under the then-current the Company rate for accounts in which the customer had submitted and the Company had received signed Election forms for sales service. The monetary compensation is calculated as follows: A monthly "credit" equivalent to 20% of Permanent Margin for accounts in which the customer's signed Election form was received by the Company after September 24, 2005; or a monthly "credit" equivalent to 30% of Permanent Margin for accounts in which the customer's signed Election form was received by the Company on or before September 24, 2005. The monetary compensation is applied as a "credit" to invoices issued by the Company to the customer after December 2005 and as a cash payment with respect to sums owed from November through December 2005. The cash payments are paid by January 17, 2006. For a customer who elected to take sales service for only a portion of its load, the "credit" is applied to the first natural gas transportation service provided in the month under the Company's declining block rate structure for the provision of transportation service. Transportation Settlement Agreement ¶ 2(c).

(4) pays a sum calculated by multiplying \$0.47/Dth of the customer's actual natural gas usage from November 1, 2004 through April 30, 2005 on those accounts for which the customer had submitted a signed Election form electing sales service and which election the customer subsequently withdrew on or before November 30, 2005. Transportation Settlement Agreement ¶ 2(d).

The Sales and the Transportation Settlement Agreements contain other provisions as well. The Company promises to file amendments, described in the

agreements, to Schedule 32 and Schedule T. In addition, the Sales and the Transportation Settlement Agreements contain provisions for dismissal of regulatory complaints, release of claims, and non-admission of liability.

The agreements are being filed as forms of agreement to protect customer specific information about volumes. The settling customers consider information to be trade secret and confidential.

Two of the settlements are a little different from the others. In the settlement with one customer, Consolidated Metco, Inc., there is a ¶ 2 f. that resolves an imbalance issue that arose in connection with this customer's transfer from transportation to sales service. With the exception of ¶ 2 f., the agreement is the same as the other Sales Settlement Agreements. In the settlement with another customer, the State of Oregon, acting by and through the State Board of Higher Education, on behalf of Portland State University, there is an addendum in which the customer reserves its right to contest an imbalance charge. With the exception of the addendum, the agreement is the same as the other Sales Settlement Agreements.

The Company has already paid the \$30,000 to each customer, the \$109,000 to NWIGU, and the cash payments provided in ¶ 2(c) and (d) of the Transportation Settlement Agreement provided in the agreements.

The Company respectfully requests that this filing be placed on the Commission's agenda for the February 7, 2006 public meeting. An application for approval on less than statutory notice is enclosed. Commission approval is respectfully requested on an expedited basis so that the Company can send invoices on or after February 8, 2006 that further effectuate the settlements.

The Company requests that the tariff sheets filed herewith be permitted to become effective with invoices on and after February 8, 2006.

Copies of this letter and the filing made herewith are available in the company's main and district offices in Oregon.

Please address correspondence on this matter to me, with copies to the following:

Kelley Miller, Staff Assistant
Rates & Regulatory Affairs
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2532
Telephone: (503) 226-4211, ext. 3589
E-mail: kelley.miller@nwnatural.com

Please do not hesitate to call if you have questions or desire further information.

Sincerely,

/s/ Onita R. King

Onita R. King, Manager,
Tariffs & Regulatory Compliance

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

550 CAPITOL ST NE STE 215

SALEM, OR 97301-2551

IN THE MATTER OF THE APPLICATION OF) UTILITY L.S.N. APPLICATION
NW NATURAL)
) NO. _____
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NOTE: ATTACH EXHIBIT IF SPACE IS INSUFFICIENT

1. GENERAL DESCRIPTION OF THE PROPOSED SCHEDULE(S) ADDITION, DELETION OF CHANGE. (SCHEDULE INCLUDES ALL RATES, TOLLS AND CHARGES FOR SERVICE AND ALL RULES AND REGULATIONS AFFECTING THE SAME)

Adds new special contracts that represent the settlement agreements for sales and transportation service entered into with Esco Corporation, Bullseye Glass Company, Portland State University, Consolidated Metco, McCall Oil & Chemical Company, Norpac Foods, Inc., BrucePac, Inc., Supreme Perlite, Blue Heron Paper Company, Hexion Specialty Chemicals, Emerald Forest Products, Kraft Foods North America/Nabisco, Rainier Wood Products, and Johnson Controls.

2. APPLICANT DESIRES TO CHANGE THE SCHEDULE(S) NOW ON FILE KNOWN AND DESIGNATED AS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE, AND ITEM)

Tariff P.U.C. Or. 24; Original Sheet 60A-1 and Second Revision of Sheet 60A-2.

3. THE PROPOSED SCHEDULE(S) SHALL BE AS FOLLOWS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE, AND ITEM)

Tariff P.U.C. Or. 24; First Revision of Sheet 60A-1, Third Revision of Sheet 60A-2, Original Sheet 60A-3, Settlement Agreement Sales Service Original Sheets 60-18.1 through 60-18.10, and Transportation Service Settlement Agreement Original Sheets 60-19.1 through 60-19.10.

4. REASONS FOR REQUESTING A WAIVER OF STATUTORY NOTICE:

A waiver of statutory notice is requested so that the Company can send invoices on or after February 8, 2006 that further effectuate the settlements.

5. REQUESTED EFFECTIVE DATE OF THE NEW SCHEDULE(S) OR CHANGES(S): FEBRUARY 8, 2006

6. AUTHORIZED SIGNATURE:	TITLE	DATE
/s/ Onita R. King	Manager, Tariffs & Regulatory Compliance	February 1, 2006

PUC USE ONLY

APPROVED DENIED

EFFECTIVE DATE OF APPROVED SCHEDULE(S) OR CHANGE

AUTHORIZED SIGNATURE:	DATE

NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 24

First Revision of Sheet 60A-1
Cancels Original Sheet 60A-1

SCHEDULE 60A SPECIAL CONTRACTS INDEX

PURPOSE:

The purpose of this Rate Schedule is to describe generally the terms and conditions of service provided by the Company pursuant to Special Contracts approved by the Commission under OAR 860-22-035. In each case, the rights and obligations of the parties are as specified in detail in the respective Special Contracts. In the event of any ambiguity or conflict between the summaries in this Schedule and the substantive provisions of the Special Contracts, the terms of the Special Contracts shall be controlling. The Company will maintain copies of the Special Contracts for public inspection, in the Company's main and district offices in Oregon, except where noted below by an asterisk (*) because such denoted Special Contracts contain proprietary, customer-specific information.

(N)
(N)

<u>Description of Contract</u>	<u>Company</u>	<u>Sheet Number</u>
Natural Gas Transportation and Service Agreement for Electric Generation	Portland General Electric Company	60-1
Transportation Service Agreement	Boise Cascade Corporation	60-2
Integrated Services Agreement	Weyerhaeuser Paper Company: Part 1: Part 2: Part 3: Part 4:	60-3...60-3A
Enhanced Services Agreement and Special Transportation Service Agreement	SP Newsprint Company	60-4...60-4A
RESERVED FOR FUTURE USE		60-5
Transportation Service Agreement	Georgia-Pacific West, Inc. (Halsey Mill)	60-6
RESERVED FOR FUTURE USE		60-7

(continue to Sheet 60A-2)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 24

Third Revision of Sheet 60A-2
Cancels Second Revision of Sheet 60A-2

SCHEDULE 60A SPECIAL CONTRACTS INDEX (continued)

<u>Description of Contract</u>	<u>Company</u>	<u>Sheet Number</u>
RESERVED FOR FUTURE USE		60-8
RESERVED FOR FUTURE USE		60-9
Firm Transportation Service Agreement	Microchip Technology, Inc.	60-10
Special Firm Transportation Service Agreement	Eugene Water & Electric Board	60-11
Special Firm Transportation Service Agreement	University of Oregon	60-12
Special Firm Transportation Service Agreement	Oregon Steel Mills, Heat Treat Facility, Portland, OR	60-13
Special Firm Transportation Service Agreement	Columbia Steel Casting Co., Inc. Portland, OR	60-14
Special Firm Transportation Service Agreement	Dyno Nobel, Inc. St. Helens, Oregon	60-15
Special Firm Transportation Service Agreement	Consolidated Metco, Inc. Portland, Oregon	60-16
Special Firm Transportation Service Agreement	West Linn Paper Company West Linn, Oregon	60-17
Settlement Agreement – Sales Service	Esco Corporation* Bullseye Glass Company* Portland State University* Consolidated Metco* McCall Oil & Chemical Company* Norpac Foods, Inc.* BrucePac, Inc.* Supreme Perlite*	60-18.1 – 18.10

(N)

(N)

(continue to Sheet 60A-3)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60A
SPECIAL CONTRACTS
INDEX
(continued)

<u>Description of Contract</u>	<u>Company</u>	<u>Sheet Number</u>	
Settlement Agreement – Transportation Service	Blue Heron Paper Company*	60-19.1 – 19.8	(N)
	Hexion Specialty Chemicals*		
	Emerald Forest Products*		
	Kraft Foods North America/Nabisco*		
	Rainier Wood Products*		
	Johnson Controls*		(N)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE

This Settlement Agreement ("Agreement") is dated as of the ___ day of _____, 200_, by and between Northwest Natural Gas Company, an Oregon corporation ("NWN"), on the one hand, and _____ ("Customer"), on the other.

RECITALS

WHEREAS, NWN currently provides natural gas sales service to Customer; and

WHEREAS, certain Disputes have arisen between the Parties; and

WHEREAS, the OPUC has initiated an investigation to determine whether NWN provided adequate information to customers under OAR 860-020-0010(5); and

WHEREAS, the Parties desire to fully and finally settle the Disputes, as well as all other Claims, as between them, acknowledging that settlement is in the best interests of the Parties.

DEFINITIONS

"Claim" or "Claims" means any or all claims, counterclaims, cross-claims, defenses, affirmative defenses, causes of action of any type (whether common law, statutory, regulatory or administrative, and whether or not reduced to a written complaint or pleading filed in any jurisdiction, and whether or not reduced to writing or formal demand, and whether or not liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured), demands, disputes, damages, costs, losses, detriments, interest, expenses, penalties, attorneys' fees, expert fees, actions, debts, controversies, suits and choses in action, whether known or unknown, as against each other, relating to or arising out of any representation, promise, statement, agreement, quote, price, contract, tariff, rate schedule, special contract, or any other act, statement or omission of any kind related in any way to the Election by Customer for sales service to begin October 1 or November 1, 2005 by NWN and the related one year term of such sales service in 2005 and 2006.

"Customer" means the customer identified above, including subsidiaries, affiliates, successors and predecessors, and their respective current and/or former shareholders, members, partners, principals, directors, officers, employees, agents, servants, counsel, and insurers.

"Dispute" or "Disputes" means all issues that have arisen between the Parties relating to the Claims.

"Election" means Customer's election of natural gas sales, transportation or other service under NWN's Rate Schedule (RS) and Service Option Election Form for such service or services to begin October 1 or November 1, 2005, as appropriate.

(continue to Sheet 60-18.2)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)**DEFINITIONS (continued):**

“Incremental Costs” means all additional costs incurred by NWN, if any, to accommodate or fulfill Customer’s sales service Election pursuant to tariff Schedule T.

“Interim Settlement Agreement” means that agreement entered into by NWN and Customer on or about November or December, 2005, regarding interim gas supply costs for sales service.

“November Group” means those customers who elected to start, and did start, sales service as of November 1, 2005, and have not withdrawn that election at any time prior to the date of this Agreement.

“NWIGU” means Northwest Industrial Gas Users.

“NWN” means Northwest Natural Gas Company and its subsidiaries, affiliates, successors and predecessors, and their respective current and/or former shareholders, members, partners, principals, directors, officers, employees, agents, servants, counsel, and insurers.

“October Group” means those customers who elected to start, and did start, sales service as of October 1, 2005, and have not withdrawn that election at any time prior to the date of this Agreement.

“OPUC” means the Oregon Public Utility Commission.

“Parties” means NWN and Customer, collectively.

“Party” means NWN or Customer, individually.

“Permanent Margin” means the total tariff charges excluding commodity rate and any temporary rate adjustments.

“Revenue Sensitive Adjustment” means adjusting or grossing up rates to account for costs that change with changes in revenues. In Oregon the Revenue Sensitive Adjustment includes Regulatory Commission Fees, City License and Franchise Fees, Unbilled Franchise Accrual, and Net Uncollectible Expense, and in Washington includes Regulatory Commission Fees, Public Utility Tax, Unbilled Franchise Accrual, and Accrual for Uncollectibles. The Revenue Sensitive Adjustment is 2.852% of revenues in Oregon and 4.448% of revenues in Washington. Adjusted or grossed up rates are calculated by dividing pre-adjustment rates by one (1) minus the Revenue Sensitive Adjustment (e.g., pre-adjustment rates / (1 – 0.02852)).

(continue to Sheet 60-18.3)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)

DEFINITIONS (continued):

“Unknown Claims” means Claims that any Party does not know or suspect to exist at the time of the release which might have affected the terms of this Agreement.

“WACOG” means NWN’s weighted average cost of gas.

“Winter Storage Savings” means gas cost savings, if any, that NWN may create through transactions completed and closed by March 31, 2006, limited to those transactions allocated by NWN at its sole discretion to the October and November Groups, collectively, through serving their load requirements by using its reasonable best efforts to acquire natural gas supplies for Customer at the lowest reasonable cost (taking into account normal business exigencies and practices, and competing constraints of reliability and cost). In calculating Winter Storage Savings for the period from December 2005 through March 2006, NWN shall continue to pursue and include the impact of the actions taken by NWN set forth in the Interim Settlement Agreement as Cost Reduction Measures for the Incurred Gas Costs in that Interim Settlement Agreement.

“Winter Storage Savings Rate Credit” means the Winter Storage Savings divided by the aggregate October Group and November Group usage for December 2005 through March 2006.

“Withdraw” or “Withdrew” means Customer’s decision, if any, to withdraw its Election, in whole or in part, in October or November, 2005.

“WUTC” means the Washington Utilities and Transportation Commission.

TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties agree as follows:

1. Incorporation of Recitals; Definitions. The recitals stated above are incorporated in this Agreement and made a part of this Agreement as if fully set forth herein. Capitalized terms shall have the meanings given unless undefined.

2. Consideration / Payment Terms.

(a) NWN shall pay Customer \$30,000 within seven (7) days of the date of this Agreement.

(continue to Sheet 60-18.4)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)**TERMS AND CONDITIONS (continued)****2. Consideration / Payment Terms (continued).**

(b) NWN shall make a one-time only \$109,000 payment to Customer's trade association, NWIGU, for its attorney and consultant fees. This payment will be made by NWN to NWIGU on or before January 13, 2006. Customer, together with NWIGU and all other industrial customers represented by NWIGU, shall decide how to distribute these funds. Although each separate Agreement with respective industrial customers, whether or not represented by NWIGU, will refer to this payment of \$109,000, it is expressly understood that the NWN's total obligation under these identical provisions shall not exceed, in the aggregate, \$109,000.

(c) The following terms in 2(c)(i) through 2(c)(iii) shall apply as monetary compensation calculated as direct credits to settle alleged Claims or Disputes for the period October 1, 2005 through March 31, 2006. To the extent any invoices under the following paragraphs differ from invoices issued by NWN under the Interim Settlement Agreement, NWN will reconcile the differences by February 15, 2006, and issue new invoices to Customer with debits or credits, as appropriate. In all events, the terms and conditions of this Agreement shall prevail over the terms of the Interim Settlement Agreement.

(i) If Customer is in the October Group, NWN shall invoice and Customer will pay for actual October 2005 gas usage at WACOG of \$7.35/Dth in Oregon and/or \$7.44/Dth in Washington, whichever is applicable. Additionally, if Customer is in the October Group, NWN shall invoice and Customer will pay for actual November 2005 gas usage at Incremental Costs of \$8.855/Dth grossed up for the Revenue Sensitive Adjustment.

(ii) If Customer is in the November Group, NWN shall invoice and Customer will pay for actual November 2005 gas usage at WACOG of \$7.35/Dth in Oregon and/or \$7.44/Dth in Washington, whichever is applicable.

(iii) Additionally, for the period beginning December 1, 2005 and ending March 31, 2006, NWN shall invoice and Customer will pay for actual gas usage under Option A or Option B, below. Customer shall notify NWN in writing of its option selection under this provision on or before January 15, 2006.

a. **Option A:** \$10.02/Dth less \$0.25, or \$9.77/Dth, grossed up for the Revenue Sensitive Adjustment; or

(continue to Sheet 60-18.5)

Issued February 1, 2006
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Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)**TERMS AND CONDITIONS (continued)****2. Consideration / Payment Terms (continued).**

b. **Option B:** \$10.02/Dth less the actual Winter Storage Savings Rate Credit, grossed up for the Revenue Sensitive Adjustment. Customer will continue to pay the interim billing rate of \$10.00 / Dth per the Interim Settlement Agreement. At the conclusion of March 2006, NWN will calculate the actual Winter Storage Savings Rate Credit and Customer's account will be reconciled in a lump sum billing credit by May 31, 2006.

To the extent any of the pricing mechanisms under this paragraph 2(c)(iii) Option B may be affected by Winter Storage Savings, Customer waives the right to make any claim with respect to the prudence of the Company's actions with regard to NWN's decisions for utilizing and allocating transactions to the October and November Groups, so long as the Company has acted in good faith and reasonably.

(d) The following terms shall apply as monetary compensation calculated as direct credits to settle alleged Claims or Disputes for the period beginning April 1, 2006 and ending with the conclusion of Customer's 2005/06 term of service, either September 30, 2006 or October 31, 2006, whichever is applicable. Customer shall notify NWN in writing of its option selection on or before January 15, 2006, for one of the following three (3) options:

(i) **Option A:** If Customer elects to end sales service and return to transportation service as of April 1, 2006, NWN shall credit Customer \$0.75/Dth of its cumulative gas usage from April 1, 2005 through September 30, 2005 for the October Group or April 1, 2005 through October 31, 2005 for the November Group. NWN will credit this lump sum amount to Customer no later than February 15, 2006; or

(ii) **Option B:** If Customer elects to remain on sales service through the remainder of its 2005/06 term of service; i.e., September 30, 2006 or October 31, 2006, whichever is applicable – NWN shall invoice and Customer will pay for actual gas usage during the remaining term of service at \$9.04/Dth, grossed up for the Revenue Sensitive Adjustment; or

(iii) **Option C:** If Customer elects to maintain the right to shift from sales to transport after January 15, 2006 but no later than March 15, 2006, the then-applicable price for sales service is indeterminate at this time. The then-applicable price may depend on, without limitation, the number of customers and volumes selecting Option A and Option B, and other factors in NWN's sole discretion, using its reasonable best efforts to acquire natural gas supplies for Customer at the lowest reasonable cost (taking into account normal business exigencies and practices, competing constraints of reliability and cost, its previous fixed price purchases for the October and November Groups, gains from the sale of such purchases not allocated to Options A and B and any additional variable price purchases).

(continue to Sheet 60-18.6)

Issued February 1, 2006
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Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)**TERMS AND CONDITIONS (continued)**

(e) As part of settling any Claims or Disputes under this Agreement, the Customer will not be charged for pipeline capacity demand charges in applying the incremental gas supply cost provisions in Schedule T of NWN's applicable tariff only for the time period beginning with Customer's 2005/06 sales service term; i.e., either October 1, 2005 or November 1, 2005, as applicable – and ending on (i) March 31, 2006, if Customer returns to transport as of that date, or (ii) completion of the relevant 12-month term of service.

3. Request for Tariff Modification. NWN shall submit a request to OPUC and WUTC to amend Rate Schedule 32 or 42 as appropriate, and to Schedule T to its tariff. The requested amendment shall generally be designed to permit transportation customers to submit Election forms for sales service at WACOG prices by giving notice on or before May 31 of the given year, with 12-month term for sales service to begin October 1 or November 1 of that year, as appropriate. Additionally, the requested amendment will leave in place the current terms of Rate Schedule 32, Schedule T, permitting sales service Elections after May 31 of a given year, and subject to incremental costs per the tariff. Finally, the requested amendment will be designed to allow the Customer, if remaining on sales service under paragraph 2(d)(ii), Option B or Option C, to elect sales service on or before June 30, 2006 at the WACOG price for the 2006/07 term of service only. NWN will pursue implementation of this tariff change with its best efforts to effectuate tariff approval before the respective commissions. Notwithstanding this provision:

(a) Nothing in this Agreement shall prohibit, prevent or prejudice NWN's right to file a request with the OPUC and/or WUTC for a determination, construction or interpretation of its tariff, including but not limited to Rate Schedule 32 or 42 and Schedule T thereto. In that event, any such determination, construction or interpretation shall have no effect on the terms of this Agreement;

(b) Nothing in this Agreement shall prohibit, prevent or prejudice NWN's right to seek future amendments to the tariff.

4. Dismissal of Regulatory Complaints. To the extent Customer has initiated any regulatory or administrative proceeding with the OPUC or the WUTC related to the Claims or Disputes, Customer shall promptly withdraw or dismiss any such complaint or proceeding in writing. Further, to the extent the OPUC or WUTC continue with any pending investigations related to the Claims or Disputes, or initiate any new investigations related to the Claims or Disputes, Customer agrees not to take any action (directly, indirectly, or through an agent or representative) designed to harm NWN in the investigation, and will participate in the investigation only to the extent required by law.

(continue to Sheet 60-18.7)

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Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)**TERMS AND CONDITIONS (continued)**

5. Mutual Releases. NWN, on the one hand, and Customer, on the other, in consideration of paragraph 2 and the other terms and conditions stated herein, hereby release and forever discharge each other from any and all Claims, including Unknown Claims, which they now have, may hereafter have, or claim to have against each other with respect to the Disputes and Claims. It is the intent of the Parties to this Agreement to give the broadest release and discharge possible under the law with respect to the particular Disputes and Claims between the Parties that are the direct subject of this Agreement. This mutual release is binding upon and for the benefit of each of the Parties and their respective subsidiaries, affiliates, successors and predecessors, and their respective current and/or former shareholders, members, partners, principals, directors, officers, employees, agents, servants, counsel, and insurers to the extent of the Disputes and Claims between the Parties; provided, however, that this mutual release does not affect any claims or disputes arising from performance of the terms and conditions in this Agreement or any other matter that is not a Claim or Dispute.

6. Covenant Not to Sue. NWN, on the one hand, and Customer, on the other, in consideration of the terms and conditions stated herein, covenant not to sue or otherwise initiate any form of civil, administrative, regulatory or judicial proceedings of any kind against each other with respect to the Disputes and Claims released herein; provided, however, that this covenant not to sue does not affect any claims or disputes arising from performance of the terms and conditions in this Agreement.

7. Entire Payment. NWN and Customer agree that the payments made or to be made, and performance of the obligations pursuant to this Agreement, will settle any and all Disputes and Claims between Customer and NWN. Each party will bear its own costs, expenses, and attorneys' fees incurred in connection with the Disputes and Claims released herein, other than as specified in paragraph 2(b).

8. Regulatory Filing. Each Party will cooperate with the other in developing the regulatory filing required to implement paragraph 3 in a timely fashion and in obtaining regulatory approval of paragraph 3.

9. Non-Admission. The settlement of Claims and Disputes between the Parties is voluntary and does not constitute an admission of negligence, breach of contract or any other basis for liability by any of the Parties, or an admission of the existence of any facts upon which liability could be based.

(continue to Sheet 60-18.8)

Issued February 1, 2006
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Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)

TERMS AND CONDITIONS (continued)

10. Advice of Counsel. Each Party to this Agreement has reviewed the Agreement independently, has had the opportunity to consult legal counsel and other experts of their choice, is fully informed of the terms and effect of this Agreement, and has not relied in any way on any inducement, representations, or advice of any other Party in decided to enter into this Agreement.

11. Entire Agreement. This Agreement and any addenda attached hereto constitute the entire understanding between the Parties with respect to settlement of the Disputes and any and all Claims. The terms of this Agreement supersede the Interim Settlement Agreement, except as expressly incorporated by reference in this Agreement for the derivation of Winter Storage Savings. This Agreement and attached addenda, if any, may not be amended except by writing signed by all Parties.

12. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable.

13. Confidentiality / No Publicity. Subject to the following exceptions, neither NWN nor Customer will directly or indirectly, or by any means, disclose to any third party the existence or the contents of this Agreement and any addenda thereto without the prior written consent of the other Party. Notwithstanding the foregoing, any Party may disclose this Agreement to the OPUC and/or WUTC for the sole purposes of obtaining approval of paragraph 3. Further, notwithstanding the foregoing, any Party may disclose the financial terms of this Agreement to its attorneys, accountants, insurers, and/or financial advisors for the limited purpose and to the extent necessary for the preparation of financial statements and tax returns; provided, however, that any such recipient shall first be informed of and agree to be bound by this confidentiality clause. Further, any Party may disclose the existence and/or terms of this Agreement upon receipt of a validly issued subpoena or other legal directive, but only after giving the other Party written notice of the subpoena or legal directive within two (2) days of receipt, and giving the other Party ten (10) additional business days pursuant to paragraph 18 to file a motion to quash the subpoena or seek other legal redress to

(continue to Sheet 60-18.9)

Issued February 1, 2006
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Effective on
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SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)**TERMS AND CONDITIONS (continued)****13. Confidentiality / No Publicity (continued).**

prevent disclosure. If no motion or other action is taken within this ten (10) day period to prevent disclosure, the party to whom the subpoena or legal directive is addressed may disclose the existence and terms of this Agreement as required. Conversely, should any Party choose to file a motion or seek legal redress to prevent disclosure, no such disclosure shall be made until a final, non-appealable decision is rendered by a court with actual jurisdiction of the matter.

14. Arbitration Required/Mediation First Option. Any dispute or claim that arises out of or that relates to this Agreement, or to the interpretation or breach thereof, or to the existence, scope, or validity of this Agreement or this arbitration clause, shall be resolved by arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. or the American Arbitration Association, whichever organization is selected by the party who first initiates arbitration by filing a claim in accordance with the filing rules of the organization selected, and judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof. Venue for any arbitration hereunder shall be in Portland, Oregon.

15. Fees and Costs. In the event suit or action is brought, or an arbitration proceeding is initiated, to enforce or interpret any of the provisions of this agreement, or that arise out of or relate to this Agreement in any way, the prevailing party shall be entitled to recover all fees for attorneys, experts and arbitrators, as well as costs, in connection therewith. The determination of who is the prevailing party and the amount of fees and costs to be paid to the prevailing party shall be decided by the arbitrator(s) (with respect to fees and costs incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate court, in which such matter is tried, heard, or decided, including a court that hears a request to compel or stay litigation or that hears any exceptions or objections to, or requests to modify, correct, or vacate, an arbitration award submitted to it for confirmation as a judgment (with respect to fees and costs incurred in such court proceedings).

16. Choice of Law. This Agreement shall be construed and interpreted under the laws of the State of Oregon.

17. Counterparts. This Agreement may be executed in two or more separate but identical counterparts, and by facsimile, each of which, when executed, shall be an original, and all of which together shall constitute one and the same Agreement, notwithstanding that all Parties may not have executed the same counterpart, and each Party may execute a separate signature page which may be appended to form one or more duplicate originals of this Agreement.

(continue to Sheet 60-18.10)

Issued February 1, 2006
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Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

18. SETTLEMENT AGREEMENT - SALES SERVICE (continued)

TERMS AND CONDITIONS (continued)

18. Notice. Customer agrees to provide NWN with written notice within ten (10) days (or if served within less than ten (10) days to respond, immediately) of any subpoena, summons, motion, order, or other formal or informal request or directive that may call for disclosure of documents relating to and/or their testimony about the circumstances of the Claims and/or terms or conditions of the Agreement so that NWN may seek appropriate protection. Written notice shall be sent by facsimile and overnight delivery as follows: to NWN, to Margaret D. Kirkpatrick, General Counsel, NW Natural, 220 NW Second Avenue, Portland, OR 97209-3991, (503) 220-2584 (fax), and to Customer, to

19. Authority. Each of the signatories hereto represents and warrants that he, she or it is fully authorized to enter into this Agreement on behalf of the person or entity for which they execute the Agreement. Customer represents and warrants the Customer is the sole owner of the Claims released herein, and that Customer has not assigned or transferred, or purported to assign or transfer, any of the Customer's released Claims herein, except to the extent (if any) of any fee interest of Customer's counsel, which is also released herein to the extent it relates to the Claims released herein (but not otherwise).

IN WITNESS WHEREOF, intending to be legally bound hereby, the Parties have executed this Agreement as of the day and year written above.

NORTHWEST NATURAL GAS COMPANY

By: _____
Mark S. Dodson
President and Chief Executive Officer

CUSTOMER

Company: _____
By: _____
Title: _____

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE

This Settlement Agreement ("Agreement") is dated as of the ___ day of _____, 200_, by and between Northwest Natural Gas Company, an Oregon corporation ("NWN"), on the one hand, and _____ ("Customer"), on the other.

RECITALS

WHEREAS, NWN currently provides natural gas transportation services to Customer; and

WHEREAS, certain Disputes have arisen between the Parties; and

WHEREAS, the OPUC has initiated an investigation to determine whether NWN provided adequate information to customers under OAR 860-020-0010(5); and

WHEREAS, the Parties desire to fully and finally settle the Disputes, as well as all other Claims, as between them, acknowledging that settlement is in the best interests of the Parties.

DEFINITIONS

"Claim" or "Claims" means any or all claims, counterclaims, cross-claims, defenses, affirmative defenses, causes of action of any type (whether common law, statutory, regulatory or administrative, and whether or not reduced to a written complaint or pleading filed in any jurisdiction, and whether or not reduced to writing or formal demand, and whether or not liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured), demands, disputes, damages, costs, losses, detriments, interest, expenses, penalties, attorneys' fees, expert fees, actions, debts, controversies, suits and chooses in action, whether known or unknown, as against each other, relating to or arising out of any representation, promise, statement, agreement, quote, price, contract, tariff, rate schedule, special contract, or any other act, statement or omission of any kind related in any way to the Election by Customer for sales service to begin October 1 or November 1, 2005 by NWN and the related one year term of such sales service in 2005 and 2006.

"Customer" means the customer identified above, including subsidiaries, affiliates, successors and predecessors, and their respective current and/or former shareholders, members, partners, principals, directors, officers, employees, agents, servants, counsel, and insurers.

"Dispute" or "Disputes" means all issues that have arisen between the Parties relating to the Claims.

"Election" means Customer's election of natural gas sales, transportation or other service under NWN's Rate Schedule (RS) and Service Option Election Form for such service or services to begin October 1 or November 1, 2005, as appropriate.

"NWIGU" means Northwest Industrial Gas Users.

(continue to Sheet 60-19.2)

Issued February 1, 2006
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Effective on
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SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)

DEFINITIONS (continued)

“NWN” means Northwest Natural Gas Company and its subsidiaries, affiliates, successors and predecessors, and their respective current and/or former shareholders, members, partners, principals, directors, officers, employees, agents, servants, counsel, and insurers.

“OPUC” means the Oregon Public Utility Commission.

“Parties” means NWN and Customer, collectively.

“Party” means NWN or Customer, individually.

“Permanent Margin” means the total tariff charges excluding commodity rate and any temporary rate adjustments.

“Unknown Claims” means Claims that any Party does not know or suspect to exist at the time of the release which might have affected the terms of this Agreement.

“WACOG” means NWN’s weighted average cost of gas.

“Withdraw” or “Withdrew” means Customer’s decision, if any, to withdraw its Election, in whole or in part, in October or November, 2005.

“WUTC” means the Washington Utilities and Transportation Commission.

TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties agree as follows:

1. Incorporation of Recitals; Definitions. The recitals stated above are incorporated in this Agreement and made a part of this Agreement as if fully set forth herein. Capitalized terms shall have the meanings given unless undefined.

2. Payment Terms.

(a) NWN shall pay Customer \$30,000 within seven (7) days of the date of this Agreement.

(continue to Sheet 60-19.3)

Issued February 1, 2006
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Effective on
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SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)**TERMS AND CONDITIONS (continued)**

(b) NWN shall make a one-time only \$109,000 payment to Customer's trade association, NWIGU, for its attorney and consultant fees. This payment will be made by NWN to NWIGU on or before January 13, 2006. Customer, together with NWIGU and all other industrial customers represented by NWIGU, shall decide how to distribute these funds. Although each separate Agreement with respective industrial customers, whether or not represented by NWIGU, will refer to this payment of \$109,000, it is expressly understood that the NWN's total obligation under these identical provisions shall not exceed, in the aggregate, \$109,000.

(c) For the one-year period beginning November 1, 2005 and ending October 31, 2006, Customer shall receive the following monetary compensation, to the extent applicable, for transportation services based upon Permanent Margin under the then-current NWN rate for accounts in which the Customer had submitted, and NWN had received, signed Election forms for sales service:

(i) Monthly credit equivalent to 20% of Permanent Margin for accounts, if any, in which Customer's signed Election form was received by NWN after September 24, 2005; or

(ii) Monthly credit equivalent to 30% of Permanent Margin for accounts, if any, in which Customer's signed Election form was received by NWN on or before September 24, 2005.

The amounts applicable under this paragraph 2(c) shall be applied as credits to invoices issued by NWN to Customer after December 2005 and as cash payments for sums owed from November through December 2005, as shown on Exhibit A, attached hereto, to be paid within seven (7) days of the date of this Agreement. For any Customer that elected to take sales service for only a portion of its load, the discounts set forth above shall be applied to the first natural gas transportation service provided in the month under NWN's declining block rate structure for the provision of transportation service.

(d) NWN shall pay to Customer the sum calculated on Exhibit A, attached hereto, within seven (7) days of the date of this Agreement. The sum as calculated on Exhibit A is based on \$0.47 per decatherm of Customer's actual natural gas usage from November 1, 2004 through April 30, 2005, and only for those accounts for which Customer submitted a signed Election form electing sales service, and then subsequently Withdrew on or before November 30, 2005.

(continue to Sheet 60-19.4)

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Effective on
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SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)**TERMS AND CONDITIONS (continued)**

3. Request for Tariff Modification. NWN shall submit a request to OPUC and WUTC to amend Rate Schedule 32 or 42 as appropriate, and to Schedule T to its tariff. The requested amendment shall generally be designed to permit transportation customers to submit Election forms for sales service at WACOG prices by giving notice on or before May 31 of the given year, with 12-month term for sales service to begin October 1 or November 1 of that year, as appropriate. Additionally, the requested amendment will leave in place the current terms of Rate Schedule 32, Schedule T, permitting sales service Elections after May 31 of a given year, and subject to incremental costs per the tariff. NWN will pursue implementation of this tariff change with its best efforts to effectuate tariff approval before the respective commissions. Notwithstanding this provision:

(a) Nothing in this Agreement shall prohibit, prevent or prejudice NWN's right to file a request with the OPUC and/or WUTC for a determination, construction or interpretation of its tariff, including but not limited to Rate Schedule 32 or 42 and Schedule T thereto. In that event, any such determination, construction or interpretation shall have no effect on the terms of this Agreement;

(b) Nothing in this Agreement shall prohibit, prevent or prejudice NWN's right to seek future amendments to the tariff.

4. Dismissal of Regulatory Complaints. To the extent Customer has initiated any regulatory or administrative proceeding with the OPUC or the WUTC related to the Claims or Disputes, Customer shall promptly withdraw or dismiss any such complaint or proceeding in writing. Further, to the extent the OPUC or WUTC continue with any pending investigations related to the Claims or Disputes, or initiate any new investigations related to the Claims or Disputes, Customer agrees not to take any action (directly, indirectly, or through an agent or representative) designed to harm NWN in the investigation, and will participate in the investigation only to the extent required by law.

5. Mutual Releases. NWN, on the one hand, and Customer, on the other, in consideration of paragraph 2 and the other terms and conditions stated herein, hereby release and forever discharge each other from any and all Claims, including Unknown Claims, which they now have, may hereafter have, or claim to have against each other with respect to the Disputes and Claims. It is the intent of the Parties to this Agreement to give the broadest release and discharge possible under the law with respect to the particular Disputes and Claims between the Parties that are the direct subject of this Agreement. This mutual release is binding upon and for the benefit of each of the Parties and their respective subsidiaries, affiliates, successors and predecessors, and their respective current and/or former shareholders, members, partners, principals, directors, officers, employees, agents, servants, counsel, and insurers to the extent of the Disputes and Claims between

(continue to Sheet 60-19.5)

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SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)

TERMS AND CONDITIONS (continued)

5. Mutual Releases (continued).

the Parties; provided, however, that this mutual release does not affect any claims or disputes arising from performance of the terms and conditions in this Agreement or any other matter that is not a Claim or Dispute.

6. Covenant Not to Sue. NWN, on the one hand, and Customer, on the other, in consideration of the terms and conditions stated herein, covenant not to sue or otherwise initiate any form of civil, administrative, regulatory or judicial proceedings of any kind against each other with respect to the Disputes and Claims released herein; provided, however, that this covenant not to sue does not affect any claims or disputes arising from performance of the terms and conditions in this Agreement.

7. Entire Payment. NWN and Customer agree that the payments made or to be made, and performance of the obligations pursuant to this Agreement, will settle any and all Disputes and Claims between Customer and NWN. Each party will bear its own costs, expenses, and attorneys' fees incurred in connection with the Disputes and Claims released herein, other than as specified in paragraph 2(b).

8. Regulatory Filing. Each Party will cooperate with the other in developing the regulatory filing required to implement paragraph 3 in a timely fashion and in obtaining regulatory approval of paragraph 3.

9. Non-Admission. The settlement of Claims and Disputes between the Parties is voluntary and does not constitute an admission of negligence, breach of contract or any other basis for liability by any of the Parties, or an admission of the existence of any facts upon which liability could be based.

10. Advice of Counsel. Each Party to this Agreement has reviewed the Agreement independently, has had the opportunity to consult legal counsel and other experts of their choice, is fully informed of the terms and effect of this Agreement, and has not relied in any way on any inducement, representations, or advice of any other Party in decided to enter into this Agreement.

11. Entire Agreement. This Agreement and any addenda attached hereto constitute the entire understanding between the Parties with respect to settlement of the Disputes and any and all Claims. The terms of this Agreement supersede the Interim Settlement Agreement. This Agreement and attached addenda, if any, may not be amended except by writing signed by all Parties.

(continue to Sheet 60-19.6)

Issued February 1, 2006
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Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)**TERMS AND CONDITIONS (continued)**

12. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable.

13. Confidentiality / No Publicity. Subject to the following exceptions, neither NWN nor Customer will directly or indirectly, or by any means, disclose to any third party the existence or the contents of this Agreement and any addenda thereto without the prior written consent of the other Party. Notwithstanding the foregoing, any Party may disclose this Agreement to the OPUC and/or WUTC for the sole purposes of obtaining approval of paragraph 3. Further, notwithstanding the foregoing, any Party may disclose the financial terms of this Agreement to its attorneys, accountants, insurers, and/or financial advisors for the limited purpose and to the extent necessary for the preparation of financial statements and tax returns; provided, however, that any such recipient shall first be informed of and agree to be bound by this confidentiality clause. Further, any Party may disclose the existence and/or terms of this Agreement upon receipt of a validly issued subpoena or other legal directive, but only after giving the other Party written notice of the subpoena or legal directive within two (2) days of receipt, and giving the other Party ten (10) additional business days pursuant to paragraph 18 to file a motion to quash the subpoena or seek other legal redress to prevent disclosure. If no motion or other action is taken within this ten (10) day period to prevent disclosure, the party to whom the subpoena or legal directive is addressed may disclose the existence and terms of this Agreement as required. Conversely, should any Party choose to file a motion or seek legal redress to prevent disclosure, no such disclosure shall be made until a final, non-appealable decision is rendered by a court with actual jurisdiction of the matter.

14. Arbitration Required/Mediation First Option. Any dispute or claim that arises out of or that relates to this Agreement, or to the interpretation or breach thereof, or to the existence, scope, or validity of this Agreement or this arbitration clause, shall be resolved by arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. or the American Arbitration Association, whichever organization is selected by the party who first initiates arbitration by filing a claim in accordance with the filing rules of the organization selected, and judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof. Venue for any arbitration hereunder shall be in Portland, Oregon.

(continue to Sheet 60-19.7)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)

TERMS AND CONDITIONS (continued)

15. Fees and Costs. In the event suit or action is brought, or an arbitration proceeding is initiated, to enforce or interpret any of the provisions of this agreement, or that arise out of or relate to this Agreement in any way, the prevailing party shall be entitled to recover all fees for attorneys, experts and arbitrators, as well as costs, in connection therewith. The determination of who is the prevailing party and the amount of fees and costs to be paid to the prevailing party shall be decided by the arbitrator(s) (with respect to fees and costs incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate court, in which such matter is tried, heard, or decided, including a court that hears a request to compel or stay litigation or that hears any exceptions or objections to, or requests to modify, correct, or vacate, an arbitration award submitted to it for confirmation as a judgment (with respect to fees and costs incurred in such court proceedings).

16. Choice of Law. This Agreement shall be construed and interpreted under the laws of the State of Oregon.

17. Counterparts. This Agreement may be executed in two or more separate but identical counterparts, and by facsimile, each of which, when executed, shall be an original, and all of which together shall constitute one and the same Agreement, notwithstanding that all Parties may not have executed the same counterpart, and each Party may execute a separate signature page which may be appended to form one or more duplicate originals of this Agreement.

18. Notice. Customer agrees to provide NWN with written notice within ten (10) days (or if served within less than ten (10) days to respond, immediately) of any subpoena, summons, motion, order, or other formal or informal request or directive that may call for disclosure of documents relating to and/or their testimony about the circumstances of the Claims and/or terms or conditions of the Agreement so that NWN may seek appropriate protection. Written notice shall be sent by facsimile and overnight delivery as follows: to NWN, to Margaret D. Kirkpatrick, General Counsel, NW Natural, 220 NW Second Avenue, Portland, OR 97209-3991, (503) 220-2584 (fax), and to Customer, to

(continue to Sheet 60-19.8)

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

SCHEDULE 60
SPECIAL CONTRACTS
(continued)

19. SETTLEMENT AGREEMENT - TRANSPORTATION SERVICE (continued)

TERMS AND CONDITIONS (continued)

19. Authority. Each of the signatories hereto represents and warrants that he, she or it is fully authorized to enter into this Agreement on behalf of the person or entity for which they execute the Agreement. Customer represents and warrants the Customers is the sole owner of the Claims released herein, and that Customer has not assigned or transferred, or purported to assign or transfer, any of the Customer's released Claims herein, except to the extent (if any) of any fee interest of Customer's counsel, which is also released herein to the extent it relates to the Claims released herein (but not otherwise).

IN WITNESS WHEREOF, intending to be legally bound hereby, the Parties have executed this Agreement as of the day and year written above.

NORTHWEST NATURAL GAS COMPANY

By: _____
Mark S. Dodson
President and Chief Executive Officer

CUSTOMER

Company: _____
By: _____
Title: _____

Issued February 1, 2006
NWN Advice No. OPUC 06-2

Effective on
and after February 8, 2006

Rates and Regulatory Affairs
Facsimile: 503.721.2532



February 2, 2006

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street, Northeast, Suite 215
P. O. Box 2148
Salem, Oregon 97308-2148

Attention: Filing Center

Re: **NWN Advice No. OPUC 06-2**
Schedule 60: Special Contracts
Settlement Agreement Related to Rate Schedule 32: Large Volume Non-Residential Sales and Transportation Service. (Application for Approval on Less than Statutory Notice Enclosed)

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company) hereby requests a waiver of OAR 860-022-0032 with respect to the requested effective date of the tariffs filed in NWN Advice No. 06-2, referenced above.

Please address correspondence on this matter to me, with copies to the following:

Kelley Miller, Staff Assistant
Rates & Regulatory Affairs
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2532
Telephone: (503) 226-4211, ext. 3589
E-mail: kelley.miller@nwnatural.com

Please do not hesitate to call if you have questions or desire further information.

Sincerely,

/s/ Onita R. King

Onita R. King, Manager,
Tariffs & Regulatory Compliance