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

Form 10-Q

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

For the quarterly period ended June 30, 2018

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	**93-0256722**
(State or other jurisdiction of incorporation or organization)	(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] 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 the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [X]	Accelerated Filer [ ]
Non-accelerated Filer [ ]	Smaller Reporting Company [ ]
(Do not check if a Smaller Reporting Company)	Emerging Growth Company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

At July 27, 2018 , 28,800,482 shares of the registrant's Common Stock (the only class of Common Stock) were outstanding.

NORTHWEST NATURAL GAS COMPANY

For the Quarterly Period Ended June 30, 2018

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PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to the safe harbors created by such Act. Forward-looking statements can be identified by words such as anticipates, assumes, intends, plans, seeks, believes, estimates, expects, and similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements regarding the following:

- plans, projections and predictions;
- objectives, goals or strategies;
- assumptions, generalizations and estimates;
- ongoing continuation of past practices or patterns;
- future events or performance;
- trends;
- risks;
- timing and cyclicality;
- earnings and dividends;
- capital expenditures and allocation;
- capital or organizational structure, including restructuring as a holding company;
- climate change and our role in a low-carbon future;
- growth;
- customer rates;
- labor relations and workforce succession;
- commodity costs;
- gas reserves;
- operational and financial performance and costs;
- energy policy, infrastructure and preferences;
- public policy approach and involvement;
- efficacy of derivatives and hedges;
- liquidity, financial positions, and planned securities issuances;
- valuations;
- project and program development, expansion, or investment;
- business development efforts, including acquisitions and integration thereof;
- asset dispositions and outcomes thereof;
- pipeline capacity, demand, location, and reliability;
- adequacy of property rights and headquarter development;
- technology implementation and cybersecurity practices;
- competition;
- procurement and development of gas supplies;
- estimated expenditures;
- costs of compliance;
- credit exposures;
- rate or regulatory outcomes, recovery or refunds;
- impacts or changes of laws, rules and regulations;
- tax liabilities or refunds, including effects of tax reform;
- levels and pricing of gas storage contracts and gas storage markets;
- outcomes, timing and effects of potential claims, litigation, regulatory actions, and other administrative matters;
- projected obligations, expectations and treatment with respect to retirement plans;
- availability, adequacy, and shift in mix, of gas supplies;
- effects of new or anticipated changes in critical accounting policies or estimates;
- approval and adequacy of regulatory deferrals;
- effects and efficacy of regulatory mechanisms; and
- environmental, regulatory, litigation and insurance costs and recoveries, and timing thereof.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future operational or financial performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our 2017 Annual Report on Form 10-K, Part I, Item 1A “Risk Factors” and Part II, Item 7 and Item 7A, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures about Market Risk,” and in Part I, Items 2 and 3, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk”, respectively of Part II of this report.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

In thousands, except per share data	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating revenues	$ 124,567	$ 134,476	$ 388,202	$ 430,200
Operating expenses:				
Cost of gas	42,053	53,005	150,159	196,616
Operations and maintenance	38,028	34,997	77,551	72,443
Environmental remediation	1,882	2,611	6,506	9,565
General taxes	7,729	7,204	17,203	15,883
Revenue taxes	4,780	—	17,209	—
Depreciation and amortization	21,147	20,224	42,022	40,177
Other operating expenses	679	—	1,532	—
Total operating expenses	116,298	118,041	312,182	334,684
Income from operations	8,269	16,435	76,020	95,516
Other income (expense), net	7	(340)	(827)	(763)
Interest expense, net	8,771	9,473	18,045	19,103
Income (loss) before income taxes	(495)	6,622	57,148	75,650
Income tax (benefit) expense	(156)	2,547	15,476	30,178
Net income (loss) from continuing operations	(339)	4,075	41,672	45,472
Loss from discontinued operations, net of tax	(659)	(1,346)	(1,133)	(2,433)
Net income (loss)	(998)	2,729	40,539	43,039
Other comprehensive income:				
Amortization of non-qualified employee benefit plan liability, net of taxes of $56 and $88 for the three months ended and $111 and $177 for the six months ended June 30, 2018 and 2017, respectively	153	137	307	273
Comprehensive income (loss)	$ (845)	$ 2,866	$ 40,846	$ 43,312
Average common shares outstanding:				
Basic	28,791	28,648	28,772	28,641
Diluted	28,791	28,717	28,825	28,722
Earnings (loss) from continuing operations per share of common stock:				
Basic	$ (0.01)	$ 0.14	$ 1.45	$ 1.58
Diluted	(0.01)	0.14	1.45	1.58
Loss from discontinued operations per share of common stock:				
Basic	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.08)
Diluted	(0.02)	(0.04)	(0.04)	(0.08)
Earnings (loss) per share of common stock:				
Basic	$ (0.03)	$ 0.10	$ 1.41	$ 1.50
Diluted	(0.03)	0.10	1.41	1.50
Dividends declared per share of common stock	0.4725	0.4700	0.9450	0.9400

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	June 30, 2018	June 30, 2017	December 31, 2017
Assets:			
Current assets:			
Cash and cash equivalents	$ 8,755	$ 20,854	$ 3,472
Accounts receivable	31,512	30,778	66,236
Accrued unbilled revenue	13,995	13,896	62,381
Allowance for uncollectible accounts	(657)	(845)	(956)
Regulatory assets	41,092	37,504	45,781
Derivative instruments	2,044	1,530	1,735
Inventories	43,109	57,264	47,577
Gas reserves	16,579	16,072	15,704
Other current assets	11,672	13,028	24,949
Discontinued operations current assets (Note 15)	12,743	1,923	3,057
Total current assets	180,844	192,004	269,936
Non-current assets:			
Property, plant, and equipment	3,298,856	3,098,112	3,204,635
Less: Accumulated depreciation	984,998	942,558	960,477
Total property, plant, and equipment, net	2,313,858	2,155,554	2,244,158
Gas reserves	75,362	92,020	84,053
Regulatory assets	339,177	348,284	356,608
Derivative instruments	1,077	162	1,306
Other investments	64,854	68,885	66,363
Other non-current assets	11,588	3,164	6,505
Discontinued operations non-current assets (Note 15)	—	205,081	10,817
Total non-current assets	2,805,916	2,873,150	2,769,810
Total assets	$ 2,986,760	$ 3,065,154	$ 3,039,746

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	June 30, 2018	June 30, 2017	December 31, 2017
Liabilities and equity:			
Current liabilities:			
Short-term debt	$ 47,100	$ —	$ 54,200
Current maturities of long-term debt	74,785	61,991	96,703
Accounts payable	70,551	95,126	111,021
Taxes accrued	6,916	6,906	18,883
Interest accrued	6,652	5,966	6,773
Regulatory liabilities	34,275	28,041	34,013
Derivative instruments	11,744	4,734	18,722
Other current liabilities	32,935	31,015	39,942
Discontinued operations current liabilities (Note 15)	12,922	1,303	1,593
Total current liabilities	297,880	235,082	381,850
Long-term debt	683,895	658,118	683,184
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	281,028	577,176	270,526
Regulatory liabilities	602,294	359,205	586,093
Pension and other postretirement benefit liabilities	218,061	219,718	223,333
Derivative instruments	3,913	3,466	4,649
Other non-current liabilities	140,163	134,793	135,292
Discontinued operations - non-current liabilities (Note 15)	—	12,167	12,043
Total deferred credits and other non-current liabilities	1,245,459	1,306,525	1,231,936
Commitments and contingencies (Note 14)			
Equity:			
Common stock - no par value; authorized 100,000 shares; issued and outstanding 28,800, 28,662, and 28,736 at June 30, 2018 and 2017, and December 31, 2017, respectively	452,195	444,058	448,865
Retained earnings	315,462	428,049	302,349
Accumulated other comprehensive loss	(8,131)	(6,678)	(8,438)
Total equity	759,526	865,429	742,776
Total liabilities and equity	$ 2,986,760	$ 3,065,154	$ 3,039,746

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

In thousands	Six Months Ended June 30, 2018	2017
Operating activities:		
Net Income	$ 40,539	$ 43,039
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	42,022	40,177
Regulatory amortization of gas reserves	7,816	8,031
Deferred income taxes	11,227	22,170
Qualified defined benefit pension plan expense	2,876	2,615
Contributions to qualified defined benefit pension plans	(5,570)	(7,250)
Deferred environmental expenditures, net	(7,330)	(6,817)
Amortization of environmental remediation	6,506	9,565
Regulatory revenue deferral from the TCJA	9,212	—
Other	810	1,128
Changes in assets and liabilities:		
Receivables, net	79,332	85,250
Inventories	4,803	(3,501)
Income taxes	(11,967)	(5,243)
Accounts payable	(26,613)	(21,849)
Interest accrued	(121)	—
Deferred gas costs	4,787	15,325
Other, net	3,623	8,243
Discontinued operations	700	3,348
Cash provided by operating activities	162,652	194,231
Investing activities:		
Capital expenditures	(102,370)	(94,333)
Other	195	(404)
Discontinued operations	(283)	15
Cash used in investing activities	(102,458)	(94,722)
Financing activities:		
Repurchases related to stock-based compensation	—	(2,034)
Proceeds from stock options exercised	45	1,309
Long-term debt retired	(22,000)	—
Change in short-term debt	(7,100)	(53,300)
Cash dividend payments on common stock	(25,577)	(26,919)
Other	(279)	(1,232)
Cash used in financing activities	(54,911)	(82,176)
Increase in cash and cash equivalents	5,283	17,333
Cash and cash equivalents, beginning of period	3,472	3,521
Cash and cash equivalents, end of period	$ 8,755	$ 20,854
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalization	$ 17,117	$ 18,011
Income taxes paid	13,347	9,081

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements represent the consolidated results of Northwest Natural Gas Company (NW Natural or the Company) and all companies we directly or indirectly control, either through majority ownership or otherwise. Our regulated local gas distribution business, referred to as the utility segment, is our core operating business and serves residential, commercial, and industrial customers in Oregon and southwest Washington. The other category primarily includes the non-utility portion of our Mist gas storage facility that provides storage services for utilities, gas marketers, electric generators, and large industrial users from facilities located in Oregon. In addition, we have investments and other non-utility activities reported as other.

Our core utility business assets and operating activities are largely included in the parent company, NW Natural. Our direct and indirect wholly-owned subsidiaries include:

- NW Natural Energy, LLC (NWN Energy);
  - NW Natural Gas Storage, LLC (NWN Gas Storage);
    - Gill Ranch Storage, LLC (Gill Ranch), which is presented as a discontinued operation;
- Northwest Energy Corporation (Energy Corp);
  - NWN Gas Reserves LLC (NWN Gas Reserves);
- NNG Financial Corporation (NNG Financial);
- NW Natural Water Company, LLC (NWN Water);
  - FWC Merger Sub, Inc.;
  - Cascadia Water, LLC (Cascadia);
- Northwest Natural Holding Company (NWN Holding); and
  - NWN Merger Sub, Inc. (NWN Holdco Sub).

Investments in corporate joint ventures and partnerships we do not directly or indirectly control, and for which we are not the primary beneficiary, include NWN Energy's investment in Trail West Holdings, LLC (TWH), which is accounted for under the equity method, and NNG Financial's investment in Kelso-Beaver Pipeline. NW Natural and its affiliated companies are collectively referred to herein as NW Natural. The consolidated financial statements are presented after elimination of all intercompany balances and transactions. In this report, the term “utility” is used to describe our regulated gas distribution business, and the term “non-utility” is used to describe the non-utility portion of our Mist gas storage facility and other non-utility investments and business activities.

Information presented in these interim consolidated financial statements is unaudited, but includes all material adjustments management considers necessary for a fair statement of the results for each period reported including normal recurring accruals. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2017 Annual Report on Form 10-K (2017 Form 10-K), taking into consideration the changes mentioned below in this Note 1 and in Notes 4 and 15. A significant part of our business is of a seasonal nature; therefore, results of operations for interim periods are not necessarily indicative of full year results.

During the second quarter of 2018, we moved forward with our long-term strategic plans, which include a shift away from our merchant gas storage business. In June 2018, NWN Gas Storage, our wholly-owned subsidiary, entered into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in its wholly-owned subsidiary, Gill Ranch, subject to various regulatory approvals and closing conditions. We have concluded that the pending sale of Gill Ranch qualifies as assets and liabilities held for sale and discontinued operations. As such, for all periods presented, the results of Gill Ranch have been presented as a discontinued operation on the consolidated statements of comprehensive income and cash flows, and the assets and liabilities associated with Gill Ranch have been classified as discontinued operations assets and liabilities on the consolidated balance sheets. See Note 15 for additional information. Additionally, we reevaluated our reportable segments and concluded that the remaining gas storage activities no longer meet the requirements to be separately reported as a segment. The non-utility portion of our Mist gas storage facility is now reported as other, and all prior periods reflect this change. See Note 4, which provides segment information. These reclassifications had no effect on our prior year's consolidated results of operations, financial condition, or cash flows.

Our notes to the consolidated financial statements reflect the activity of our continuing operations for all periods presented, unless otherwise noted. Note 15 provides information regarding our discontinued operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are described in Note 2 of the 2017 Form 10-K. There were no material changes to those accounting policies during the six months ended June 30, 2018 other than those incorporated in Note 5 and Note 15 relating to revenue and discontinued operations, respectively. The following are current updates to certain critical accounting policy estimates and new accounting standards.

Industry Regulation

In applying regulatory accounting principles, we capitalize or defer certain costs and revenues as regulatory assets and liabilities pursuant to orders of the Oregon Public Utilities Commission (OPUC) or Washington Utilities and Transportation Commission (WUTC), which provide for the recovery of revenues or expenses from, or refunds to, utility customers in future periods, including a return or a carrying charge in certain cases.

Amounts deferred as regulatory assets and liabilities were as follows:

	Regulatory Assets		
	June 30,		December 31,
In thousands	2018	2017	2017
Current:			
Unrealized loss on derivatives [1]	$ 11,744	$ 4,625	$ 18,712
Gas costs	273	859	154
Environmental costs [2]	5,594	6,724	6,198
Decoupling [3]	10,232	12,136	11,227
Income taxes	2,217	4,378	2,218
Other [4]	11,032	8,782	7,272
Total current	$ 41,092	$ 37,504	$ 45,781
Non-current:			
Unrealized loss on derivatives [1]	$ 3,913	$ 3,466	$ 4,649
Pension balancing [5]	67,527	55,358	60,383
Income taxes	19,267	36,591	19,991
Pension and other postretirement benefit liabilities	171,186	176,136	179,824
Environmental costs [2]	65,156	64,008	72,128
Gas costs	28	87	84
Decoupling [3]	1,636	1,993	3,970
Other [4]	10,464	10,645	15,579
Total non-current	$ 339,177	$ 348,284	$ 356,608

	Regulatory Liabilities		
	June 30,		December 31,
In thousands	2018	2017	2017
Current:			
Gas costs	$ 20,906	$ 15,708	$ 14,886
Unrealized gain on derivatives [1]	1,938	1,459	1,674
Decoupling [3]	2,153	134	322
Other [4]	9,278	10,740	17,131
Total current	$ 34,275	$ 28,041	$ 34,013
Non-current:			
Gas costs	$ 3,460	$ 2,719	$ 4,630
Unrealized gain on derivatives [1]	1,077	162	1,306
Decoupling [3]	410	—	957
Income taxes [6]	222,734	—	213,306
Accrued asset removal costs [7]	370,245	350,828	360,929
Other [4]	4,368	5,496	4,965
Total non-current	$ 602,294	$ 359,205	$ 586,093

[1] Unrealized gains or losses on derivatives are non-cash items and therefore, do not earn a rate of return or a carrying charge. These amounts are recoverable through utility rates as part of the annual Purchased Gas Adjustment (PGA) mechanism when realized at settlement.
[2] Refer to footnote (3) per the Deferred Regulatory Asset table in Note 14 for a description of environmental costs.
[3] This deferral represents the margin adjustment resulting from differences between actual and expected volumes.
[4] Balances consist of deferrals and amortizations under approved regulatory mechanisms and typically earn a rate of return or carrying charge.
[5] Refer to footnote (1) of the Net Periodic Benefit Cost table in Note 8 for information regarding the deferral of pension expenses.
[6] This balance represents estimated amounts associated with the Tax Cuts and Jobs Act. See Note 9 .
[7] Estimated costs of removal on certain regulated properties are collected through rates.

We believe all costs incurred and deferred at June 30, 2018 are prudent. We annually review all regulatory assets and liabilities for recoverability and more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then we would be required to write-off the net unrecoverable balances in the period such determination is made.

New Accounting Standards

We consider the applicability and impact of all accounting standards updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

Recently Adopted Accounting Pronouncements

STOCK COMPENSATION. On May 10, 2017, the FASB issued ASU 2017-09, "Stock Compensation - Scope of Modification Accounting." The purpose of the amendment is to provide clarity, reduce diversity in practice, and reduce the cost and complexity when applying the guidance in Topic 718, related to a change to the terms or conditions of a share-based payment award. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this update were effective for us beginning January 1, 2018, and will be applied prospectively to any award modified on or after the adoption date. The adoption did not have a material impact to our financial statements or disclosures.

RETIREMENT BENEFITS. On March 10, 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost." The ASU requires entities to disaggregate current service cost from the other components of net periodic benefit cost and present it with other current compensation costs for related employees in the income statement. Additionally, the other components of net periodic benefit costs are to be presented elsewhere in the income statement and outside of income from operations, if that subtotal is presented. Only the service cost component of the net periodic benefit cost is eligible for capitalization. The amendments in this update were effective for us beginning January 1, 2018.

Upon adoption, the ASU required that changes to the income statement presentation of net periodic benefit cost be applied retrospectively, while changes to amounts capitalized must be applied prospectively. As such, the interest cost, expected return on assets, amortization of prior service costs, and other costs have been reclassified from operations and maintenance expense to other income (expense), net on our consolidated statement of comprehensive income for the three and six months ended June 30, 2017 . We did not elect the practical expedient which would have allowed us to reclassify amounts disclosed previously in the pension and other postretirement benefits footnote disclosure as the basis for applying retrospective presentation. As mentioned above, on a prospective basis, the other components of net periodic benefit cost will not be eligible for capitalization, however, they will continue to be included in our pension regulatory balancing mechanism.

The retrospective presentation requirement related to the other components of net periodic benefit cost affected the operations and maintenance expense and other income (expense), net lines on our consolidated statement of comprehensive income. For the three months and six months ended June 30, 2017 , $1.3 million and $2.6 million of expense was reclassified from operations and maintenance expense and included in other income (expense), net, respectively.

STATEMENT OF CASH FLOWS. On August 26, 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." The ASU adds guidance pertaining to the classification of certain cash receipts and payments on the statement of cash flows. The purpose of the amendment is to clarify issues that have been creating diversity in practice. The amendments in this standard were effective for us beginning January 1, 2018, and the adoption did not have a material impact to our financial statements or disclosures as our historical practices and presentation were consistent with the directives of this ASU.

FINANCIAL INSTRUMENTS. On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation, and disclosure. The new standard was effective for us beginning January 1, 2018, and the adoption did not have a material impact to our financial statements or disclosures.

REVENUE RECOGNITION. On May 28, 2014, the FASB issued ASU 2014-09 "Revenue From Contracts with Customers." The underlying principle of the guidance requires entities to recognize revenue depicting the transfer of goods or services to customers at amounts the entity is expected to be entitled to in exchange for those goods or services. The ASU also prescribes a five-step approach to revenue recognition: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when, or as, each performance obligation is satisfied. The guidance also requires additional disclosures, both qualitative and quantitative, regarding the nature, amount, timing and uncertainty of revenue and cash flows.

The new accounting standard and all related amendments were effective for us beginning January 1, 2018. We applied the accounting standard to all contracts using the modified retrospective method. The new standard is primarily reflected in our consolidated statement of comprehensive income and Note 5 . The implementation of the new revenue standard did not result in

changes to how we currently recognize revenue, and therefore, we did not have a cumulative effect or adjustment to the opening balance of retained earnings. The implementation did result in changes to our disclosures and presentation of revenue and expenses. The comparative information for prior years has not been restated. There is no material impact to our financial results and no significant changes to our control environment due to the adoption of the new revenue standard on an ongoing basis.

As previously discussed, the adoption of the new revenue standard did not impact our consolidated balance sheet or statement of cash flows but did result in changes to the presentation of our consolidated statements of comprehensive income. Had the adoption of the new revenue standard not occurred, our operating revenues for the three and six months ended June 30, 2018 would have been $119.8 million and $371.0 million , compared to the reported amounts of $124.6 million and $388.2 million under the new revenue standard, respectively. Similarly, absent the impact of the new revenue standard, our operating expenses would have been $111.5 million and $295.0 million , compared to the reported amounts of $116.3 million and $312.2 million under the new revenue standard for the three and six months ended June 30, 2018 , respectively. The effect of the change was an increase in both operating revenues and operating expenses of $4.8 million and $17.2 million for the three and six months ended June 30, 2018 , respectively, due to the change in presentation of revenue taxes. As part of the adoption of the new revenue standard, we evaluated the presentation of revenue taxes under the new guidance and across our peer group and concluded that the gross presentation of revenue taxes provides the greatest level of consistency and transparency. Prior to the adoption of the new revenue standard, a portion of revenue taxes was presented net in operating revenues and a portion was recorded directly on the balance sheet. During the three and six months ended June 30, 2018 , we recognized $4.8 million and $17.2 million in revenue taxes in operating revenues and operating expenses, respectively. In comparison, for the three and six months ended June 30, 2017, we recognized $5.6 million and $19.3 million in revenue taxes, of which $3.2 million and $11.0 million were recorded in operating revenues and $2.4 million and $8.3 million were recorded on the balance sheet, respectively. The change in presentation of revenue taxes had no impact on utility margin, net income or earnings per share.

Recently Issued Accounting Pronouncements

ACCUMULATED OTHER COMPREHENSIVE INCOME. On February 14, 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update was issued in response to concerns from certain stakeholders regarding the current requirements under U.S. GAAP that deferred tax assets and liabilities are adjusted for a change in tax laws or rates, and the effect is to be included in income from continuing operations in the period of the enactment date. This requirement is also applicable to items in accumulated other comprehensive income where the related tax effects were originally recognized in other comprehensive income. The adjustment of deferred taxes due to the new corporate income tax rate enacted through the Tax Cuts and Jobs Act (TCJA) on December 22, 2017 recognized in income from continuing operations causes the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects) to not reflect the appropriate tax rate. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA and require certain disclosures about stranded tax effects. The amendments in this update are effective for us beginning January 1, 2019, and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the federal corporate income tax rate in the TCJA is recognized. The reclassification allowed in this update is elective, and we are currently assessing whether we will make the reclassification. This update is not expected to have a material impact on our financial condition.

DERIVATIVES AND HEDGING. On August 28, 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities." The purpose of the amendment is to more closely align hedge accounting with companies' risk management strategies. The ASU amends the accounting for risk component hedging, the hedged item in fair value hedges of interest rate risk, and amounts excluded from the assessment of hedge effectiveness. The guidance also amends the recognition and presentation of the effect of hedging instruments and includes other simplifications of hedge accounting. The amendments in this update are effective for us beginning January 1, 2019. Early adoption is permitted. The amended presentation and disclosure guidance is required prospectively. We are currently assessing the effect of this standard on our financial statements and disclosures.

LEASES. On February 25, 2016, the FASB issued ASU 2016-02, "Leases," which revises the existing lease accounting guidance. Pursuant to the new standard, lessees will be required to recognize all leases, including operating leases that are greater than 12 months at lease commencement, on the balance sheet and record corresponding right-of-use assets and lease liabilities. Lessor accounting will remain substantially the same under the new standard. Quantitative and qualitative disclosures are also required for users of the financial statements to have a clear understanding of the nature of our leasing activities. On November 29, 2017, the FASB proposed an additional practical expedient that would allow entities to apply the transition requirements on the effective date of the standard. Additionally, on January 25, 2018, the FASB issued ASU 2018-01, "Land Easement Practical Expedient for Transition to Topic 842", to address the costs and complexity of applying the transition provisions of the new lease standard to land easements. This ASU provides an optional practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under the current lease guidance. The standard and associated ASUs are effective for us beginning January 1, 2019. We are currently assessing our lease population and material contracts to determine the effect of this standard on our financial statements and disclosures. Refer to Note 14 of the 2017 Form 10-K for our current lease commitments.

3. EARNINGS PER SHARE

Basic earnings per share are computed using net income and the weighted average number of common shares outstanding for each period presented. Diluted earnings per share are computed in the same manner, except using the weighted average number of common shares outstanding plus the effects of the assumed exercise of stock options and the payment of estimated stock awards from other stock-based compensation plans that are outstanding at the end of each period presented. Antidilutive stock awards are excluded from the calculation of diluted earnings per common share.

Diluted earnings (loss) from continuing operations per share are calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands, except per share data	2018	2017	2018	2017
Net income (loss) from continuing operations	$ (339)	$ 4,075	$ 41,672	$ 45,472
Average common shares outstanding - basic	28,791	28,648	28,772	28,641
Additional shares for stock-based compensation plans (See Note 6)	—	69	53	81
Average common shares outstanding - diluted	28,791	28,717	28,825	28,722
Earnings (loss) from continuing operations per share of common stock - basic	$ (0.01)	$ 0.14	$ 1.45	$ 1.58
Earnings (loss) from continuing operations per share of common stock - diluted	$ (0.01)	$ 0.14	$ 1.45	$ 1.58
Additional information:				
Antidilutive shares	53	32	10	21

4. SEGMENT INFORMATION

We primarily operate in one reportable business segment, which is our local gas distribution business and which is referred to as the utility segment. During the second quarter of 2018, we moved forward with our long-term strategic plans, which include a shift away from our merchant gas storage business, by entering into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in Gill Ranch, subject to various regulatory approvals and closing conditions. As such, we reevaluated our reportable segments and concluded that the gas storage activities no longer meet the requirements of a reportable segment. Our ongoing, non-utility gas storage activities, which include our interstate storage and optimization activities at our Mist gas storage facility, are now reported as other. We also have other investments and business activities not specifically related to our utility segment, which are aggregated and reported as other. We refer to our local gas distribution business as the utility and all other activities as non-utility.

Local Gas Distribution

Our local gas distribution segment is a regulated utility principally engaged in the purchase, sale, and delivery of natural gas and related services to customers in Oregon and southwest Washington. As a regulated utility, we are responsible for building and maintaining a safe and reliable pipeline distribution system, purchasing sufficient gas supplies from producers and marketers, contracting for firm and interruptible transportation of gas over interstate pipelines to bring gas from the supply basins into our service territory, and re-selling the gas to customers subject to rates, terms, and conditions approved by the OPUC or WUTC. Gas distribution also includes taking customer-owned gas and transporting it from interstate pipeline connections, or city gates, to the customers' end-use facilities for a fee, which is approved by the OPUC or WUTC. As of December 31, 2017, approximately 89% of our customers are located in Oregon and 11% in Washington. On an annual basis, residential and commercial customers typically account for around 60% of our utility's total volumes delivered and 90% of our utility's margin. Industrial customers largely account for the remaining volumes and utility margin. A small amount of utility margin is also derived from miscellaneous services, gains or losses from an incentive gas cost sharing mechanism, and other service fees.

Industrial sectors we serve include: pulp, paper, and other forest products; the manufacture of electronic, electrochemical and electrometallurgical products; the processing of farm and food products; the production of various mineral products; metal fabrication and casting; the production of machine tools, machinery, and textiles; the manufacture of asphalt, concrete, and rubber; printing and publishing; nurseries; government and educational institutions; and electric generation.

In addition to our local gas distribution business, our utility segment also includes the utility portion of our Mist underground storage facility, our North Mist gas storage expansion in Oregon, and NWN Gas Reserves, which is a wholly-owned subsidiary of Energy Corp.

Other

We have non-utility investments and other business activities, which are aggregated and reported as other. Other includes NWN Gas Storage, a wholly-owned subsidiary of NWN Energy, and the non-utility portion of our Mist facility in Oregon and third-party

asset management services. Earnings from non-utility assets at our Mist facility are primarily related to firm storage capacity revenues. Earnings from the Mist facility also include revenue, net of amounts shared with utility customers, from management of utility assets at Mist and upstream pipeline capacity when not needed to serve utility customers. Under the Oregon sharing mechanism, we retain 80% of the pre-tax income from these services when the costs of the capacity have not been included in utility rates, or 33% of the pre-tax income when the costs have been included in utility rates. The remaining 20% and 67%, respectively, are recorded to a deferred regulatory account for crediting back to utility customers.

Other also includes NNG Financial, non-utility appliance retail center operations, NWN Water, which is pursuing investments in the water sector itself and through its wholly-owned subsidiaries FWC Merger Sub, Inc. and Cascadia, NWN Energy's equity investment in TWH, which is pursuing development of a cross-Cascades transmission pipeline project and NWN Holding, which is pursuing the holding company reorganization of NW Natural through its wholly-owned subsidiary NWN Holdco Sub.

All prior period amounts have been retrospectively adjusted to reflect the change in our reportable segments and the designation of Gill Ranch as a discontinued operation.

Inter-segment transactions were immaterial for the periods presented. The following table presents summary financial information concerning the reportable segments of our continuing operations. See Note 15 for information regarding our discontinued operation, Gill Ranch Storage.

	Three Months Ended June 30,		
In thousands	Utility	Other	Total
2018			
Operating revenues	$ 118,515	$ 6,052	$ 124,567
Depreciation and amortization	20,766	381	21,147
Income from operations	4,545	3,724	8,269
Net income (loss) from continuing operations	(2,970)	2,631	(339)
Capital expenditures	43,801	1,239	45,040
2017			
Operating revenues	$ 130,095	$ 4,381	$ 134,476
Depreciation and amortization	19,894	330	20,224
Income from operations	13,158	3,277	16,435
Net income from continuing operations	2,137	1,938	4,075
Capital expenditures	54,265	1,142	55,407

	Six Months Ended June 30,		
In thousands	Utility	Other	Total
2018			
Operating revenues	$ 376,448	$ 11,754	$ 388,202
Depreciation and amortization	41,309	713	42,022
Income from operations	69,301	6,719	76,020
Net income from continuing operations	36,913	4,759	41,672
Capital expenditures	100,695	1,675	102,370
Total assets at June 30, 2018 [1]	2,907,724	66,293	2,974,017
2017			
Operating revenues	$ 422,821	$ 7,379	$ 430,200
Depreciation and amortization	39,518	659	40,177
Income from operations	90,285	5,231	95,516
Net income from continuing operations	42,329	3,143	45,472
Capital expenditures	93,119	1,214	94,333
Total assets at June 30, 2017 [1]	2,792,011	66,139	2,858,150
Total assets at December 31, 2017 [1]	2,961,326	64,546	3,025,872

[1] Total assets exclude assets related to discontinued operations of $12.7 million , $207.0 million , and $13.9 million as of June 30, 2018 , June 30, 2017 , and December 31, 2017 , respectively.

Utility Margin

Utility margin is a financial measure used by our chief operating decision maker (CODM) consisting of utility operating revenues, reduced by the associated cost of gas, environmental recovery revenues, and revenue taxes. The cost of gas purchased for utility customers is generally a pass-through cost in the amount of revenues billed to regulated utility customers. Environmental recovery revenues represent collections received from customers through our environmental recovery mechanism in Oregon. These collections are offset by the amortization of environmental liabilities, which is presented as environmental remediation expense in our operating expenses. Revenue taxes are collected from our utility customers and remitted to our taxing authorities. The collections from customers are offset by the expense recognition of the obligation to the taxing authority. By subtracting cost of gas, environmental remediation expense, and revenue taxes from utility operating revenues, utility margin provides a key metric used by our CODM in assessing the performance of the utility segment.

The following table presents additional segment information concerning utility margin:

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands	2018	2017	2018	2017
Utility margin calculation:				
Utility operating revenues	$ 118,515	$ 130,095	$ 376,448	$ 422,821
Less: Utility cost of gas	42,107	53,005	150,271	196,616
Environmental remediation expense	1,882	2,611	6,506	9,565
Revenue taxes [1]	4,780	—	17,209	—
Utility margin	$ 69,746	$ 74,479	$ 202,462	$ 216,640

[1] The change in presentation of revenue taxes was a result of the adoption of ASU 2014-09 "Revenue From Contracts with Customers" and all related amendments on January 1, 2018. This change had no impact on utility margin results as revenue taxes were previously presented net in utility operating revenue. For additional information, see Note 2 .

5. REVENUE

The following table presents our disaggregated revenue from continuing operations:

	Three months ended June 30, 2018		
In thousands	Utility	Other	Total
Local gas distribution revenue	$ 114,725	$ —	$ 114,725
Gas storage revenue, net	—	2,736	2,736
Asset management revenue, net	—	2,140	2,140
Appliance retail center revenue	—	1,176	1,176
Revenue from contracts with customers	114,725	6,052	120,777
Alternative revenue	3,663	—	3,663
Leasing revenue	127	—	127
Total operating revenues	$ 118,515	$ 6,052	$ 124,567

	Six months ended June 30, 2018		
In thousands	Utility	Other	Total
Local gas distribution revenue	$ 372,954	$ —	$ 372,954
Gas storage revenue, net	—	5,314	5,314
Asset management revenue, net	—	3,719	3,719
Appliance retail center revenue	—	2,721	2,721
Revenue from contracts with customers	372,954	11,754	384,708
Alternative revenue	3,291	—	3,291
Leasing revenue	203	—	203
Total operating revenues	$ 376,448	$ 11,754	$ 388,202

Revenue is recognized when our obligation to our customer is satisfied and in the amount we expect to receive in exchange for transferring goods or providing services. Our revenue from contracts with customers contain one performance obligation that is generally satisfied over time, using the output method based on time elapsed, due to the continuous nature of the service provided. The transaction price is determined per a set price agreed upon in the contract or dependent on regulatory tariffs.

Customer accounts are settled on a monthly basis or paid at time of sale and based on historical experience. It is probable that we will collect substantially all of the consideration to which we are entitled to receive.

We do not have any material contract assets as our net accounts receivable and accrued unbilled revenue balances are unconditional and only involve the passage of time until such balances are billed and collected. We do not have any material contract liabilities.

Revenue-based taxes are primarily franchise taxes, which are collected from utility customers and remitted to taxing authorities. Beginning January 1, 2018, revenue taxes are included in operating revenues with an equal and offsetting expense recognized in operating expenses in the consolidated statement of comprehensive income.

Utility Segment

Local gas distribution revenue. Our primary source of revenue is providing natural gas to the customers in our service territory, which include residential, commercial, industrial and transportation customers. Gas distribution revenue is generally recognized over time upon delivery of the gas commodity or service to the customer, and the amount of consideration we receive and recognize as revenue is dependent on the Oregon and Washington tariffs. Customer accounts are to be paid in full each month, and there is no right of return or warranty for services provided. Revenues include firm and interruptible sales and transportation services, franchise taxes recovered from the customer, late payment fees, service fees, and accruals for gas delivered but not yet billed (accrued unbilled revenue). Our accrued unbilled revenue balance is based on estimates of deliveries during the period from the last meter reading and management judgment is required for a number of factors used in this calculation, including customer use and weather factors.

We applied the significant financing practical expedient and we have not adjusted the consideration we expect to receive from our utility customers for the effects of a significant financing component as all payment arrangements are settled annually. Due to the election of the right to invoice practical expedient, we do not disclose the value of unsatisfied performance obligations as of June 30, 2018 .

Alternative revenue. Our weather normalization mechanism (WARM) and decoupling mechanism are considered to be alternative revenue programs. Alternative revenue programs are considered to be contracts between us and our regulator and are excluded from revenue from contracts with customers.

Leasing revenue. Leasing revenue primarily consists of rental revenue for small leases of our utility-owned property to third parties. The transactions are accounted for as operating leases and the revenue is recognized on a straight-line basis over the term of the lease agreement. Lease revenue is excluded from revenue from contracts with customers.

Other

Gas storage revenue. Our gas storage activity includes the non-utility portion of our Mist facility, which is used to store natural gas for customers. Gas storage revenue is generally recognized over time as the gas storage service is provided to the customer and the amount of consideration we receive and recognize as revenue is dependent on set rates defined per the storage agreements. Noncash consideration in the form of dekatherms of natural gas is received as consideration for providing gas injection services to our gas storage customers. This noncash consideration is measured at fair value using the average spot rate. Customer accounts are generally paid in full each month, and there is no right of return or warranty for services provided. Revenues include firm and interruptible storage services, net of the profit sharing amount refunded to our utility customers.

Asset management revenue. Asset management revenue is generally recognized over time using a straight-line approach over the term of each contract, and the amount of consideration we receive and recognize as revenue is dependent on a variable pricing model. Variable revenues earned above guaranteed amounts are estimated and recognized at the end of each period using the most likely amount approach. Revenues include the optimization of the storage assets and pipeline capacity provided, net of the profit sharing amount refunded to our utility customers. Asset management accounts are settled on a monthly basis.

As of June 30, 2018 , unrecognized revenue for the fixed component of the transaction price related to our gas storage and asset management revenue was approximately $43.4 million . Of this amount, approximately $8.1 million will be recognized during the remainder of 2018 , $10.2 million in 2019 , $8.5 million in 2020 , $7.5 million in 2021 , $4.3 million in 2022 and $4.8 million thereafter.

Appliance retail center revenue. We own and operate an appliance store that is open to the public, where customers can purchase natural gas home appliances. Revenue from the sale of appliances is recognized at the point in time in which the appliance is transferred to the third party responsible for delivery and installation services and when the customer has legal title to the appliance. It is required that the sale be paid for in full prior to transfer of legal title. The amount of consideration we receive and recognize as revenue varies with changes in marketing incentives and discounts that we offer to our customers.

6. STOCK-BASED COMPENSATION

Our stock-based compensation plans are designed to promote stock ownership in NW Natural by employees and officers. These compensation plans include a Long Term Incentive Plan (LTIP), an Employee Stock Purchase Plan (ESPP), and a Restated Stock Option Plan. For additional information on our stock-based compensation plans, see Note 6 in the 2017 Form 10-K and the updates provided below.

Long Term Incentive Plan

Performance Shares

LTIP performance shares incorporate a combination of market, performance, and service-based factors. During the six months ended June 30, 2018 , no performance-based shares were granted under the LTIP for accounting purposes. In February 2018, the 2018 LTIP was awarded to participants; however, the agreement allows for one of the performance factors to remain variable until the first quarter of the third year of the award period. As the performance factor will not be approved until the first quarter of 2020, there is not a mutual understanding of the award's key terms and conditions between the Company and the participants as of June 30, 2018 and therefore no expense was recognized for the 2018 award. We will calculate the grant date fair value and recognize expense once the final performance factor has been approved.

For the 2018 LTIP, award share payouts range from a threshold of 0% to a maximum of 200% based on achievement of pre-established goals. The performance criteria for the 2018 performance shares consists of a three-year Return on Invested Capital (ROIC) threshold that must be satisfied and a cumulative EPS factor, which can be modified by a total shareholder return factor (TSR modifier) relative to the performance of the Russell 2500 Utilities Index over the three -year performance period. If the target was achieved for the 2018 award, we would grant 34,702 shares in the first quarter of 2020.

As of June 30, 2018 , there was $2.1 million of unrecognized compensation cost associated with the 2016 and 2017 LTIP grants, which is expected to be recognized through 2019 .

Restricted Stock Units

During the six months ended June 30, 2018 , 26,087 RSUs were granted under the LTIP with a weighted-average grant date fair value of $55.16 per share. Generally, the RSUs awarded are forfeitable and include a performance-based threshold as well as a vesting period of four years from the grant date. Generally, an RSU obligates us, upon vesting, to issue the RSU holder one share of common stock plus a cash payment equal to the total amount of dividends paid per share between the grant date and vesting date of that portion of the RSU. The fair value of an RSU is equal to the closing market price of our common stock on the grant date. As of June 30, 2018 , there was $ 3.3 million of unrecognized compensation cost from grants of RSUs, which is expected to be recognized over a period extending through 2022 .

7. DEBT

Short-Term Debt

At June 30, 2018 , we had short-term debt of $47.1 million , which was comprised entirely of commercial paper. The carrying cost of our commercial paper approximates fair value using Level 2 inputs. See Note 2 in the 2017 Form 10-K for a description of the fair value hierarchy. At June 30, 2018 , our commercial paper had a maximum remaining maturity of 12 days and average remaining maturity of 7 days.

Long-Term Debt

At June 30, 2018 , we had long-term debt of $758.7 million , which included $6.0 million of unamortized debt issuance costs. Utility long-term debt consists of first mortgage bonds (FMBs) with maturity dates ranging from 2018 through 2047 , interest rates ranging from 1.545% to 9.05% , and a weighted average coupon rate of 4.728% . In March 2018 , we retired $22.0 million of FMBs with a coupon rate of 6.60% .

Fair Value of Long-Term Debt

Our outstanding debt does not trade in active markets. We estimate the fair value of our long-term debt using utility companies with similar credit ratings, terms, and remaining maturities to our long-term debt that actively trade in public markets. These valuations are based on Level 2 inputs as defined in the fair value hierarchy. See Note 2 in the 2017 Form 10-K for a description of the fair value hierarchy.

The following table provides an estimate of the fair value of our long-term debt, including current maturities of long-term debt, using market prices in effect on the valuation date:

	June 30,		December 31,
In thousands	2018	2017	2017
Gross long-term debt	$ 764,700	$ 726,700	$ 786,700
Unamortized debt issuance costs	(6,020)	(6,591)	(6,813)
Carrying amount	$ 758,680	$ 720,109	$ 779,887
Estimated fair value [1]	$ 792,623	$ 791,885	$ 853,339

[1] Estimated fair value does not include unamortized debt issuance costs.

8. PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS

We recognize the service cost component of net periodic benefit cost for our pension and other postretirement benefit plans in operations and maintenance expense in our consolidated statements of comprehensive income. The other non-service cost components are recognized in other income (expense), net in our consolidated statements of comprehensive income. The following table provides the components of net periodic benefit cost for our pension and other postretirement benefit plans:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
In thousands	2018	2017	2018	2017	2018	2017	2018	2017
Service cost	$ 1,807	$ 1,870	$ 79	$ 99	$ 3,614	$ 3,740	$ 159	$ 197
Interest cost	4,183	4,472	241	274	8,366	8,944	482	548
Expected return on plan assets	(5,150)	(5,112)	—	—	(10,301)	(10,225)	—	—
Amortization of prior service costs	10	31	(117)	(117)	21	63	(234)	(234)
Amortization of net actuarial loss	4,524	3,622	112	139	9,047	7,243	222	277
Net periodic benefit cost	5,374	4,883	315	395	10,747	9,765	629	788
Amount allocated to construction	(685)	(1,558)	(28)	(135)	(1,367)	(3,079)	(55)	(267)
Amount deferred to regulatory balancing account [1]	(2,747)	(1,508)	—	—	(5,503)	(3,035)	—	—
Net amount charged to expense	$ 1,942	$ 1,817	$ 287	$ 260	$ 3,877	$ 3,651	$ 574	$ 521

[1] The deferral of defined benefit pension plan expenses above or below the amount set in rates was approved by the OPUC, with recovery of these deferred amounts through the implementation of a balancing account. The balancing account includes the expectation of higher net periodic benefit costs than costs recovered in rates in the near-term with lower net periodic benefit costs than costs recovered in rates expected in future years. Deferred pension expense balances include accrued interest at the utility's authorized rate of return, with the equity portion of the interest recognized when amounts are collected in rates. See Note 2 in the 2017 Form 10-K.

The following table presents amounts recognized in accumulated other comprehensive loss (AOCL) and the changes in AOCL related to our non-qualified employee benefit plans:

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands	2018	2017	2018	2017
Beginning balance	$ (8,284)	$ (6,815)	$ (8,438)	$ (6,951)
Amounts reclassified from AOCL:				
Amortization of actuarial losses	209	225	418	450
Total reclassifications before tax	209	225	418	450
Tax (benefit) expense	(56)	(88)	(111)	(177)
Total reclassifications for the period	153	137	307	273
Ending balance	$ (8,131)	$ (6,678)	$ (8,131)	$ (6,678)

Employer Contributions to Company-Sponsored Defined Benefit Pension Plans
For the six months ended June 30, 2018 , we made cash contributions totaling $5.6 million to our qualified defined benefit pension plans. We expect further plan contributions of $10.0 million during the remainder of 2018 .

Defined Contribution Plan
The Retirement K Savings Plan is a qualified defined contribution plan under Internal Revenue Code Sections 401(a) and 401(k). Employer contributions totaled $3.5 million and $2.8 million for the six months ended June 30, 2018 and 2017 , respectively.

See Note 8 in the 2017 Form 10-K for more information concerning these retirement and other postretirement benefit plans.

9. INCOME TAX

An estimate of annual income tax expense is made each interim period using estimates for annual pre-tax income, regulatory flow-through adjustments, tax credits, and other items. The estimated annual effective tax rate is applied to year-to-date, pre-tax income to determine income tax expense for the interim period consistent with the annual estimate.
The effective income tax rate varied from the combined federal and state statutory tax rates due to the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in thousands	2018	2017	2018	2017
Income taxes at statutory rates (federal and state)	$ (135)	$ 2,603	$ 15,233	$ 29,912
Increase (decrease):				
Differences required to be flowed-through by regulatory commissions	(14)	66	835	1,584
Other, net	(7)	(122)	(592)	(1,318)

Total provision for income taxes on continuing operations	$ (156)	$ 2,547	$ 15,476	$ 30,178
Effective tax rate for continuing operations	31.5%	38.5%	27.1%	39.9%

The effective income tax rate for the three and six months ended June 30, 2018 compared to the same periods in 2017 decreased primarily as a result of the TCJA and lower pre-tax income. See "U.S. Federal TCJA Matters" below and Note 9 in the 2017 Form 10-K for more detail on income taxes and effective tax rates.

The IRS Compliance Assurance Process (CAP) examination of the 2016 tax year was completed during the first quarter of 2018. There were no material changes to the return as filed. The 2017 tax year is subject to examination under CAP and the 2018 tax year CAP application has been accepted by the IRS.

U.S. Federal TCJA Matters

On December 22, 2017, the TCJA was enacted and permanently lowered the U.S. federal corporate income tax rate to 21% from the previous maximum rate of 35% , effective for our tax year beginning January 1, 2018. The TCJA includes specific provisions related to regulated public utilities that provide for the continued deductibility of interest expense and the elimination of bonus depreciation for property acquired and placed in service after September 27, 2017.

Under pre-TCJA law, business interest expense was generally deductible in the determination of taxable income. The TCJA imposes a new limitation on the deductibility of net business interest expense in excess of approximately 30% of adjusted taxable income. Taxpayers operating in the trade or business of public regulated utilities are excluded from these new interest expense limitations. There is ongoing uncertainty with regards to the application of the new interest expense limitation to our non-regulated operations. See Note 9 in the 2017 Form 10-K.

The TCJA generally provides for immediate full expensing for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023. This would generally provide for accelerated cost recovery for capital investments. However, the definition of qualified property excludes property used in the trade or business of a public regulated utility. The definition of utility trade or business is the same as that used by the TCJA with respect to the imposition of the net interest expense limitation discussed above. As a result, ongoing uncertainty exists with respect to the application of full expensing to our non-regulated activities, and the availability of bonus depreciation for utility assets acquired before September 28, 2017 and placed in service after September 27, 2017. See Note 9 in the 2017 Form 10-K.

At June 30, 2018 and December 31, 2017 , we had an estimated regulatory liability of $213.3 million for the change in regulated utility deferred taxes as a result of the TCJA, which included a gross-up for income taxes of $56.5 million . It is possible that this estimated balance may increase or decrease in the future as additional authoritative interpretation of the TCJA becomes available, or as a result of regulatory guidance from the OPUC or WUTC. We anticipate that until such time that customers receive the direct benefit of this regulatory liability, the balance, net of the additional gross-up for income taxes, will continue to provide an indirect benefit to customers by reducing the utility rate base which is a component of customer rates. It is not yet certain when the final resolution of these regulatory proceedings will occur, and as result, this regulatory liability is classified as long-term.

Utility rates in effect include an allowance to provide for the recovery of the anticipated provision for income taxes incurred as a result of providing regulated services. As a result of the newly enacted 21% federal corporate income tax rate, we are recording an additional regulatory liability in 2018 reflecting the estimated net reduction in our provision for income taxes. This revenue deferral is based on the estimated net benefit to customers using forecasted regulated utility earnings, considering average weather and associated volumes, and includes a gross-up for income taxes. As of June 30, 2018 , a regulatory liability of $9.4 million has been recorded including accrued interest to reflect this estimated revenue deferral.

10. PROPERTY, PLANT, AND EQUIPMENT

The following table sets forth the major classifications of our property, plant, and equipment and accumulated depreciation of our continuing operations:

	June 30,		December 31,
In thousands	2018	2017	2017
Utility plant in service	$ 3,035,089	$ 2,901,791	$ 2,975,217
Utility construction work in progress	192,496	127,383	159,924
Less: Accumulated depreciation	966,766	925,589	942,879
Utility plant, net	2,260,819	2,103,585	2,192,262
Non-utility plant in service	65,743	63,964	65,372
Non-utility construction work in progress	5,528	4,974	4,122
Less: Accumulated depreciation	18,232	16,969	17,598
Non-utility plant, net [1]	53,039	51,969	51,896
Total property, plant, and equipment	$ 2,313,858	$ 2,155,554	$ 2,244,158
Capital expenditures in accrued liabilities [2]	$ 22,112	$ 42,574	$ 34,761

[1] Previously reported non-utility balances were restated due to the assets and liabilities associated with Gill Ranch now being classified as discontinued operations assets and liabilities on the consolidated balance sheets. See Note 15 for further discussion.

[2] Previously reported capital expenditures in accrued liabilities were restated due to the assets and liabilities associated with Gill Ranch now being classified as discontinued operations assets and liabilities on the consolidated balance sheets. Capital expenditures in accrued liabilities related to Gill Ranch were approximately $0.3 million , $0.1 million , and $0.2 million as of June 30, 2018 , June 30, 2017 , and December 31, 2017 , respectively.

Build-to-suit Assets

In October 2017, we entered into a 20 -year operating lease agreement commencing in 2020 for our new headquarters location in Portland, Oregon. Our existing headquarters lease expires in 2020 . Our search and evaluation process focused on seismic preparedness, safety, reliability, least cost to our customers, and a continued commitment to our employees and the communities we serve. The lease was analyzed in consideration of build-to-suit lease accounting guidance, and we concluded that we are the accounting owner of the asset during construction. As a result, we have recognized $7.6 million and $0.5 million in property, plant and equipment and an obligation in other non-current liabilities for the same amount in our consolidated balance sheet at June 30, 2018 and December 31, 2017 , respectively. In 2019 , pursuant to the new lease standard issued by the FASB, we expect to de-recognize the associated build-to-suit asset and liability. See Note 14 in our 2017 Form 10-K.

11. GAS RESERVES

We have invested approximately $188 million through our gas reserves program in the Jonah Field located in Wyoming as of June 30, 2018 . Gas reserves are stated at cost, net of regulatory amortization, with the associated deferred tax benefits recorded as liabilities in the consolidated balance sheets. Our investment in gas reserves provides long-term price protection for utility customers through the original agreement with Encana Oil & Gas (USA) Inc. under which we invested approximately $178 million and the amended agreement with Jonah Energy LLC under which an approximate additional $10 million was invested.

The cost of gas, including a carrying cost for the rate base investment, is included in our annual Oregon PGA filing, which allows us to recover these costs through customer rates. Our investment under the original agreement, less accumulated amortization and deferred taxes, earns a rate of return.

Gas produced from the additional wells is included in our Oregon PGA at a fixed rate of $0.4725 per therm, which approximates the 10 -year hedge rate plus financing costs at the inception of the investment.

The following table outlines our net gas reserves investment:

In thousands	June 30, 2018	June 30, 2017	December 31, 2017
Gas reserves, current	$ 16,579	$ 16,072	$ 15,704
Gas reserves, non-current	170,958	171,464	171,832
Less: Accumulated amortization	95,596	79,444	87,779
Total gas reserves [(1)]	91,941	108,092	99,757
Less: Deferred taxes on gas reserves	20,381	31,074	22,712
Net investment in gas reserves	$ 71,560	$ 77,018	$ 77,045

(1) Our net investment in additional wells included in total gas reserves was $ 5.5 million , $ 6.3 million and $ 5.8 million at June 30, 2018 and 2017 and December 31, 2017 , respectively.

Our investment is included in our consolidated balance sheets under gas reserves with our maximum loss exposure limited to our investment balance.

12. INVESTMENTS

Investments in Gas Pipeline

Trail West Pipeline, LLC (TWP), a wholly-owned subsidiary of TWH, is pursuing the development of a new gas transmission pipeline that would provide an interconnection with our utility distribution system. NWN Energy, a wholly-owned subsidiary of NW Natural, owns 50% of TWH, and 50% is owned by TransCanada American Investments Ltd., an indirect wholly-owned subsidiary of TransCanada Corporation.

Variable Interest Entity (VIE) Analysis

TWH is a VIE, with our investment in TWP reported under equity method accounting. We have determined we are not the primary beneficiary of TWH's activities as we only have a 50% share of the entity, and there are no stipulations that allow us a disproportionate influence over it. Our investments in TWH and TWP are included in other investments in our balance sheet. If we do not develop this investment, our maximum loss exposure related to TWH is limited to our equity investment balance, less our share of any cash or other assets available to us as a 50% owner. Our investment balance in TWH was $13.4 million at June 30, 2018 and 2017 and December 31, 2017 . See Note 12 in our 2017 Form 10-K.

Other Investments

Other investments include financial investments in life insurance policies, which are accounted for at cash surrender value, net of policy loans. See Note 12 in our 2017 Form 10-K.

13. DERIVATIVE INSTRUMENTS

We enter into financial derivative contracts to hedge a portion of our utility's natural gas sales requirements. These contracts include swaps, options and combinations of option contracts. We primarily use these derivative financial instruments to manage commodity price variability. A small portion of our derivative hedging strategy involves foreign currency exchange contracts.

We enter into these financial derivatives, up to prescribed limits, primarily to hedge price variability related to our physical gas supply contracts as well as to hedge spot purchases of natural gas. The foreign currency forward contracts are used to hedge the fluctuation in foreign currency exchange rates for pipeline demand charges paid in Canadian dollars.

In the normal course of business, we also enter into indexed-price physical forward natural gas commodity purchase contracts and options to meet the requirements of utility customers. These contracts qualify for regulatory deferral accounting treatment.

We also enter into exchange contracts related to the third-party asset management of our gas portfolio, some of which are derivatives that do not qualify for hedge accounting or regulatory deferral, but are subject to our regulatory sharing agreement. These derivatives are recognized in operating revenues, net of amounts shared with utility customers.

Notional Amounts
The following table presents the absolute notional amounts related to open positions on our derivative instruments:

	June 30,		December 31,
In thousands	2018	2017	2017
Natural gas (in therms):			
Financial	473,900	490,780	429,100
Physical	724,450	495,751	520,268
Foreign exchange	$ 7,804	$ 7,788	$ 7,669

Purchased Gas Adjustment (PGA)
Derivatives entered into by the utility for the procurement or hedging of natural gas for future gas years generally receive regulatory deferral accounting treatment. In general, our commodity hedging for the current gas year is completed prior to the start of the gas year, and hedge prices are reflected in our weighted-average cost of gas in the PGA filing. Hedge contracts entered into after the start of the PGA period are subject to our PGA incentive sharing mechanism in Oregon. We entered the 2017-18 and 2016-17 gas year with our forecasted sales volumes hedged at 49% and 48% in financial swap and option contracts, and 26% and 27% in physical gas supplies, respectively. Hedge contracts entered into prior to our PGA filing, in September 2017 , were included in the PGA for the 2017-18 gas year. Hedge contracts entered into after our PGA filing, and related to subsequent gas years, may be included in future PGA filings and qualify for regulatory deferral.

Unrealized and Realized Gain/Loss
The following table reflects the income statement presentation for the unrealized gains and losses from our derivative instruments:

	Three Months Ended June 30,			
	2018		2017	
In thousands	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
Benefit (expense) to cost of gas	$ 2,658	$ (56)	$ (5,172)	$ 216
Operating revenues	391	—	(109)	—
Amounts deferred to regulatory accounts on balance sheet	(2,915)	56	5,263	(216)
Total gain (loss) in pre-tax earnings	$ 134	$ —	$ (18)	$ —

	Six Months Ended June 30,			
	2018		2017	
In thousands	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
Benefit (expense) to cost of gas	$ (3,089)	$ (210)	$ (16,515)	$ 224
Operating revenues	164	—	(1,277)	—
Amounts deferred to regulatory accounts on balance sheet	2,980	210	17,347	(224)
Total gain (loss) in pre-tax earnings	$ 55	$ —	$ (445)	$ —

UNREALIZED GAIN/LOSS. Outstanding derivative instruments related to regulated utility operations are deferred in accordance with regulatory accounting standards. The cost of foreign currency forward and natural gas derivative contracts are recognized immediately in the cost of gas; however, costs above or below the amount embedded in the current year PGA are subject to a regulatory deferral tariff and therefore, are recorded as a regulatory asset or liability.

REALIZED GAIN/LOSS. We realized net losses of $4.7 million and $13.7 million for the three and six months ended June 30, 2018 , respectively, from the settlement of natural gas financial derivative contracts. Whereas, we realized net gains of $0.3 million and remained flat for the three and six months ended June 30, 2017 , respectively. Realized gains and losses are recorded in cost of gas, deferred through our regulatory accounts, and amortized through customer rates in the following year.

Credit Risk Management of Financial Derivatives Instruments
No collateral was posted with or by our counterparties as of June 30, 2018 or 2017 . We attempt to minimize the potential exposure to collateral calls by counterparties to manage our liquidity risk. Counterparties generally allow a certain credit limit threshold before requiring us to post collateral against loss positions. Given our counterparty credit limits and portfolio diversification, we were not subject to collateral calls in 2018 or 2017 . Our collateral call exposure is set forth under credit support agreements, which generally contain credit limits. We could also be subject to collateral call exposure where we have

agreed to provide adequate assurance, which is not specific as to the amount of credit limit allowed, but could potentially require additional collateral in the event of a material adverse change.

Based upon current commodity financial swap and option contracts outstanding, which reflect unrealized losses of $14.3 million at June 30, 2018 , we have estimated the level of collateral demands, with and without potential adequate assurance calls, using current gas prices and various credit downgrade rating scenarios for NW Natural as follows:

		Credit Rating Downgrade Scenarios			
In thousands	(Current Ratings) A+/A3	BBB+/Baa1	BBB/Baa2	BBB-/Baa3	Speculative
With Adequate Assurance Calls	$ —	$ —	$ —	$ (3,605)	$ (11,211)
Without Adequate Assurance Calls	—	—	—	(3,605)	(6,987)

Our financial derivative instruments are subject to master netting arrangements; however, they are presented on a gross basis in our consolidated balance sheets. We and our counterparties have the ability to set-off obligations to each other under specified circumstances. Such circumstances may include a defaulting party, a credit change due to a merger affecting either party, or any other termination event.

If netted by counterparty, our physical and financial derivative position would result in an asset of $2.5 million and a liability of $15.0 million as of June 30, 2018 , an asset of $ 0.9 million and a liability of $ 7.4 million as of June 30, 2017 , and an asset of $2.9 million and a liability of $23.3 million as of December 31, 2017 .

We are exposed to derivative credit and liquidity risk primarily through securing fixed price natural gas commodity swaps to hedge the risk of price increases for our natural gas purchases made on behalf of customers. See Note 13 in our 2017 Form 10-K for additional information.

Fair Value

In accordance with fair value accounting, we include non-performance risk in calculating fair value adjustments. This includes a credit risk adjustment based on the credit spreads of our counterparties when we are in an unrealized gain position, or on our own credit spread when we are in an unrealized loss position. The inputs in our valuation models include natural gas futures, volatility, credit default swap spreads and interest rates. Additionally, our assessment of non-performance risk is generally derived from the credit default swap market and from bond market credit spreads. The impact of the credit risk adjustments for all outstanding derivatives was immaterial to the fair value calculation at June 30, 2018 . Using significant other observable or Level 2 inputs, the net fair value was a liability of $ 12.5 million , $ 6.5 million , and $20.3 million as of June 30, 2018 and 2017 , and December 31, 2017 , respectively. No Level 3 inputs were used in our derivative valuations, and there were no transfers between Level 1 or Level 2 during the six months ended June 30, 2018 and 2017 . See Note 2 in the 2017 Form 10-K.

14. ENVIRONMENTAL MATTERS

We own, or previously owned, properties that may require environmental remediation or action. We estimate the range of loss for environmental liabilities based on current remediation 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 (PRPs). When amounts are prudently expended related to site remediation, of those sites described herein, we have a recovery mechanism in place to collect 96.68% of remediation costs from Oregon customers, and we are allowed to defer environmental remediation costs allocated to customers in Washington annually until they are reviewed for prudence at a subsequent proceeding.

Our sites are subject to the remediation process prescribed by the Environmental Protection Agency (EPA) and the Oregon Department of Environmental Quality (ODEQ). The process begins with a remedial investigation (RI) to determine the nature and extent of contamination and then a risk assessment (RA) to establish whether the contamination at the site poses unacceptable risks to humans and the environment. Next, a feasibility study (FS) or an engineering evaluation/cost analysis (EE/CA) evaluates various remedial alternatives. It is at this point in the process when we are able to estimate a range of remediation costs and record a reasonable potential remediation liability, or make an adjustment to our existing liability. From this study, the regulatory agency selects a remedy and issues a Record of Decision (ROD). After a ROD is issued, we would seek to negotiate a consent decree or consent judgment for designing and implementing the remedy. We would have the ability to further refine estimates of remediation liabilities at that time.

Remediation may include treatment of contaminated media such as sediment, soil and groundwater, removal and disposal of media, institutional controls such as legal restrictions on future property use, or natural recovery. Following construction of the remedy, the EPA and ODEQ also have requirements for ongoing maintenance, monitoring and other post-remediation care that may continue for many years. Where appropriate and reasonably known, we will provide for these costs in our remediation liabilities described below.

Due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several site investigations, in some cases, we may not be able to reasonably estimate the high end of the range of possible loss. In those cases, we have disclosed the nature of the possible loss and the fact that the high end of the range cannot be reasonably estimated where a range of potential loss is available. Unless there is an estimate within the range of possible losses that is more likely than other cost estimates within that range, we record the liability at the low end of this range. It is likely changes in these estimates and ranges will occur throughout the remediation process for each of these sites due to our continued evaluation and clarification concerning our responsibility, the complexity of environmental laws and regulations and the determination by regulators of remediation alternatives. In addition to remediation costs, we could also be subject to Natural Resource Damages (NRD) claims. We will assess the likelihood and probability of each claim and recognize a liability if deemed appropriate. Refer to " *Other Portland Harbor* " below.

Environmental Sites

The following table summarizes information regarding liabilities related to environmental sites, which are recorded in other current liabilities and other noncurrent liabilities in the balance sheet:

	Current Liabilities			Non-Current Liabilities		
	June 30,		December 31,	June 30,		December 31,
In thousands	2018	2017	2017	2018	2017	2017
Portland Harbor site:						
Gasco/Siltronic Sediments	$ 2,174	$ 1,485	$ 2,683	$ 45,330	$ 43,376	$ 45,346
Other Portland Harbor	1,444	1,435	1,949	3,871	3,906	4,163
Gasco/Siltronic Upland site	9,947	9,441	13,422	45,578	49,319	47,835
Central Service Center site	25	31	25	—	—	—
Front Street site	906	829	1,009	10,683	10,788	10,757
Oregon Steel Mills	—	—	—	179	179	179
Total	$ 14,496	$ 13,221	$ 19,088	$ 105,641	$ 107,568	$ 108,280

PORTLAND HARBOR SITE. The Portland Harbor is an EPA listed Superfund site that is approximately 10 miles long on the Willamette River and is adjacent to NW Natural's Gasco uplands sites. We are one of over one hundred PRPs to the Superfund site. In January 2017, the EPA issued its Record of Decision, which selects the remedy for the clean-up of the Portland Harbor site (Portland Harbor ROD). The Portland Harbor ROD estimates the present value total cost at approximately $1.05 billion with an accuracy between -30% and +50% of actual costs.

Our potential liability is a portion of the costs of the remedy for the entire Portland Harbor Superfund site. The cost of that remedy is expected to be allocated among more than 100 PRPs. In addition, we are actively pursuing clarification and flexibility under the ROD in order to better understand our obligation under the clean-up. We are also participating in a non-binding allocation process with the other PRPs in an effort to resolve our potential liability. The Portland Harbor ROD does not provide any additional clarification around allocation of costs among PRPs and, as a result of issuance of the Portland Harbor ROD, we have not modified any of our recorded liabilities at this time.

We manage our liability related to the Superfund site as two distinct remediation projects, the Gasco/Siltronic Sediments and Other Portland Harbor projects.

Gasco/Siltronic Sediments. In 2009, NW Natural and Siltronic Corporation entered into a separate Administrative Order on Consent with the EPA to evaluate and design specific remedies for sediments adjacent to the Gasco uplands and Siltronic uplands sites. We submitted a draft EE/CA to the EPA in May 2012 to provide the estimated cost of potential remedial alternatives for this site. At this time, the estimated costs for the various sediment remedy alternatives in the draft EE/CA for the additional studies and design work needed before the cleanup can occur, and for regulatory oversight throughout the clean-up range from $47.5 million to $350 million . We have recorded a liability of $47.5 million for the sediment clean-up, which reflects the low end of the range. At this time, we believe sediments at this site represent the largest portion of our liability related to the Portland Harbor site discussed above.

Other Portland Harbor. While we still believe liabilities associated with the Gasco/Siltronic sediments site represent our largest exposure, we do have other potential exposures associated with the Portland Harbor ROD, including NRD costs and harborwide clean-up costs (including downstream petroleum contamination), for which allocations among the PRPs have not yet been determined.

The Company and other parties have signed a cooperative agreement with the Portland Harbor Natural Resource Trustee council to participate in a phased NRD assessment to estimate liabilities to support an early restoration-based settlement of NRD claims. One member of this Trustee council, the Yakama Nation, withdrew from the council in 2009, and in 2017, filed suit

against the Company and 29 other parties seeking remedial costs and NRD assessment costs associated with the Portland Harbor, set forth in the complaint. The complaint seeks recovery of alleged costs totaling $0.3 million in connection with the selection of a remedial action for the Portland Harbor as well as declaratory judgment for unspecified future remedial action costs and for costs to assess the injury, loss or destruction of natural resources resulting from the release of hazardous substances at and from the Portland Harbor site. The Yakama Nation has filed two amended complaints addressing certain pleading defects and dismissing the State of Oregon. We have recorded a liability for NRD claims which is at the low end of the range of the potential liability; the high end of the range cannot be reasonably estimated at this time. The NRD liability is not included in the aforementioned range of costs provided in the Portland Harbor ROD.

GASCO UPLANDS SITE. A predecessor of NW Natural, Portland Gas and Coke Company, owned a former gas manufacturing plant that was closed in 1958 (Gasco site) and is adjacent to the Portland Harbor site described above. The Gasco site has been under investigation by us for environmental contamination under the ODEQ Voluntary Clean-Up Program (VCP). It is not included in the range of remedial costs for the Portland Harbor site noted above. We manage the Gasco site in two parts, the uplands portion and the groundwater source control action.

We submitted a revised Remedial Investigation Report for the uplands to ODEQ in May 2007. In March 2015, ODEQ approved the RA, enabling us to begin work on the FS in 2016. We have recognized a liability for the remediation of the uplands portion of the site which is at the low end of the range of potential liability; the high end of the range cannot be reasonably estimated at this time.

In September 2013, we completed construction of a groundwater source control system, including a water treatment station, at the Gasco site. We have estimated the cost associated with the ongoing operation of the system and have recognized a liability which is at the low end of the range of potential cost. We cannot estimate the high end of the range at this time due to the uncertainty associated with the duration of running the water treatment station, which is highly dependent on the remedy determined for both the upland portion as well as the final remedy for our Gasco sediment exposure.

OTHER SITES. In addition to those sites above, we have environmental exposures at three other sites: Central Service Center, Front Street and Oregon Steel Mills. We may have exposure at other sites that have not been identified at this time. Due to the uncertainty of the design of remediation, regulation, timing of the remediation and in the case of the Oregon Steel Mills site, pending litigation, liabilities for each of these sites have been recognized at their respective low end of the range of potential liability; the high end of the range could not be reasonably estimated at this time.

Central Service Center site. We are currently performing an environmental investigation of the property under ODEQ's Independent Cleanup Pathway. This site is on ODEQ's list of sites with confirmed releases of hazardous substances, and cleanup is necessary.

Front Street site. The Front Street site was the former location of a gas manufacturing plant we operated (the former Portland Gas Manufacturing site, or PGM). At ODEQ’s request, we conducted a sediment and source control investigation and provided findings to ODEQ. In December 2015, we completed a FS on the former Portland Gas Manufacturing site.

In July 2017, ODEQ issued the PGM ROD. The ROD specifies the selected remedy, which requires a combination of dredging, capping, treatment, and natural recovery. In addition, the selected remedy also requires institutional controls and long-term inspection and maintenance. We revised the liability in the second quarter of 2017 to incorporate the estimated undiscounted cost of approximately $10.5 million for the selected remedy. Further, we have recognized an additional liability of $1.1 million for additional studies and design costs as well as regulatory oversight throughout the clean-up. We plan to complete the remedial design in 2018 and expect to construct the remedy details during 2019.

Oregon Steel Mills site. Refer to the “Legal Proceedings,” below.

Site Remediation and Recovery Mechanism (SRRM)

We have an SRRM through which we track and have the ability to recover past deferred and future prudently incurred environmental remediation costs allocable to Oregon, subject to an earnings test, for those sites identified therein. See Note 15 in the 2017 Form 10-K for a description of the SRRM collection process.

The following table presents information regarding the total regulatory asset deferred:

In thousands	June 30, 2018	June 30, 2017	December 31, 2017
Deferred costs and interest [1]	$ 46,862	$ 50,131	$ 45,546
Accrued site liabilities [2]	119,712	120,485	126,950
Insurance proceeds and interest	(95,824)	(99,884)	(94,170)
Total regulatory asset deferral [1]	$ 70,750	$ 70,732	$ 78,326
Current regulatory assets [3]	5,594	6,724	6,198
Long-term regulatory assets [3]	65,156	64,008	72,128

(1) Includes pre-review and post-review deferred costs, amounts currently in amortization, and interest, net of amounts collected from customers.

(2) Excludes 3.32% of the Front Street site liability, or $0.4 million in 2018 and $0.4 million in 2017 , as the OPUC only allows recovery of 96.68% of costs for those sites allocable to Oregon, including those that historically served only Oregon customers.

(3) Environmental costs relate to specific sites approved for regulatory deferral by the OPUC and WUTC. In Oregon, we earn a carrying charge on cash amounts paid, whereas amounts accrued but not yet paid do not earn a carrying charge until expended. We also accrue a carrying charge on insurance proceeds for amounts owed to customers. In Washington, a carrying charge related to deferred amounts will be determined in a future proceeding. Current environmental costs represent remediation costs management expects to collect from customers in the next 12 months. Amounts included in this estimate are still subject to a prudence and earnings test review by the OPUC and do not include the $5.0 million tariff rider. The amounts allocable to Oregon are recoverable through utility rates, subject to an earnings test.

ENVIRONMENTAL EARNINGS TEST. To the extent the utility earns at or below its authorized Return on Equity (ROE), remediation expenses and interest in excess of the $5.0 million tariff rider and $5.0 million insurance proceeds are recoverable through the SRRM. To the extent the utility earns more than its authorized ROE in a year, the utility is required to cover environmental expenses and interest on expenses greater than the $10.0 million with those earnings that exceed its authorized ROE.

Under the 2015 Order, the OPUC stated they would revisit the deferral and amortization of future remediation expenses, as well as the treatment of remaining insurance proceeds three years from the original Order, or earlier if we gain greater certainty about our future remediation costs, to consider whether adjustments to the mechanism may be appropriate. As it has been three years from the 2015 Order, we filed an update with the OPUC in March 2018 and recommended no changes.

WASHINGTON DEFERRAL. In Washington, cost recovery and carrying charges on amounts deferred for costs associated with services provided to Washington customers will be determined in a future proceeding.

Legal Proceedings

NW Natural is subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings cannot be predicted with certainty, including the matter described below, we do not expect that the ultimate disposition of any of these matters will have a material effect on our financial condition, results of operations or cash flows. See also Part II, Item 1, " *Legal Proceedings"* .

OREGON STEEL MILLS SITE. See Note 15 in the 2017 Form 10-K.

For additional information regarding other commitments and contingencies, see Note 14 in the 2017 Form 10-K.

15. DISCONTINUED OPERATIONS

On June 20, 2018, NWN Gas Storage, our wholly owned subsidiary, entered into a Purchase and Sale Agreement (the Agreement) that provides for the sale by NWN Gas Storage of all of the membership interests in Gill Ranch. Gill Ranch owns a 75% interest in the natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility. Pacific Gas and Electric Company (PG&E) owns the remaining 25% interest in the Gill Ranch Gas Storage Facility.

The Agreement provides for an initial cash purchase price of $25.0 million (subject to a working capital adjustment), plus potential additional payments to NWN Gas Storage of up to $26.5 million in the aggregate if Gill Ranch achieves certain economic performance levels for the first three full gas storage years (April 1 of one year through March 31 of the following year) occurring after the closing and the remaining portion of the gas storage year during which the closing occurs.

We expect the transaction to close within 12 months of signing and in 2019. The closing of the transaction is subject to approval by the California Public Utilities Commission (CPUC) and other customary closing conditions.

As a result of our strategic shift away from merchant gas storage and the significance of Gill Ranch's financial results in 2017, we have concluded that the pending sale of Gill Ranch qualifies as assets and liabilities held for sale and discontinued

operations. As such, the assets and liabilities associated with Gill Ranch have been classified as discontinued operations assets and discontinued operations liabilities, respectively, and, the results of Gill Ranch are presented separately, net of tax, as discontinued operations from the results of continuing operations for all periods presented. The expenses included in the results of discontinued operations are the direct operating expenses incurred by Gill Ranch that may be reasonably segregated from the costs of our continuing operations.

The following table presents the carrying amounts of the major components of Gill Ranch that are classified as discontinued operations assets and liabilities on our consolidated balance sheets:

	June 30,		December 31,
In thousands	2018	2017	2017
Assets:			
Accounts receivable	$ 497	$ 1,130	$ 2,126
Inventories	646	402	396
Other current assets	413	391	535
Property, plant, and equipment	10,948	235,556	10,816
Less: Accumulated depreciation	6	30,526	—
Other non-current assets	245	51	1
Discontinued operations - current assets [1]	*12,743*	*1,923*	*3,057*
Discontinued operations - non-current assets [1]	*—*	*205,081*	*10,817*
Total discontinued operations assets	$ 12,743	$ 207,004	$ 13,874
Liabilities:			
Accounts payable	$ 572	$ 635	$ 1,287
Other current liabilities	436	668	306
Other non-current liabilities	11,914	12,167	12,043
Discontinued operations - current liabilities [1]	*12,922*	*1,303*	*1,593*
Discontinued operations - non-current liabilities [1]	*—*	*12,167*	*12,043*
Total discontinued operations liabilities	$ 12,922	$ 13,470	$ 13,636

[1] The total assets and liabilities of Gill Ranch are classified as current as of June 30, 2018 because it is probable that the sale will be completed within one year.

The following table presents the operating results of Gill Ranch, which was reported within our gas storage segment historically, and is presented net of tax on our consolidated statements of comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands, except per share data	2018	2017	2018	2017
Revenues	$ 1,006	$ 1,762	$ 2,083	$ 3,361
Expenses:				
Operations and maintenance	1,554	2,251	2,590	3,921
Depreciation and amortization	108	1,131	218	2,263
Other expenses and interest	239	604	814	1,196
Total expenses	1,901	3,986	3,622	7,380
Loss from discontinued operations before income taxes	(895)	(2,224)	(1,539)	(4,019)
Income tax benefit	236	878	406	1,586
Loss from discontinued operations, net of tax	$ (659)	$ (1,346)	$ (1,133)	$ (2,433)
Loss from discontinued operations per share of common stock:				
Basic	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.08)
Diluted	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.08)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management’s assessment of Northwest Natural Gas Company’s (NW Natural or the Company) financial condition, including the principal factors that affect results of operations. The discussion refers to our consolidated results from continuing operations for the three and six months ended June 30, 2018 and 2017 . References in this discussion to "Notes" are to the Notes to Unaudited Consolidated Financial Statements in this report. A significant portion of our business results are seasonal in nature, and, as such, the results of operations for the three month periods are not necessarily indicative of expected fiscal year results. Therefore, this discussion should be read in conjunction with our 2017 Annual Report on Form 10-K (2017 Form 10-K).

The consolidated financial statements include NW Natural and its direct and indirect wholly-owned subsidiaries including:

- NW Natural Energy, LLC (NWN Energy);
- NW Natural Gas Storage, LLC (NWN Gas Storage);
- Gill Ranch Storage, LLC (Gill Ranch), which is presented as a discontinued operation;
- NNG Financial Corporation (NNG Financial);
- Northwest Energy Corporation (Energy Corp);
- NWN Gas Reserves LLC (NWN Gas Reserves);
- NW Natural Water Company, LLC (NWN Water);
- FWC Merger Sub, Inc.;
- Cascadia Water, LLC;
- Northwest Natural Holding Company (NWN Holding); and
- NWN Merger Sub, Inc. (NWN Holdco Sub).

We primarily operate in one reportable business segment, which is our local gas distribution business and which is referred to as the utility segment. During the second quarter of 2018, we moved forward with our long-term strategic plans, which include a shift away from our merchant gas storage business, by entering into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in Gill Ranch, subject to various regulatory approvals and closing conditions. As such, we reevaluated our reportable segments and concluded that the gas storage activities no longer meet the requirements of a reportable segment. Our ongoing, non-utility gas storage activities, which include our interstate storage and optimization activities at our Mist gas storage facility, are now reported as other. We also have other investments and business activities not specifically related to our utility segment, which are aggregated and reported as other. We refer to our local gas distribution business as the utility and all other activities as non-utility. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries.

NON-GAAP FINANCIAL MEASURES. In addition to presenting the results of operations and earnings amounts in total, certain financial measures are expressed in cents per share, which are non-GAAP financial measures. Non-GAAP financial measures are expressed in cents per share as these amounts reflect factors that directly impact earnings, including income taxes. All references in this section to EPS are on the basis of diluted shares (see Note 3). We use such non-GAAP financial measures to analyze our financial performance because we believe they provide useful information to our investors and creditors in evaluating our financial condition and results of operations.

EXECUTIVE SUMMARY

We manage our business and strategic initiatives with a long-term view of providing natural gas service safely and reliably to customers, working with regulators on key policy initiatives, and remaining focused on growing our business. See *" 2018 Outlook"* in our 2017 Form 10-K for more information. Current operational highlights include:

- added nearly 12,000 customers during the past twelve months for a growth rate of 1.6% at June 30, 2018 ;
- invested $102.4 million in our distribution system and facilities for growth and reliability;
- continued constructing major elements of our North Mist Gas Storage Expansion Project and continue to target in-service during the fourth quarter of 2018;
- reached agreement on key items in the Oregon general rate case and filed an all-party settlement with the Commission;
- advanced our regulated water strategy with plans to acquire two small utilities in Washington state; and
- signed an agreement to sell our interest in the Gill Ranch natural gas storage facility located in California.

Key financial highlights include:

	Three Months Ended June 30,				
	2018		2017		$
In thousands, except per share data	Amount	Per Share	Amount	Per Share	Change
Net income (loss) from continuing operations	$ (339)	$ (0.01)	$ 4,075	$ 0.14	$ (4,414)
Loss from discontinued operations, net of tax	(659)	(0.02)	(1,346)	(0.04)	687
Consolidated net income (loss)	$ (998)	$ (0.03)	$ 2,729	$ 0.10	$ (3,727)
Utility margin	$ 69,746		$ 74,479		$ (4,733)

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Net income from continuing operations decreased $4.4 million primarily due to the following factors:

- a $4.7 million decrease in utility margin due to the regulatory revenue deferral associated with the TCJA and warmer than average weather in 2018 compared to cooler than average weather in 2017, partially offset by customer growth; and
- a $3.0 million increase in operations and maintenance expense largely from payroll and benefits due to additional headcount and general salary increases; partially offset by
- a $2.7 million decrease in income tax expense due to changes in pre-tax income and the benefit from the decline of the U.S. federal corporate income tax rate to 21% in 2018 from 35% in the prior period. See additional discussion regarding " *TCJA Timing Variance* " below.

	Six Months Ended June 30,				
	2018		2017		$
In thousands, except per share data	Amount	Per Share	Amount	Per Share	Change
Net income from continuing operations	$ 41,672	$ 1.45	$ 45,472	$ 1.58	$ (3,800)
Loss from discontinued operations, net of tax	(1,133)	(0.04)	(2,433)	(0.08)	1,300
Consolidated net income	$ 40,539	$ 1.41	$ 43,039	$ 1.50	$ (2,500)
Utility margin	$ 202,462		$ 216,640		$ (14,178)

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Net income from continuing operations decreased $3.8 million primarily due to the following factors:

- a $14.2 million decrease in utility margin due to a regulatory revenue deferral associated with the TCJA and colder than average weather in 2017, partially offset by customer growth; and
- a $5.1 million increase in operations and maintenance expense largely from payroll and benefits due to additional headcount and general salary increases as well as higher professional service costs; partially offset by
- a $14.7 million decrease in income tax expense due to the benefit from the decline of the U.S. federal corporate income tax rate to 21% in 2018 from 35% in the prior period, as well as changes in pre-tax income. See additional discussion regarding " *TCJA Timing Variance* " below.

TCJA Timing Variance

Results for both the quarter and six month periods ended June 30, 2018 were affected by a variance due to the timing difference between the regulatory revenue deferral associated with the TCJA and the tax expense benefit from the lower federal tax rate. On an annual basis we expect the deferral and tax benefit to largely offset; however, quarterly timing differences are expected throughout 2018. In the first quarter of 2018, the utility segment had a $4.3 million net timing benefit related to the lower federal tax rate, of which $1.6 million reversed in the second quarter of 2018 . The remaining $2.7 million net benefit is expected to more than completely reverse in the third quarter of 2018 with an additional benefit in the fourth quarter of 2018 and little anticipated impact to annual results. See " *Business Segments - Local Gas Distribution Utility Operations* " below.

HOLDING COMPANY

NW Natural is pursuing the formation of a holding company to best position it to be able to respond to opportunities and risks in a manner that serves the best interests of its shareholders and customers. We have received regulatory approval from the OPUC, WUTC, and CPUC. We also received approval from our shareholders at our 2018 Annual Shareholders Meeting in May 2018. The Board and Management must take additional actions to implement the holding company structure, which we currently expect to happen on October 1, 2018 or at the beginning of 2019. To implement a holding company structure, NW Natural common stock would be converted into the same relative percentages of the holding company that each shareholder owns of NW Natural immediately prior to the reorganization. The structure involves placing a non-operating corporate entity over the existing consolidated structure, and "ring-fencing" NW Natural to insulate the gas utility from the operations of the holding company and its other direct and indirect subsidiaries. NW Natural management continuously looks for growth opportunities that would build on core competencies and match the risk profile that NW Natural and its shareholders seek. We believe a holding company structure is a more agile and efficient platform from which to pursue, finance and oversee new business growth opportunities, such as in the water sector. Following the formation of the holding company, NW Natural would continue to operate as a gas utility subject to the jurisdiction of the OPUC and the WUTC. For more information regarding the proposed holding company structure, see Part I, Item 1A "Risk Factors ″ and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Holding Company" in our 2017 Form 10-K .

DIVIDENDS

Dividend highlights include:

	Three Months Ended June 30,		Six Months Ended June 30,			
Per common share	2018	2017	2018	2017	QTR Change	YTD Change
Dividends paid	$ 0.4725	$ 0.4700	$ 0.9450	$ 0.9400	$ 0.0025	$ 0.0050

In July 2018 , the Board of Directors declared a quarterly dividend on our common stock of $0.4725 per share, payable on August 15, 2018 , to shareholders of record on July 31, 2018 , reflecting an annual indicated dividend rate of $1.89 per share.

RESULTS OF OPERATIONS

Regulatory Matters

For additional information, see Part II, Item 7 "Results of Operations— *Regulatory Matters"* in our 2017 Form 10-K .

Regulation and Rates

UTILITY. Our utility business is subject to regulation by the OPUC, WUTC, and FERC with respect to, among other matters, rates and terms of service. The OPUC and WUTC also regulate the system of accounts and issuance of securities by our utility. In 2017 , approximately 89 % of our utility gas customers were located in Oregon, with the remaining 11 % in Washington. Earnings and cash flows from utility operations are largely determined by rates set in general rate cases and other proceedings in Oregon and Washington. They are also affected by the local economies in Oregon and Washington, the pace of customer growth in the residential, commercial, and industrial markets, and our ability to remain price competitive, control expenses, and obtain reasonable and timely regulatory recovery of our utility-related costs, including operating expenses and investment costs in utility plant and other regulatory assets. See " *Most Recent Completed General Rate Cases"* below.

MIST GAS STORAGE. Our interstate storage activity at Mist is subject to regulation by the OPUC, WUTC, and FERC with respect to, among other matters, rates and terms of service. The OPUC also regulates the issuance of securities, system of accounts, and regulates intrastate storage services. The FERC regulates interstate storage services. The FERC uses a maximum cost of service model which allows for gas storage prices to be set at or below the cost of service as approved by each agency in their last regulatory filing. The OPUC Schedule 80 rates are tied to the FERC rates, and are updated whenever we modify our FERC maximum rates.

In 2017 , approximately 70% of our storage revenues were derived from FERC, Oregon, and Washington regulated operations and approximately 30% from California operations. In June 2018, we entered into a Purchase and Sale Agreement for the sale of all of our ownership interests in Gill Ranch, a natural gas storage facility located near Fresno, California, which is subject to approval by the CPUC and other customary closing conditions. See Note 15 for more information.

Most Recent Completed General Rate Cases

OREGON. Effective November 1, 2012, the OPUC authorized rates to customers based on an ROE of 9.5%, an overall rate of return of 7.78%, and a capital structure of 50% common equity and 50% long-term debt.

WASHINGTON. Effective January 1, 2009, the WUTC authorized rates to customers based on an ROE of 10.1% and an overall rate of return of 8.4% with a capital structure of 51% common equity, 5% short-term debt, and 44% long-term debt.

FERC. We are required under our Mist interstate storage certificate authority and rate approval orders to file every five years either a petition for rate approval or a cost and revenue study to change or justify maintaining the existing rates for our interstate storage services. In December 2013, we filed a rate petition, which was approved in 2014, and allows for the maximum cost-based rates for our interstate gas storage services. These rates were effective January 1, 2014, with the rate changes having no significant impact on our revenues. In January 2018, various state parties filed a request with the FERC to adjust the revenue requirements of public utilities to reflect the recent reduction in the federal corporate income tax rate and other impacts resulting from the TCJA. In July 2018, the FERC issued an order finalizing its regulations regarding the effect of the TCJA. The new regulations will require NW Natural to file a petition for rate approval or a cost and revenue study to reflect the new federal corporate income tax rate within thirty days of the rate effective date of our Oregon rate case. This is approximately the same timeframe when a new cost and revenue study would be required under FERC's pre-existing requirements.

We continuously monitor the utility and evaluate the need for a rate case. In December 2017, we filed a rate case in Oregon with the OPUC. For additional information, see " *Regulatory Proceeding Updates"* below.

Rate Mechanisms

During 2018 , our key approved rates and recovery mechanisms for each service area included:

	Oregon	Washington
Authorized Rate Structure:		
ROE	9.5%	10.1%
ROR	7.8%	8.4%
Debt/Equity Ratio	50%/50%	49%/51%
Key Regulatory Mechanisms:		
PGA	X	X
Gas Cost Incentive Sharing	X	
Decoupling	X	
WARM	X	
Environmental Cost Deferral	X	X
SRRM	X	
Pension Balancing	X	
Interstate Storage and Optimization Sharing	X	X

PURCHASED GAS ADJUSTMENT. Rate changes are established for the utility each year under PGA mechanisms in Oregon and Washington to reflect changes in the expected cost of natural gas commodity purchases. This includes gas costs under spot purchases as well as contract supplies, gas costs hedged

with financial derivatives, gas costs from the withdrawal of storage inventories, the production of gas reserves, interstate pipeline demand costs, temporary rate adjustments, which amortize balances of deferred regulatory accounts, and the removal of temporary rate adjustments effective for the previous year.

Each year, we typically hedge gas prices on a portion of our utility's annual sales requirement based on normal weather, including both physical and financial hedges. We entered the 2017-18 gas year with our forecasted sales volumes hedged at 49% in financial swap and option contracts and 26% in physical gas supplies.

As of June 30, 2018 , we are also hedged in future gas years at approximately 41% for the 2018-19 gas year and between 2% and 18% for annual requirements over the subsequent five gas years. Our hedge levels are subject to change based on actual load volumes, which depend to a certain extent on weather, economic conditions, and estimated gas reserve production. Also, our gas storage inventory levels may increase or decrease with storage expansion, changes in storage contracts with third parties, variations in the heat content of the gas, and/or storage recall by the utility.

Under the current PGA mechanism in Oregon, there is an incentive sharing provision whereby we are required to select each year an 80% deferral or a 90% deferral of higher or lower actual gas costs compared to estimated PGA prices, such that the impact on current earnings from the incentive sharing is either 20% or 10% of the difference between actual and estimated gas costs, respectively. For the 2017-18 gas year, we selected the 90% deferral option. Under the Washington PGA mechanism, we defer 100% of the higher or lower actual gas costs, and those gas cost differences are passed on to customers through the annual PGA rate adjustment.

EARNINGS TEST REVIEW. We are subject to an annual earnings review in Oregon to determine if the utility is earning above its authorized ROE threshold. If utility earnings exceed a specific ROE level, then 33% of the amount above that level is required to be deferred or refunded to customers. Under this provision, if we select the 80% deferral gas cost option, then we retain all of our earnings up to 150 basis points above the currently authorized ROE. If we select the 90% deferral option, then we retain all of our earnings up to 100 basis points above the currently authorized ROE. For the 2016-17 and 2017-18 gas years, we selected the 90% deferral option. The ROE threshold is subject to adjustment annually based on movements in long-term interest rates. For calendar year 2017 , the ROE threshold was 10.66% . We filed the 2017 earnings test in May 2018, and it was approved by the Commission in July 2018. As a result, we were not subject to a customer refund adjustment for 2017.

GAS RESERVES. In 2011, the OPUC approved the Encana gas reserves transaction to provide long-term gas price protection for our utility customers and determined our costs under the agreement would be recovered, on an ongoing basis, through our annual PGA mechanism. Gas produced from our interests is sold at then prevailing market prices, and revenues from such sales, net of associated operating and production costs and amortization, are included in our cost of gas. The cost of gas, including a carrying cost for the rate base investment made under the original agreement, is included in our annual Oregon PGA filing, which allows us to recover these costs through customer rates. Our net investment under the original agreement earns a rate of return.

In 2014, we amended the original gas reserves agreement in response to Encana's sale of its interest in the Jonah field located in Wyoming to Jonah Energy. Under our amended agreement with Jonah Energy, we have the option to invest in additional wells on a well-by-well basis with drilling costs and resulting gas volumes shared at our amended proportionate working interest for each well in which we invest. Volumes produced from the additional wells drilled after our amended agreement are included in our Oregon PGA at a fixed rate of $0.4725. We did not have the opportunity to participate in additional wells during the six months ended June 30, 2018 .

DECOUPLING. In Oregon, we have a decoupling mechanism. Decoupling is intended to break the link between utility earnings and the quantity of gas consumed by customers, removing any financial incentive by the utility to discourage customers' efforts to conserve energy. The Oregon decoupling mechanism was reauthorized and the baseline expected usage per customer was set in the 2012 Oregon general rate case. This mechanism employs a use-per-customer decoupling calculation, which adjusts margin revenues to account for the difference between actual and expected customer volumes. The margin adjustment resulting from differences between actual and expected volumes under the decoupling component is recorded to a deferral account, which is included in the annual PGA filing. In Washington, customer use is not covered by such a tariff.

WARM. In Oregon, we have an approved weather normalization mechanism, which is applied to residential and commercial customer bills. This mechanism is designed to help stabilize the collection of fixed costs by adjusting residential and commercial customer billings based on temperature variances from average weather, with rate decreases when the weather is colder than average and rate increases when the weather is warmer than average. The mechanism is applied to bills from December through May of each heating season. The mechanism adjusts the margin component of customers' rates to reflect average weather, which uses the 25-year average temperature for each day of the billing period. Daily average temperatures and 25-year average temperatures are based on a set point temperature of 59 degrees Fahrenheit for residential customers and 58 degrees Fahrenheit for commercial customers. The collections of any unbilled WARM amounts due to tariff caps and floors are deferred and earn a carrying charge until collected in the PGA the following year. This weather normalization mechanism was reauthorized in the 2012 Oregon general rate case without an expiration date. Residential and commercial customers in Oregon are allowed to opt out of the weather normalization mechanism, and as of June 30, 2018 , 8% of total customers had opted out. We do not have a weather normalization mechanism approved for residential and commercial Washington customers, which account for about 11% of total customers. See "Business Segments —*Local Gas Distribution Utility Operations"* below.

INDUSTRIAL TARIFFS. The OPUC and WUTC have approved tariffs covering utility service to our major industrial customers, which are intended to give us certainty in the level of gas supplies we need to acquire to serve this customer group. The approved terms include, among other things, an annual election period, special pricing provisions for out-of-cycle changes, and a requirement that industrial customers complete the term of their service election under our annual PGA tariff.

ENVIRONMENTAL COST DEFERRAL AND SRRM. We have a SRRM through which we track and have the ability to recover past deferred and future prudently incurred environmental remediation costs allocable to Oregon, subject to an earnings test.

Under the SRRM collection process there are three types of deferred environmental remediation expense:

- Pre-review - This class of costs represents remediation spend that has not yet been deemed prudent by the OPUC. Carrying costs on these remediation expenses are recorded at our authorized cost of capital. We anticipate the prudence review for annual costs and approval of the earnings test prescribed by the OPUC to occur by the third quarter of the following year.
- Post-review - This class of costs represents remediation spend that has been deemed prudent and allowed after applying the earnings test, but is not yet included in amortization. We earn a carrying cost on these amounts at a rate equal to the five-year treasury rate plus 100 basis points.
- Amortization - This class of costs represents amounts included in current customer rates for collection and is generally calculated as one-fifth of the post-review deferred balance. We earn a carrying cost equal to the amortization rate determined annually by the OPUC, which approximates a short-term borrowing rate. We included $7.4 million and $10.0 million of deferred remediation expense approved by the OPUC for collection during the 2017-18 and 2016-17 PGA years, respectively.

In addition, the SRRM also provides for the annual collection of $5.0 million from Oregon customers through a tariff rider. As we collect amounts from customers, we recognize these collections as revenue and separately amortize an equal and offsetting amount of our deferred regulatory asset balance through the environmental remediation operating expense line shown separately in the operating expense section of the our Consolidated Statement of Comprehensive Income. For additional information, see Note 15 in our 2017 Form 10-K.

The SRRM earnings test is an annual review of our adjusted utility ROE compared to our authorized utility ROE, which is currently 9.5%. To apply the earnings test first we must determine what if any costs are subject to the test through the following calculation:

Annual spend
Less: $5.0 million base rate rider
Prior year carry-over [1]
$5.0 million insurance + interest on insurance
Total deferred annual spend subject to earnings test
Less: over-earnings adjustment, if any
Add: deferred interest on annual spend [2]
Total amount transferred to post-review

[1] Prior year carry-over results when the prior year amount transferred to post-review is negative. The negative amount is carried over to offset annual spend in the following year.

[2] Deferred interest is added to annual spend to the extent the spend is recoverable.

To the extent the utility earns at or below its authorized Return on Equity (ROE), the total amount transferred to post-review is recoverable through the SRRM. To the extent the utility earns more than its authorized ROE in a year, the amount transferred to post-review would be reduced by those earnings that exceed its authorized ROE.

We have concluded there was no earnings test adjustment for 2017 based on the environmental earnings test that was submitted in May 2018 and approved by the Commission in July 2018.

The WUTC has also previously authorized the deferral of environmental costs, if any, that are appropriately allocated to Washington customers. This Order was effective in January 2011 with cost recovery and carrying charges on the amount deferred for costs associated with services provided to Washington customers to be determined in a future proceeding. Annually, or more often if circumstances warrant, we review all regulatory assets for recoverability. If we should determine all or a portion of these regulatory assets no longer meet the criteria for continued application of regulatory accounting, then we would be required to write-off the net unrecoverable balances against earnings in the period such a determination was made.

PENSION COST DEFERRAL AND PENSION BALANCING ACCOUNT. The OPUC permits us to defer annual pension expenses above the amount set in rates, with recovery of these deferred amounts through the implementation of a balancing account, which includes the expectation of higher and lower pension expenses in future years. Our recovery of these deferred balances includes accrued interest on the account balance at the utility's authorized rate of return. Future years' deferrals will depend on changes in plan assets and projected benefit liabilities based on a number of key assumptions, and our pension contributions. Pension expense deferrals, excluding interest, were $5.5 million and $3.0 million during the six months ended June 30, 2018 and 2017 , respectively.

INTERSTATE STORAGE AND OPTIMIZATION SHARING. On an annual basis, we credit amounts to Oregon and Washington utility customers as part of our regulatory incentive sharing mechanism related to net revenues earned from Mist gas storage and asset management activities. Generally, amounts are credited to Oregon customers in June, while credits are given to customers in Washington through reductions in rates through the annual PGA filing in November.

In 2018, we received regulatory approval to refund an interstate storage credit of $11.7 million to our Oregon utility customers. Of this amount, $10.2 million was reflected in customers' June bills with the remainder to be credited to their bills in the third quarter. The 2017 interstate storage credit was approximately $11.7 million.

Regulatory Proceeding Updates

During 2018 , we were involved in the regulatory activities discussed below. For additional information, see Part II, Item 7 "Results of Operations— *Regulatory Matters"* in our 2017 Form 10-K .

INTERSTATE STORAGE AND OPTIMIZATION SHARING. We received an Order from the OPUC in March 2015 on their review of the current revenue sharing arrangement that allocates a portion of the net revenues generated from non-utility Mist storage services and third-party asset management services to utility customers. The Order required a third-party cost study to be performed. In 2017, a third-party consultant completed a cost study and their final report was filed with the OPUC in February 2018. We will review and address the study as part of our current Oregon general rate case proceeding. For additional information, see " *Oregon General Rate Case* " below.

HOLDING COMPANY APPLICATION. In February 2017, we filed applications with the OPUC, WUTC, and CPUC for approval to reorganize under a holding company structure. In 2017, the OPUC and WUTC approved our applications subject to certain restrictions or "ring-fencing" provisions applicable to NW Natural, the entity that currently, and would continue to, house our utility operations. During the second quarter of 2018, we received approval from the CPUC.

TAX REFORM DEFERRAL. In December 2017, we filed applications with the OPUC and WUTC to defer the overall net benefit associated with the TCJA that was enacted on December 22, 2017 with a January 1, 2018 effective date. We anticipate the impacts from the TCJA will accrue to the benefit of our customers in a manner approved by the Commissions. We are working with the OPUC to determine the treatment of amounts deferred prior to November 1, 2018. In addition, we updated our Oregon general rate case request to reflect the effects of the TCJA on future rates beginning November 1, 2018. For additional information, see " *Oregon General Rate Case* " below. We expect to work with the WUTC regarding the Washington deferral for the TCJA in a future rate case filing and are currently deferring all amounts for Washington customers.

REGULATED WATER UTILITY. In December 2017, we entered into agreements to acquire two privately-owned water utilities: Salmon Valley Water Company, based in Welches, Oregon, and Falls Water Company, based in Idaho Falls, Idaho. In May 2018, we entered into agreements to acquire two privately-owned water utilities: Lehman Enterprises, Inc. and Sea View Water LLC both based on Whidbey Island near Seattle, Washington.

These transactions are subject to certain conditions, including approvals from the OPUC, the Idaho Public Utilities Commission (IPUC) and WUTC, respectively. We received regulatory approval in July 2018 from the IPUC to acquire Falls Water Company and expect this transaction to close in the third quarter of 2018. We have filed our application with the OPUC to acquire Salmon Valley Water Company and anticipate receiving approvals and closing this acquisition in 2018. In July 2018, we filed our application with the WUTC to acquire the Whidbey Island water companies and anticipate closing these transactions in 2019. We do not expect these transactions or their continuing operations to have a material financial impact.

OREGON GENERAL RATE CASE. In December 2017, we filed an Oregon general rate case requesting a $40.4 million or 6% revenue requirement increase, after an adjustment for the conservation tariff deferral, to continue operating and maintaining our distribution system and providing safe, reliable service to our customers. In March 2018, we made supplemental filings in the rate case to incorporate the effect of the TCJA on future rates. As a result, our requested annual revenue requirement increase was $25.7 million, or approximately a 4% increase, after an adjustment for our conservation tariff deferral. The revised revenue requirement was based upon the following assumptions or requests: forward test year from November 1, 2018 through October 31, 2019; capital structure of 50% debt and 50% equity; return on equity of 10.0%; cost of capital of 7.62%; and rate base of $1.215 billion or an increase of $329 million since the last rate case. Also in March 2018, we made a supplemental filing to incorporate the interstate storage and asset management sharing open proceeding in the rate case docket to address matters raised in the cost study completed by a third-party.

In August 2018, NW Natural, OPUC Staff, Oregon Citizen's Utility Board, and the Alliance of Western Energy Customers, which comprise all of the parties to the rate case, filed with the OPUC a joint stipulation addressing all but three issues in the rate case (settlement). The settlement is subject to the review and approval of the OPUC. For new rates to go into effect, the OPUC must issue an order, which may approve or modify the terms of the settlement and address the remaining issues.

The settlement provides for a total of $16 million annual revenue requirement increase over our revenue from existing rates. This revenue requirement increase includes approximately $12 million that would otherwise by recovered under the conservation tariff deferral. The revenue requirement also reflects settlement of treatment of the impact of the TCJA on the recoverable tax expense included in rates for the period after the date the new rates take effect, which is expected to be November 1, 2018. The revenue requirement is based upon the following agreements included in the settlement:

- capital structure of 50% debt and 50% equity;
- return on equity of 9.4%;
- cost of capital of 7.317%; and
- rate base of $1.192 billion, or an increase of $306 million since the last rate case.

The increase to revenue requirement is dependent upon our completion of certain capital projects prior to the rate effective date, and the amounts could be adjusted downward in the event that these projects are not completed. The three issues not addressed in this settlement and that the parties to the rate case expect to continue to litigate or continue to settle under a subsequent agreement are:

- the impact of the TCJA on our accumulated deferred income tax and tax expense during the period prior to the date the new rates take effect, which is expected to be November 1, 2018;
- matters relating to the future operation and timing of rate recovery of amounts reflected in the pension balancing account; and
- the sharing of revenues produced by optimization of certain assets and interstate storage operations.

The OPUC's order regarding the rate case is expected to be issued by the end of October 2018, with new rates expected to be effective November 1, 2018.

Business Segments - Local Gas Distribution Utility Operations

Utility margin results are primarily affected by customer growth, revenues from rate-base additions, and, to a certain extent, by changes in delivered volumes due to weather and customers' gas usage patterns because a significant portion of our utility margin is derived from natural gas sales to residential and commercial customers. In Oregon, we have a conservation tariff (also called the decoupling mechanism), which adjusts utility margin up or down each month through a deferred regulatory accounting adjustment designed to offset changes resulting from increases or decreases in average use by residential and commercial

customers. We also have a weather normalization tariff in Oregon, WARM, which adjusts customer bills up or down to offset changes in utility margin resulting from above- or below-average temperatures during the winter heating season. Both mechanisms are designed to reduce, but not eliminate, the volatility of customer bills and our utility's earnings. For additional information, see Part II, Item 7 "Results of Operations— *Regulatory Matters — Rate Mechanisms"* in our 2017 Form 10-K .

Utility segment highlights include:

Dollars and therms in thousands, except EPS data	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Utility net income (loss)	$ (2,970)	$ 2,137	$ 36,913	$ 42,329	$ (5,107)	$ (5,416)
EPS - utility segment	$ (0.10)	$ 0.07	$ 1.28	$ 1.47	$ (0.17)	$ (0.19)
Gas sold and delivered (in therms)	217,393	234,643	624,346	702,282	(17,250)	(77,936)
Utility margin [1]	$ 69,746	$ 74,479	$ 202,462	$ 216,640	$ (4,733)	$ (14,178)

[1] See Utility Margin Table below for a reconciliation and additional detail.

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The primary factors contributing to the $5.1 million , or $0.17 per share, decrease in utility net income were as follows:

- a $4.7 million decrease in utility margin due to:
  - a $2.8 million decrease due to a regulatory revenue deferral associated with the decline of the U.S. federal corporate income tax rate to 21% in 2018 from 35% in the prior period until customer rates can be reset to reflect the lower tax rate, offset by
  - a $0.7 million increase from customer growth.
  - The majority of the remaining decrease was due to 38% warmer than average weather in 2018 , compared to 14% colder than average weather in the prior period .
- a $2.5 million increase in operations and maintenance expense largely from payroll and benefits due to additional headcount and general salary increases; partially offset by
- a $2.8 million decrease in income tax expense largely due to changes in pre-tax income.

For the three months ended June 30, 2018 , total utility volumes sold and delivered decreased 7% over the same period in 2017 due to 38% warmer than average weather in 2018 compared to 14% colder than average weather in 2017 .

Overall, the TCJA reduced utility net income for the second quarter by $1.6 million as a result of the $2.1 million after-tax revenue deferral ($2.8 million pre-tax) more than offsetting the $0.5 million tax expense benefit.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The primary factors contributing to the $5.4 million , or $0.19 per share, decrease in utility net income were as follows:

- a $14.2 million decrease in utility margin due to:
  - a $9.2 million decrease due to a regulatory revenue deferral associated with the decline of the U.S. federal corporate income tax rate to 21% in 2018 from 35% in the prior period until customer rates can be reset to reflect the lower tax rate, offset by
  - a $2.3 million increase from customer growth.
  - The majority of the remaining decrease was due to 24% colder than average weather in the prior period .
- a $3.7 million increase in operations and maintenance expense largely from payroll and benefits due to additional headcount and general salary increases as well as higher professional service costs; and
- a $2.7 million increase in other expenses and income primarily related to higher depreciation and property taxes; partially offset by
- a $15.1 million decrease in income tax expense due to the decline of the U.S. federal corporate income tax rate to 21% in 2018 compared to 35% in the prior period and changes in pre-tax income.

For the six months ended June 30, 2018 , total utility volumes sold and delivered decreased 11% over the same period in 2017 due to 11% warmer than average weather in 2018 compared to 24% colder than average weather in 2017 .

Overall, the TCJA increased utility net income for the first six months of 2018 by $2.7 million as a result of a $9.5 million tax expense benefit more than offsetting the $6.8 million after-tax revenue deferral ($9.2 million pre-tax). We expect this benefit to more than completely reverse in the third quarter of 2018 with an additional benefit in the fourth quarter of 2018 and little anticipated impact to annual results.

We deferred $2.8 million and $9.2 million of revenue during the three and six months ended June 30, 2018 , respectively, related to the estimated effects of the TCJA. We currently estimate the deferral for 2018 will be $8 to $12 million pre-tax. The deferral methodology, among other matters, is currently being determined through the open Oregon general rate case and the TCJA docket. See "Regulatory Matters - *Tax Reform Deferral* and *Oregon General Rate Case* " above. The revenue deferral is primarily based on the estimated net benefit of the TCJA to customers for the year using forecasted regulated utility earnings, considering average weather and associated volumes. Additionally, during 2018 , we expect the lower tax rate will increase the seasonality of

gas utility earnings as the lower rate improves earnings in the heating season and reduces the tax benefit associated with losses in the non-heating periods.

UTILITY MARGIN TABLE. The following table summarizes the composition of utility gas volumes, revenues, and cost of sales:

In thousands, except degree day and customer data	Three Months Ended June 30,		Six Months Ended June 30,		Favorable/ (Unfavorable)	
	2018	2017	2018	2017	QTR Change	YTD Change
Utility volumes (therms):						
Residential and commercial sales	103,637	113,869	381,656	441,392	(10,232)	(59,736)
Industrial sales and transportation	113,756	120,774	242,690	260,890	(7,018)	(18,200)
Total utility volumes sold and delivered	217,393	234,643	624,346	702,282	(17,250)	(77,936)
Utility operating revenues:						
Residential and commercial sales	$ 106,526	$ 117,296	$ 352,110	$ 397,573	$ (10,770)	$ (45,463)
Industrial sales and transportation	13,403	14,791	30,792	33,694	(1,388)	(2,902)
Other revenues	(1,414)	1,168	(6,454)	2,543	(2,582)	(8,997)
Less: Revenue taxes [1]	—	3,160	—	10,989	3,160	10,989
Total utility operating revenues	118,515	130,095	376,448	422,821	(11,580)	(46,373)
Less: Cost of gas	42,107	53,005	150,271	196,616	10,898	46,345
Less: Environmental remediation expense	1,882	2,611	6,506	9,565	729	3,059
Less: Revenue taxes [1]	4,780	—	17,209	—	(4,780)	(17,209)
Utility margin	$ 69,746	$ 74,479	$ 202,462	$ 216,640	$ (4,733)	$ (14,178)
Utility margin: [2]						
Residential and commercial sales	$ 64,036	$ 65,965	$ 192,490	$ 197,005	$ (1,929)	$ (4,515)
Industrial sales and transportation	7,038	7,565	15,342	16,257	(527)	(915)
Miscellaneous revenues	1,079	1,165	2,437	2,538	(86)	(101)
Gain (loss) from gas cost incentive sharing	128	(113)	1,008	838	241	170
Other margin adjustments [5]	(2,535)	(103)	(8,815)	2	(2,432)	(8,817)
Utility margin	$ 69,746	$ 74,479	$ 202,462	$ 216,640	$ (4,733)	$ (14,178)
Degree days [3]						
Average [4]	311	311	1,627	1,627	—	—
Actual	193	356	1,449	2,023	(46)%	(28)%
Percent colder (warmer) than average weather	(38)%	14%	(11)%	24%		

	As of June 30,			
Customers - end of period:	2018	2017	Change	Growth
Residential customers	673,479	662,376	11,103	1.7%
Commercial customers	68,160	67,580	580	0.9%
Industrial customers	1,028	1,012	16	1.6%
Total number of customers	742,667	730,968	11,699	1.6%

(1) The change in presentation of revenue taxes was a result of the adoption of ASU 2014-09 "Revenue From Contracts with Customers" and all related amendments on January 1, 2018. This change had no impact on utility margin results. For additional information, see Note 2 .

(2) Amounts reported as margin for each category of customers are total operating revenues less cost of gas, environmental remediation expense, and revenue tax expense.

(3) Heating degree days are units of measure reflecting temperature-sensitive consumption of natural gas, calculated by subtracting the average of a day's high and low temperatures from 59 degrees Fahrenheit.

(4) Average weather represents the 25-year average of heating degree days, over the period 1986 - 2010, as determined in our 2012 Oregon general rate case.

(5) Other margin adjustments include the $2.8 million and $9.2 million regulatory revenue deferral for the three and six months ended June 30, 2018 , respectively, associated from the decline of the U.S. federal corporate income tax rate.

Residential and Commercial Sales
Residential and commercial sales highlights include:

In thousands	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Volumes (therms):						
Residential sales	60,914	68,697	238,885	278,347	(7,783)	(39,462)
Commercial sales	42,723	45,172	142,771	163,045	(2,449)	(20,274)
Total volumes	103,637	113,869	381,656	441,392	(10,232)	(59,736)
Operating revenues:						
Residential sales	$ 69,644	$ 76,558	$ 236,231	$ 265,126	$ (6,914)	$ (28,895)
Commercial sales	36,882	40,738	115,879	132,447	(3,856)	(16,568)
Total operating revenues	$ 106,526	$ 117,296	$ 352,110	$ 397,573	$ (10,770)	$ (45,463)
Utility margin:						
Residential:						
Sales	$ 41,607	$ 45,043	$ 132,136	$ 150,370	$ (3,436)	$ (18,234)
Alternative Revenue:						
Weather normalization	1,142	(730)	2,985	(11,780)	1,872	14,765
Decoupling	1,259	921	(1,150)	(1,133)	338	(17)
Amortization of alternative revenue	268	—	1,051	—	268	1,051
Total residential utility margin	44,276	45,234	135,022	137,457	(958)	(2,435)
Commercial:						
Sales	18,766	18,125	57,063	58,231	641	(1,168)
Alternative Revenue:						
Weather normalization	411	(222)	1,004	(4,511)	633	5,515
Decoupling	2,123	2,829	4,717	5,828	(706)	(1,111)
Amortization of alternative revenue	(1,540)	—	(5,316)	—	(1,540)	(5,316)
Total commercial utility margin	19,760	20,732	57,468	59,548	(972)	(2,080)
Total utility margin	$ 64,036	$ 65,966	$ 192,490	$ 197,005	$ (1,930)	$ (4,515)

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The primary factor contributing to the $1.9 million decrease in residential and commercial utility margin is a decline in usage from warmer than average weather in 2018 compared to colder than average weather in the prior period , and the effect on customers that opt out of our weather normalization mechanism in Oregon and customers in Washington that do not have this mechanism. Partially offsetting this decline was higher customer growth.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The primary factor contributing to the $4.5 million decrease in residential and commercial utility margin is a decline in usage from colder than average weather in the prior period , and the effect on customers that opt out of our weather normalization mechanism in Oregon and customers in Washington that do not have this mechanism. Partially offsetting this decline was higher customer growth.

Industrial Sales and Transportation
Industrial sales and transportation highlights include:

In thousands	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Volumes (therms):						
Industrial - firm sales	7,858	7,637	17,866	18,013	221	(147)
Industrial - firm transportation	38,368	38,897	83,744	87,626	(529)	(3,882)
Industrial - interruptible sales	12,375	13,204	27,980	30,181	(829)	(2,201)
Industrial - interruptible transportation	55,155	61,036	113,100	125,070	(5,881)	(11,970)
Total volumes	113,756	120,774	242,690	260,890	(7,018)	(18,200)
Utility margin:						
Industrial - firm and interruptible sales	$ 2,468	$ 2,775	$ 5,705	$ 6,115	$ (307)	$ (410)
Industrial - firm and interruptible transportation	4,570	4,790	9,637	10,142	(220)	(505)
Industrial - sales and transportation	$ 7,038	$ 7,565	$ 15,342	$ 16,257	$ (527)	$ (915)

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Sales and transportation volumes decreased by 7.0 million therms, or 6% , and industrial utility margin decreased slightly by $0.5 million due to lower usage from warmer than average weather in 2018 compared to colder than average weather in 2017.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Sales and transportation volumes decreased by 18.2 million therms, or 7% , and industrial utility margin decreased by $0.9 million due to lower usage from colder than average weather in 2017.

Cost of Gas
Cost of gas highlights include:

Dollars and therms in thousands	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Cost of gas	$ 42,107	$ 53,005	$ 150,271	$ 196,616	$ (10,898)	$ (46,345)
Volumes sold (therms) [1]	123,870	134,710	427,502	489,586	(10,840)	(62,084)
Average cost of gas (cents per therm)	$ 0.34	$ 0.39	$ 0.35	$ 0.40	$ (0.05)	$ (0.05)
Gain (loss) from gas cost incentive sharing [2]	$ 128	$ (113)	$ 1,008	$ 838	$ 241	$ 170

[1] This calculation excludes volumes delivered to industrial transportation customers.
[2] For additional information regarding our gas cost incentive sharing mechanism, see Part II, Item 7 "Results of Operations—Regulatory Matters—Rate Mechanisms—Gas Reserves" in our 2017 Form 10-K.

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Cost of gas decreased $10.9 million , or 21% , primarily due to a 8% decrease in volumes sold reflecting warmer than average weather in 2018 compared to colder than average weather in the prior period and a 13% decrease in average cost of gas due to lower natural gas prices, slightly offset by customer growth.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Cost of gas decreased $46.3 million , or 24% , primarily due to a 13% decrease in volumes sold reflecting colder than average weather in the prior period , and a 13% decrease in average cost of gas due to lower natural gas prices, offset by customer growth.

Other
During the second quarter of 2018, we reevaluated our reportable segments and concluded that the remaining gas storage activities no longer meet the requirements to be reported as a segment. Our ongoing non-utility gas storage activity at Mist is now reported as other, and all prior periods presented reflect this change and the removal of our discontinued operation, Gill Ranch Storage.

Other primarily consists of our non-utility gas storage operations at Mist; asset management services using our utility and non-utility storage and transportation capacity; our appliance retail center operations; NNG Financial's investment in KB Pipeline; an equity investment in TWH, which has invested in the Trail West pipeline project; costs associated with our regulated water strategy and potential holding company activities; and other non-utility investments and business development activities.

Other highlights include:

In thousands, except EPS data	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Other net income	$ 2,631	$ 1,938	$ 4,759	$ 3,143	$ 693	$ 1,616
EPS - other	$ 0.09	$ 0.07	$ 0.17	$ 0.11	$ 0.02	$ 0.06

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Other net income was $2.6 million , or $0.09 per share, compared to net income of $1.9 million , or $0.07 per share, in the prior period. Net income increased $0.7 million primarily due to increased income from our non-utility gas storage operations at Mist, slightly offset by an increase in costs associated with business development activities, including costs associated with regulated water and the holding company formation activities.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Other net income was $4.8 million , or $0.17 per share, compared to net income of $3.1 million , or $0.11 per share, in the prior period. Net income increased $1.6 million primarily due to increased income from our non-utility gas storage operations at Mist, slightly offset by an increase in costs associated with business development activities, including costs associated with regulated water and the holding company formation activities.

See Note 4 and Note 12 for further details on other activities and our investment in TWH, respectively.

Consolidated Operations

Operations and Maintenance
Operations and maintenance highlights include:

In thousands	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Operations and maintenance	$ 38,028	$ 34,997	$ 77,551	$ 72,443	$ 3,031	$ 5,108

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Operations and maintenance expense increased $3.0 million reflecting higher utility payroll and benefits due to additional headcount and general salary increases.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Operations and maintenance expense increased $5.1 million reflecting higher utility payroll and benefits due to additional headcount and general salary increases, as well as higher professional services.

Depreciation and Amortization
Depreciation and amortization highlights include:

In thousands	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Depreciation and amortization	$ 21,147	$ 20,224	$ 42,022	$ 40,177	$ 923	$ 1,845

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Depreciation and amortization expense increased $0.9 million due to utility plant additions that included investments in our natural gas transmission and distribution system, facility upgrades, and enhanced technology.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Depreciation and amortization expense increased $1.8 million due to utility plant additions that included investments in our natural gas transmission and distribution system, facility upgrades, and enhanced technology.

Other Income (Expense), Net
Other income (expense), net highlights include:

In thousands	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	QTR Change	YTD Change
Other income (expense), net	$ 7	$ (340)	$ (827)	$ (763)	$ 347	$ (64)

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Other income (expense), net increased $0.3 million primarily due to a $0.5 million increase in the equity portion of AFUDC, partially offset by a $0.2 million decrease in regulatory interest income, net reflecting higher regulatory liability balances.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Other income (expense), net decreased $0.1 million primarily due to a $0.7 million increase in other net expense activity and a $0.3 million decrease in regulatory interest income, net, largely offset by a $1.0 million increase in the equity portion of AFUDC.

Interest Expense, Net
Interest expense, net highlights include:

	Three Months Ended June 30,		Six Months Ended June 30,			
In thousands	2018	2017	2018	2017	QTR Change	YTD Change
Interest expense, net	$ 8,771	$ 9,473	$ 18,045	$ 19,103	$ (702)	$ (1,058)

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Interest expense, net decreased $0.7 million due to a $0.7 million increase in the debt portion of AFUDC.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Interest expense, net decreased $1.1 million primarily due to a $1.3 million increase in the debt portion of AFUDC, partially offset by a $0.3 million increase in interest expense from higher long-term debt balances as of June 30, 2018 compared to the prior period.

Income Tax Expense
Income tax expense highlights include:

	Three Months Ended June 30,		Six Months Ended June 30,			
In thousands	2018	2017	2018	2017	QTR Change	YTD Change
Income tax expense (benefit)	$ (156)	$ 2,547	$ 15,476	$ 30,178	$ (2,703)	$ (14,702)

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Income tax expense decreased $2.7 million due to changes in pre-tax income and the benefit from the decline of the U.S. federal corporate income tax rate to 21% in 2018 from 35% in the prior period.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . Income tax expense decreased $14.7 million due to the benefit from the decline of the U.S. federal corporate income tax rate to 21% in 2018 from 35% in the prior period, as well as changes in pre-tax income.

Pending sale of Gill Ranch Storage
On June 20, 2018, NWN Gas Storage, our wholly owned subsidiary, entered into a Purchase and Sale Agreement (the Agreement) that provides for the sale by NWN Gas Storage of all of the membership interests in Gill Ranch. Gill Ranch owns a 75% interest in the natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility. Pacific Gas and Electric Company (PG&E) owns the remaining 25% interest in the Gill Ranch Gas Storage Facility. We expect the transaction to close within 12 months of signing and in 2019. The closing of the transaction is subject to approval by the CPUC and other customary closing conditions.

The results of Gill Ranch Storage have been determined to be discontinued operations and are presented separately, net of tax, from the results of continuing operations for all periods presented. See Note 15 for more information on the Agreement and the results of our discontinued operations.

The CPUC regulates Gill Ranch under a market-based rate model which allows for the price of storage services to be set by the marketplace. The CPUC also regulates the issuance of securities, system of accounts, and regulates intrastate storage services. The California Department of Oil Gas and Geothermal Resources (DOGGR) regulations for gas storage wells were finalized in June 2018, and the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) proposed new federal regulations for underground natural gas storage facilities, which are expected to be finalized during 2019 and increase costs for all storage providers. We will continue to monitor and assess the new regulations until the sale is complete, which is expected in 2019.

Short-term liquidity for Gill Ranch is supported by cash balances, internal cash flow from operations, equity contributions from its parent company, and, if necessary, additional external financing.

FINANCIAL CONDITION

Capital Structure
One of our long-term goals is to maintain a strong consolidated capital structure with a long-term target utility capital structure of 50% common stock and 50% long-term debt. When additional capital is required, debt or equity securities are issued depending

on both the target capital structure and market conditions. These sources of capital are also used to fund long-term debt retirements and short-term commercial paper maturities. See " *Liquidity and Capital Resources"* below and Note 7 .
Achieving the target capital structure and maintaining sufficient liquidity to meet operating requirements are necessary to maintain attractive credit ratings and provide access to capital markets at reasonable costs.

Our consolidated capital structure was as follows:

	June 30,		December 31,
	2018	2017	2017
Common stock equity	48.5%	54.6%	47.1%
Long-term debt	43.7	41.5	43.3
Short-term debt, including current maturities of long-term debt	7.8	3.9	9.6
Total	100.0%	100.0%	100.0%

Liquidity and Capital Resources
At June 30, 2018 we had $8.8 million of cash and cash equivalents compared to $20.9 million at June 30, 2017 due to lower cash collections from customers as a result of warmer weather in the first half of 2018 as compared to the first half of 2017. In order to maintain sufficient liquidity during periods when capital markets are volatile, we may elect to maintain higher cash balances and add short-term borrowing capacity. In addition, we may also pre-fund utility capital expenditures when long-term fixed rate environments are attractive. As a regulated entity, our issuance of equity securities and most forms of debt securities are subject to approval by the OPUC and WUTC. Our use of retained earnings is not subject to those same restrictions.

Utility Segment
For the utility segment, the short-term borrowing requirements typically peak during colder winter months when the utility borrows money to cover the lag between natural gas purchases and bill collections from customers. Our short-term liquidity for the utility is primarily provided by cash balances, internal cash flow from operations, proceeds from the sale of commercial paper notes, as well as available cash from multi-year credit facilities, short-term credit facilities, company-owned life insurance policies, the sale of long-term debt, and issuances of equity. Utility long-term debt and equity issuance proceeds are primarily used to finance utility capital expenditures, refinance maturing debt of the utility, and provide temporary funding for other general corporate purposes of the utility.

Based on our current debt ratings, we have been able to issue commercial paper and long-term debt at attractive rates and have not needed to borrow or issue letters of credit from our back-up credit facility. See " *Credit Ratings"* below. In the event we are not able to issue new debt due to adverse market conditions or other reasons, we expect our near-term liquidity needs can be met using internal cash flows or, for the utility segment, drawing upon our committed credit facility. We also have a universal shelf registration statement filed with the SEC for the issuance of secured and unsecured debt or equity securities, subject to market conditions and certain regulatory approvals, and satisfaction of provisions of our mortgage.

In the event our senior unsecured long-term debt ratings are downgraded, or our outstanding derivative position exceeds a certain credit threshold, our counterparties under derivative contracts could require us to post cash, a letter of credit, or other forms of collateral, which could expose us to additional cash requirements and may trigger increases in short-term borrowings while we were in a net loss position. We were not required to post collateral at June 30, 2018 . However, if the credit risk-related contingent features underlying these contracts were triggered on June 30, 2018 , assuming our long-term debt ratings dropped to non-investment grade levels, we could have been required to post $7.0 million in collateral with our counterparties. See " *Credit Ratings* " below and Note 13 .

In October 2017, we entered into a 20-year operating lease agreement for our new headquarters location in Portland, Oregon. Our existing headquarters lease expires in 2020, and payments under the new lease are expected to commence in 2020. Total estimated base rent payments over the life of the lease are approximately $160.0 million . We have the option to extend the term of the lease for two additional seven-year periods. See Note 10 .

Other items that may have a significant impact on our liquidity and capital resources include pension contribution requirements, bonus depreciation, environmental expenditures, gas storage, dividend policy, and off-balance sheet arrangements. For additional information, see Part II, Item 7 "Financial Condition" in our 2017 Form 10-K .

Based on several factors, including our current credit ratings, our commercial paper program, current cash reserves, committed credit facilities, and our expected ability to issue anticipated amounts of long-term debt in the capital markets, we believe our liquidity is sufficient to meet anticipated near-term cash requirements, including all contractual obligations, investing, and financing activities discussed below.

Short-Term Debt
Our primary source of utility short-term liquidity is from the sale of commercial paper and bank loans. In addition to issuing commercial paper or bank loans to meet working capital requirements, including seasonal requirements to finance gas

purchases and accounts receivable, short-term debt may also be used to temporarily fund utility capital requirements. Commercial paper and bank loans are periodically refinanced through the sale of long-term debt or equity securities. When we have outstanding commercial paper, which is sold through two commercial banks under an issuing and paying agency agreement, it is supported by one or more unsecured revolving credit facilities. See " *Credit Agreements* " below.

At June 30, 2018 , our utility had $47.1 million short-term debt outstanding due to the sale of commercial paper, compared to none outstanding at June 30, 2017 . The weighted average interest rate on short-term debt outstanding at June 30, 2018 was 2.3% .

Credit Agreements

We have a $ 300.0 million credit agreement, with a feature that allows us to request increases in the total commitment amount, up to a maximum of $ 450.0 million . The maturity date of the agreement is December 20, 2019.

All lenders under the agreement are major financial institutions with committed balances and investment grade credit ratings as of June 30, 2018 as follows:

In millions

Lender rating, by category		Loan Commitment
AA/Aa	$	201
A/A1		99
Total	$	300

Based on credit market conditions, it is possible one or more lending commitments could be unavailable to us if the lender defaulted due to lack of funds or insolvency; however, we do not believe this risk to be imminent due to the lenders' strong investment-grade credit ratings.

Our credit agreement permits the issuance of letters of credit in an aggregate amount of up to $ 100.0 million . The principal amount of borrowings under the credit agreement is due and payable on the maturity date. There were no outstanding balances under this credit agreement at June 30, 2018 or 2017 . The credit agreement requires us to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. We were in compliance with this covenant at June 30, 2018 and 2017 , with consolidated indebtedness to total capitalization ratios of 51.5% and 45.4% , respectively.

The agreement also requires us to maintain credit ratings with Standard & Poor's (S&P) and Moody's Investors Service, Inc. (Moody's) and notify the lenders of any change in our senior unsecured debt ratings or senior secured debt ratings, as applicable, by such rating agencies. A change in our debt ratings by S&P or Moody's is not an event of default, nor is the maintenance of a specific minimum level of debt rating a condition of drawing upon the credit agreement. Rather, interest rates on any loans outstanding under the credit agreements are tied to debt ratings and therefore, a change in the debt rating would increase or decrease the cost of any loans under the credit agreements when ratings are changed. See " *Credit Ratings"* below.

Credit Ratings

Our credit ratings are a factor of our liquidity, potentially affecting our access to the capital markets including the commercial paper market. Our credit ratings also have an impact on the cost of funds and the need to post collateral under derivative contracts. The following table summarizes our current debt ratings:

	S&P	Moody's
Commercial paper (short-term debt)	A-1	P-2
Senior secured (long-term debt)	AA-	A1
Senior unsecured (long-term debt)	n/a	A3
Corporate credit rating	A+	n/a
Ratings outlook	Stable	Negative

In January 2018, Moody's revised our ratings outlook from "stable" to "negative". This revision was a result of their view of the potential negative impact that the TCJA could have on our regulated utility cash flow metrics. We expect the elimination of bonus depreciation on regulated utilities will increase cash taxes in the near term. However, we expect to see a net increase in cash flows as a result of the TCJA over the longer term as taxes are a pass through to customers and lower deferred tax liabilities are expected to increase regulatory returns.

The above credit ratings are dependent upon a number of factors, both qualitative and quantitative, and are subject to change at any time. The disclosure of or reference to these credit ratings is not a recommendation to buy, sell or hold NW Natural securities. Each rating should be evaluated independently of any other rating.

Long-Term Debt

In March 2018 , we retired $22.0 million of FMBs with a coupon rate of 6.60% . No other debt was retired or issued in the six months ended June 30, 2018 . Over the next twelve months, $75.0 million of FMBs with a coupon rate of 1.545% will mature in December 2018 .

See Part II, Item 7, "Financial Condition— *Contractual Obligations* " in our 2017 Form 10-K for long-term debt maturing over the next five years.

Cash Flows

Operating Activities

Changes in our operating cash flows are primarily affected by net income or loss, changes in working capital requirements, and other cash and non-cash adjustments to operating results.

Operating activity highlights include:

	Six Months Ended June 30,		
In thousands	2018	2017	YTD Change
Cash provided by operating activities	$ 162,652	$ 194,231	$ (31,579)

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The significant factors contributing to the $31.6 million decrease in cash flows provided by operating activities were as follows:

- a net decrease of $2.4 million from changes in working capital related to receivables, inventories, and accounts payable reflecting warmer than average weather in 2018 compared to the prior period;
- a decrease of $10.5 million in cash flow benefits from changes in deferred gas cost balances due to a decrease in natural gas prices compared to the prior year; and
- an increase of $4.3 million of cash outflow due to $13.3 million of income taxes paid in 2018 compared to $9.1 million in the prior period;

During the six months ended June 30, 2018 , we contributed $5.6 million to our utility's qualified defined benefit pension plan, compared to $7.3 million for the same period in 2017 . The amount and timing of future contributions will depend on market interest rates and investment returns on the plans' assets. For additional information, see Note 8 .

Bonus depreciation of 50% was available for federal and Oregon purposes for most of 2017, which reduced taxable income and provided cash flow benefits. As a result of the TCJA, bonus depreciation was eliminated for property acquired after September 27, 2017. Accordingly, we do not anticipate similar cash flow benefits related to bonus depreciation in the future.

We have lease and purchase commitments relating to our operating activities that are financed with cash flows from operations. For additional information, see Part II, Item 7 "Financial Condition— *Contractual Obligations"* and Note 14 in our 2017 Form 10-K .

Investing Activities

Investing activity highlights include:

	Six Months Ended June 30,		
In thousands	2018	2017	YTD Change
Total cash used in investing activities	$ (102,458)	$ (94,722)	$ (7,736)
Capital expenditures supporting continuing operations	(102,370)	(94,333)	(8,037)

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The $7.7 million increase in cash used in investing activities was primarily due to higher capital expenditures primarily related to system reinforcement and customer growth, as well as our North Mist Gas Storage Expansion Project.

Over the five-year period 2018 through 2022 , capital expenditures are estimated to be between $750 and $850 million . The estimated capital expenditures in this range include, but are not limited to, the following items:

- $650 to $700 million of core utility capital expenditures that will support continued customer growth, distribution system maintenance and improvements, technology investments, and utility gas storage facility maintenance;
- $60 to $70 million related to planned upgrades and refurbishments to utility storage facilities and resource centers; and
- $20 to $30 million of additional investments to complete the North Mist gas storage facility expansion in 2018.

Most of the required funds for these investments are expected to be internally generated over the five-year period, with short-term and long-term debt, and equity providing liquidity.

Our 2018 utility capital expenditures are estimated to be between $190 and $220 million . This range includes $20 to $30 million to complete construction of our North Mist gas storage facility expansion. We expect to invest less than $5 million in non-utility capital investments for gas storage and other activities in 2018 . Additional spend for gas storage and other investments during or after 2018 are expected to be paid from working capital and additional equity contributions from NW Natural as needed.

Financing Activities
Financing activity highlights include:

	Six Months Ended June 30,		
In thousands	2018	2017	YTD Change
Total cash used in financing activities	$ (54,911)	$ (82,176)	$ 27,265
Change in short-term debt	(7,100)	(53,300)	46,200
Change in long-term debt	(22,000)	—	(22,000)

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO JUNE 30, 2017 . The $27.3 million decrease in cash used in financing activities was primarily due to lower repayments of $46.2 million of short-term debt compared to the prior period, partially offset by a $22.0 million repayment of long-term debt in March 2018.

Ratios of Earnings to Fixed Charges
For the six months ended June 30, 2018 and twelve months ended June 30, 2018 and December 31, 2017 our ratios of earnings to fixed charges were 3.38 , 2.95 and 3.44 , respectively. For purposes of this calculation, earnings consist of net income from continuing operations before income taxes plus fixed charges, whereby fixed charges consist of interest on all indebtedness, the amortization of debt expense and discount or premium, and the estimated interest portion of rentals charged to income. See Exhibit 12 for the detailed ratio calculation.

Contingent Liabilities
Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable in accordance with accounting standards for contingencies. See " *Application of Critical Accounting Policies and Estimates* " in our 2017 Form 10-K. At June 30, 2018 , our total estimated liability related to environmental sites is $120.1 million . See "Results of Operations—Regulatory Matters—Rate Mechanisms— *Environmental Costs* " in our 2017 Form 10-K and Note 14 .

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements in accordance with GAAP, management exercises judgment in the selection and application of accounting principles, including making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures in the financial statements. Management considers our critical accounting policies to be those which are most important to the representation of our financial condition and results of operations and which require management's most difficult and subjective or complex judgments, including accounting estimates that could result in materially different amounts if we reported under different conditions or used different assumptions. Our most critical estimates and judgments include accounting for:

- regulatory accounting;
- revenue recognition;
- derivative instruments and hedging activities;
- pensions and postretirement benefits;
- income taxes;
- environmental contingencies; and
- impairment of long-lived assets.

There have been no material changes to the information provided in our 2017 Form 10-K with respect to the application of critical accounting policies and estimates other than those incorporated in Note 5 and Note 15 relating to revenue and discontinued operations, respectively. See Part II, Item 7, " *Application of Critical Accounting Policies and Estimates,* " in the 2017 Form 10-K.

Management has discussed its current estimates and judgments used in the application of critical accounting policies with the Audit Committee of the Board. Within the context of our critical accounting policies and estimates, management is not aware of any reasonably likely events or circumstances that would result in materially different amounts being reported. For a description of recent accounting pronouncements that could have an impact on our financial condition, results of operations or cash flows, see Note 2 .

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various forms of market risk including commodity supply risk, commodity price risk, interest rate risk, foreign currency risk, credit risk, and weather risk. We monitor and manage these financial exposures as an integral part of our overall risk management program. No material changes have occurred related to our disclosures about market risk for the six months ended June 30, 2018 . For additional information, see Part II, Item 1A, " *Risk Factors* " in this report and Part II, Item 7A, " *Quantitative and Qualitative Disclosures about Market Risk* " in the 2017 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us and included in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (SEC) rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The statements contained in Exhibit 31.1 and Exhibit 31.2 should be considered in light of, and read together with, the information set forth in this Item 4(b).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than the proceedings disclosed in Note 14 and those proceedings disclosed and incorporated by reference in Part I, Item 3, " *Legal Proceedings* " in our 2017 Form 10-K, we have only routine nonmaterial litigation that occurs in the ordinary course of our business.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors discussed in Part I, Item 1A, " *Risk Factors* " in our 2017 Form 10-K. In addition to the other information set forth in this report, you should carefully consider those risk factors, which could materially affect our business, financial condition, or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases of our equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended June 30, 2018 :

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
Balance forward			2,124,528	$ 16,732,648
04/01/18-04-30/18	—	$ —	—	—
05/01/18-05/31/18	7,342	59.76	—	—
06/01/18-06/30/18	—	—	—	—
Total	7,342	59.76	2,124,528	$ 16,732,648

[1] During the quarter ended June 30, 2018 , no shares of our common stock were purchased on the open market to meet the requirements of our Dividend Reinvestment and Direct Stock Purchase Plan. However, 7,342 shares of our common stock were purchased on the open market to meet the requirements of our share-based programs. During the quarter ended June 30, 2018 , no shares of our common stock were accepted as payment for stock option exercises pursuant to our Restated Stock Option Plan.

[2] During the quarter ended June 30, 2018 , no shares of our common stock were repurchased pursuant to our Board-Approved share repurchase program. In May 2018, we received Board Approval to extend the repurchase program through May 2019. For more information on this program, refer to Note 5 in our 2017 Form 10-K.

ITEM 6. EXHIBITS

See Exhibit Index below, which is incorporated by reference herein.

NORTHWEST NATURAL GAS COMPANY

Exhibit Index to Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2018

Exhibit Index

Exhibit Number	Document
10	Purchase and Sale Agreement dated June 20, 2018, between NW Natural Gas Storage LLC and SENSA Holdings LLC.
12	Statement re computation of ratios of earnings to fixed charges.
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.	The following materials from Northwest Natural Gas Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income; (ii) Consolidated Balance Sheets; (iii) Consolidated Statements of Cash Flows; and (iv) Related notes.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHWEST NATURAL GAS COMPANY

(Registrant)

Dated: August 7, 2018

/s/ Brody J. Wilson

Brody J. Wilson

Principal Accounting Officer
Vice President, Treasurer, Chief Accounting Officer and Controller

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PURCHASE AND SALE AGREEMENT

between

NW NATURAL GAS STORAGE, LLC, as Seller,

and

SENSA HOLDINGS LLC, as Buyer

Dated as of June 20, 2018

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PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement, dated as of June 20, 2018 (this " **Agreement** "), is made between NW Natural Gas Storage, LLC, an Oregon limited liability company (the " **Seller** "), and SENSA Holdings LLC, a Delaware limited liability company (the " **Buyer** ").

Recitals:

A. Seller owns all of the outstanding limited liability company interests in Gill Ranch Storage, LLC, an Oregon limited liability company (the " **Company** ");

B. The Company is engaged in the business of storage of natural gas and activities relating thereto in the State of California through its ownership of 75% of the Facility (the " **Business** "); and

C. Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, on the terms and subject to the conditions of this Agreement, all of the limited liability company interests in the Company that are outstanding at the time of the Closing (the " **LLC Interests** ").

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 **Certain Definitions.** As used in this Agreement, the following terms will have the respective meanings set forth below:

" **Action** " means any claim, audit, examination, demand, action, litigation, suit, arbitration, appeal, petition, plea, charge, complaint, mediation, hearing, inquiry, or similar proceeding, investigation, or other legal or administrative proceeding.

" **Adjustment Amount** " has the meaning specified in **Section 2.2(b)(iv)** .

" **Adjustment Statement** " has the meaning specified in **Section 2.2(b)(i)** .

" **Affiliate** " of a Person means any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, the first mentioned Person.

" **Agreement** " has the meaning specified in the Preamble.

" **Allocable Tax** " has the meaning specified in **Section 10.2(b)** .

" **Annual Financial Statements** " has the meaning specified in **Section 4.2(a)** .

“ **Approved Courts** ” has the meaning specified in **Section 11.7** .

“ **Books and Records** ” has the meaning specified in **Section 6.5(a)** .

“ **Business** ” has the meaning specified in the Recitals.

“ **Business Day** ” means any day other than a Saturday, a Sunday or a day banks in the States of New York and California are authorized or required to be closed.

“ **Buyer** ” has the meaning specified in the Preamble.

“ **Buyer Direct Claim** ” has the meaning specified in **Section 9.2(g)** .

“ **Buyer Indemnified Parties** ” has the meaning specified in **Section 9.2(a)** .

“ **Calculation** ” has the meaning set forth in **Section 2.1(c)(iii)** .

“ **Calculation Periods** ” means (a) that portion of the Initial Gas Storage Year commencing on the Closing Date, and (b) each of the following three (3) Gas Storage Years, respectively, thereafter.

“ **Calculation Statement** ” has the meaning set forth in **Section 2.1(c)(iii)** .

“ **California Act** ” means Section 854 of the California Public Utilities Code.

“ **CapEx Allowance** ” means, with respect to any Calculation Period, $3,000,000; *provided* , *however* , that (i) for the Initial Gas Storage Year the CapEx Allowance shall equal such amount multiplied by a fraction, the numerator of which is the number of days from and including the Closing Date to and including the last day of the Initial Gas Storage Year and the denominator of which is 365, and (ii) if, in any Calculation Period, the Company incurs capital expenditures (A) to repair, maintain or replace any assets, properties or facilities as Buyer reasonably believes prudent for compliance in that Calculation Period with California Senate Bill 887 and the California Department of Conservation’s Division of Oil, Gas and Geothermal Resources’ implementing regulations, California Air Resources Board’s regulations or other applicable Law, in each case as promulgated or enacted after the date of this Agreement or (B) as Buyer reasonably believes prudent to respond to any catastrophe or other emergency situation in that Calculation Period and restore safe operations of the Business (but not resulting from the gross negligence or willful misconduct of Buyer, the Company, or their respective Affiliates, or any of their respective Representatives), including to prevent, mitigate or remedy the endangerment or the health or safety of any person(s) or of the environment, the CapEx Allowance for that Calculation Period shall be increased by an amount equal to such incurred capital expenditures (excluding any amounts for which the Company has been reimbursed under the Joint Project Agreement, the Operator Agreement, insurance, or otherwise by a third party).

“ **CapEx Budget** ” means the amount of capital expenditures planned as of the date hereof to be made by the Company, as set forth on **Schedule 1.1(c)(i)** for the periods set forth therein.

“ **CERCLA** ” has the meaning specified in **Section 4.10(a)** .

“ **Closing** ” has the meaning specified in **Section 2.3** .

“ **Closing Date** ” has the meaning specified in **Section 2.3** .

“ **Closing Date Purchase Price** ” has the meaning specified in **Section 2.1(a)** .

“ **Closing Net Working Capital** ” has the meaning specified in **Section 2.2(b)(i)** .

“ **Code** ” means the Internal Revenue Code of 1986, as amended.

“ **Company** ” has the meaning specified in the Recitals.

“ **Condemnation Value** ” has the meaning specified in **Section 6.12(a)** .

“ **Confidentiality Agreement** ” has the meaning specified in **Section 6.2** .

“ **Contract** ” means any legally binding oral or written agreement, commitment, lease, guaranty, license or contract.

“ **Control** ” and its derivative expressions means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“ **CPUC** ” means the California Public Utilities Commission.

“ **CPUC Order** ” has the meaning specified in **Section 7.1(a)(ii)** .

“ **Current Assets** ” as of a specified date means the current assets of the Company as reflected on a balance sheet of the Company as of that date as determined under GAAP and, subject to the following exclusions, applied in a manner consistent with preparation of the Financial Statements, but excluding, however, (a) cash and cash equivalents and (b) intercompany accounts between the Company, on the one hand, and Seller or its Affiliates, on the other.

“ **Current Liabilities** ” as of a specified date means the current liabilities of the Company (excluding intercompany accounts between the Company, on the one hand, and Seller, on the other) reflected on a balance sheet of the Company as of that date as determined under GAAP, subject to the foregoing exclusions, applied in a manner consistent with preparation of the Financial Statements.

“ **Current Representation** ” has the meaning specified in **Section 11.17(a)** .

“ **Cushion Gas** ” means, with respect to the Company’s share of the Facility, the volume of natural gas in the storage reservoirs of the Facility that is needed as inventory to maintain long-term operational integrity, including the ability to maintain on a long-term basis the Parameters,

but excluding the volume of natural gas in the storage reservoirs immediately prior to any injection of gas into the reservoirs for purposes of converting the reservoirs to underground gas storage use.

" **Damages** " has the meaning specified in **Section 9.2(a)** .

" **Data Site** " means the electronic data site as of the date of this Agreement (and as updated to reflect any Schedule Updates permitted by **Section 6.8**) provided by Seller via IntraLinks and made available to Buyer in connection with the transactions contemplated by this Agreement, provided that no materials posted by Seller to the electronic data site during the 24-hour period prior to the execution of this Agreement shall be deemed included in the Data Site as of the date of this Agreement unless Seller has given Buyer written notice of such posting prior to the execution of this Agreement.

" **De Minimis Losses** " has the meaning specified in **Section 9.2(b)(ii)** .

" **Deductible** " has the meaning specified in **Section 9.2(b)(ii)** .

" **Deposit** " has the meaning specified in **Section 2.1(a)** .

" **Designated Person** " has the meaning specified in **Section 11.17(a)** .

" **Disclosed Contracts** " has the meaning specified in **Section 4.5(a)** .

" **Disclosure Schedules** " means the schedules attached hereto **.**

" **Earnout Payment** " has the meaning set forth in **Section 2.1(c)(i)** .

" **Earnout Period** " means the period beginning on the Closing Date and concluding on the end of the third Gas Storage Year following the Initial Gas Storage Year.

" **EBITDA** " means, with respect to any Calculation Period, earnings before interest, taxes, depreciation, and amortization, as calculated in accordance with GAAP, in a manner consistent with the unaudited financial statements of the Company as of, and for the year ended, December 31, 2017, and the methodology set forth in **Schedule 1.1(a)** ; *provided* , *however* , that (i) to the extent that storage services using the Company's current share of the Facility are made available on a non-competitive storage service basis during any Calculation Period, the revenues for such non-competitive storage services used in the calculation of EBITDA for that Calculation Period shall equal $2.00/dekatherm multiplied by the maximum storage capacity made available for such non-competitive storage services within that Calculation Period, and (ii) any revenues generated from the sale of Cushion Gas by the Company and any costs incurred in replacing such Cushion Gas (other than revenues and costs associated with gas stored under Park and Loan Contracts and used as Cushion Gas) shall not be included for purposes of calculating EBITDA.

" **EBITDA Threshold** " means, with respect to any Calculation Period, $5,000,000; *provided* , *however* , that for the Initial Gas Storage Year the EBITDA Threshold shall equal such amount multiplied by a fraction, the numerator of which is the number of days from and including

the Closing Date to and including the last day of the Initial Gas Storage Year and the denominator of which is 365.

" **Employee Benefit Plan** " means any employment, compensation, vacation, bonus, qualified or nonqualified deferred compensation, incentive compensation, stock purchase, stock option, stock appreciation right or other stock-based incentive, severance, change-in-control, or termination pay, hospitalization or other medical, disability, life or other insurance, supplemental unemployment benefits, profit-sharing, pension, retirement or fringe benefit plan, practice, program, agreement, arrangement, or employee benefit plan or remuneration within the meaning of Section 3(3) of ERISA and any related or separate contracts, plans, trusts, programs, policies and arrangements (whether or not within the meaning of Section 3(3) or ERISA) that (a) is contributed to or maintained or sponsored by the Company or to which the Company has or may have any liability with respect to any Company employee or any Site Employee or (b) provides benefits of economic value to any Company employee or any Site Employee.

" **Environmental Laws** " has the meaning specified in **Section 4.10(a)** .

" **ERISA** " means the Employee Retirement Income Security Act of 1974, as amended.

" **ERISA Affiliate** " means any Person that, together with the Company, is or was at any time treated as a single employer under Section 414 of the Code or Section 4001 of ERISA.

" **Escrow Agent** " means U.S. Bank, N.A.

" **Escrow Agreement** " means the Escrow Agreement entered into between Buyer and Seller substantially in the form attached as **Exhibit A** .

" **Escrow Amount** " means ten (10) percent of the Closing Date Purchase Price.

" **Estimated Net Working Capital** " has the meaning specified in **Section 2.2(a)(i)** .

" **Event of Loss** " has the meaning specified in **Section 6.12** .

" **Exchange Act** " means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

" **Existing Title Opinions** " means the title opinions related to the Real Property Interests, as listed and described on **Schedule 4.4(d)** , including all supplements to such opinions.

" **Facility** " shall mean the facility known as the Gill Ranch Gas Storage Project, located off California Highway 180 between Fresno, California and Mendota, California and including a storage field, a lateral pipeline connecting the Facility to the PG&E natural gas transmission system, compression and other associated facilities.

" **Final Adjustment Statement** " has the meaning specified in **Section 2.2(b)(iii)** .

" **Final Net Working Capital** " has the meaning specified in **Section 2.2(b)(iii)** .

“ **Final Closing Date Purchase Price** ” has the meaning specified in **Section 2.1(a)** .

“ **Financial Statements** ” has the meaning specified in **Section 4.2(a)** .

“ **Firm Storage Contract** ” means an agreement pursuant to which the Company provides firm gas storage services pursuant to its tariff on file with the CPUC.

“ **GAAP** ” means United States generally accepted accounting principles as of the date hereof applied on a consistent basis during the periods involved.

“ **Gas Storage Year** ” means the period commencing on April 1st of one year and ending on March 31 of the immediately following year.

“ **Governmental Approval** ” means any consent, approval, authorization or order of any Governmental Entity.

“ **Governmental Entity** ” means any federal, state, local, domestic or foreign government or any court of competent jurisdiction, regulatory or administrative agency or commission or other governmental entity or instrumentality, whether federal, state, local, domestic or foreign.

“ **GRS Policies** ” has the meaning specified in **Section 4.11** .

“ **HSR** ” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

“ **Hazardous Substances** ” has the meaning specified in **Section 4.10(b)** .

“ **Indebtedness** ” means, with respect to any Person, all (i) indebtedness for money borrowed from any Person, purchase money obligations, capitalized lease obligations, and reimbursement obligations for letters of credit or similar instruments that have been drawn, in each case of such Person (*provided* that the foregoing shall not include trade accounts payable and other accrued current liabilities, in each case, arising in the ordinary course), (ii) indebtedness of the type described in clause (i) above guaranteed, directly or indirectly, in any manner by such Person or for which such Person may be liable, (iii) interest expense accrued but unpaid on or relating to any of such indebtedness, (iv) prepayment penalties, premiums, late charges, penalties and collection fees relating to any of such indebtedness, (v) obligations for the deferred purchase price of property or services, conditional sale obligations and obligations under any title retention agreement (including “earn-outs” and similar arrangements but excluding trade payables incurred in the ordinary course of business), and (vi) obligations with respect to interest-rate hedging, swaps or similar financial arrangements (valued at the termination value thereof and net of all payments owed to such entity or its Affiliates thereunder). For the avoidance of doubt, obligations under Park and Loan Contracts shall not constitute Indebtedness.

“ **Initial Gas Storage Year** ” means the Gas Storage Year commencing the April 1 immediately preceding the Closing Date.

“ **Initial Purchase Price** ” has the meaning specified in **Section 2.1(a)** .

“ **Interest Rate** ” means the Prime Rate.

“ **Interim Financial Statements** ” has the meaning specified in **Section 4.2(a)** .

“ **Interruptible Contract** ” means an agreement pursuant to which the Company provides interruptible gas storage services pursuant to its tariff on file with the CPUC.

“ **Joint Project Agreement** ” means the Joint Project Agreement dated January 31, 2008 (as amended) between the Company and PG&E.

“ **Knowledge** ” means the actual and current knowledge of (a) as to Seller, Dave Weber, Lea Anne Doolittle, MardiLyn Saathoff, Justin Palfreyman, Brody Wilson, Frank Burkhartsmeyer and (b) as to Buyer, John F. Thrash, Steve Clifton, Mark Stauss and Gary Pfrehm, in each case without any personal or individual liability therefor in any circumstance.

“ **Law** ” means any statute, law, ordinance, rule, regulation, order, or other pronouncement having the effect of law of any Governmental Entity.

“ **License Agreement** ” means a royalty-free license in the form attached as **Exhibit B** concerning Northwest Natural Gas Company’s U.S. Patent No. 9,803,803, issued October 31, 2017, entitled “System for Compressed Gas Energy Storage.”

“ **Lien** ” means any liens, charges, pledges, options (other than under the Joint Project Agreement), rights of first refusal (subject to **Section 7.1(b)** , other than the ROFR), revisionary rights, mortgages, deeds of trust, security interests, restrictions regarding the LLC Interests (whether on voting, sale, transfer, disposition or otherwise), leases, easements, encroachments, hypothecations and other encumbrances or limitations of every type and description (including limitations on fee simple title to any interest in real property) whether imposed by law, agreement, understanding or otherwise.

“ **LLC Interests** ” has the meaning specified in the Recitals.

“ **Major Loss** ” has the meaning specified in **Section 6.12(b)** .

“ **Material Adverse Effect** ” means, with respect to a Person, any circumstance, change, event or effect that, individually or in the aggregate, is materially adverse to the business, operations, assets, liabilities, results of operations or financial condition of such Person, taken as a whole, or that prevents or materially impairs the ability of such Person to consummate the transactions contemplated by this Agreement, but shall exclude any circumstance, change, event or effect to the extent resulting or arising from (a) any change in United States or global economic or financial conditions or capital, banking, credit or financial markets generally, (b) any change in conditions in the United States or California natural gas storage business generally, including any changes in market prices for commodities, goods or services within such business, (c) any change in Law or GAAP or in the authoritative interpretations thereof or in regulatory guidance related thereto, (d) any effect caused by or resulting from the announcement or pendency of the transactions contemplated by this Agreement or the performance of obligations required or permitted by this Agreement or

consented to in writing by Buyer, in each case after taking into account all effective insurance coverages, third-party indemnifications and Tax benefits with respect to such effect, (e) any national or international event or occurrence, including changes in regulatory, social or political conditions, acts of war, sabotage or terrorism and (f) earthquakes, hurricanes, tornadoes or other natural disasters; *provided* , *however* that any change, event, circumstance, development or occurrence described in clauses (a) and (e) of this definition will be taken into account in determining whether a Material Adverse Effect has occurred to the extent it has a disproportionate effect on such Person compared to other participants in the industries in which such Person operates its business.

" **Material Request** " has the meaning set forth in **Section 6.3(b)** .

" **Net Working Capital** " as of a specified date means Current Assets less Current Liabilities, as reflected on a balance sheet of the Company prepared as of such date (expressed as a negative value if Current Liabilities exceed Current Assets), and as determined in accordance with the accounting policies, practices, procedures, methods, categorizations and techniques as were used in the preparation of **Schedule 1.1** (a sample calculation of Net Working Capital as of December 31, 2017).

" **Neutral Auditor** " means PricewaterhouseCoopers LLP or, if that firm declines to act as provided in **Section 2.1(c)(iii)** , **Section 2.2(b)(iii)** or **Section 10.2(c)** , another independent firm of public accountants, mutually acceptable to Buyer and Seller.

" **OBA** " means the Operating and Balancing Agreement with PG&E dated February 2, 2009.

" **Objection Notice** " has the meaning set forth in **Section 2.1(c)(iii)** .

" **Operator Agreement** " means the Operator Agreement by and among the Company and PG&E, as owners, and the Company, as operator, dated January 31, 2008 (as amended).

" **OpEx Budget** " means the amount of expenditures planned as of the date hereof to be made by the Company, as set forth on **Schedule 1.1(c)(ii)** for the periods set forth therein.

" **Order** " means any judgment, decision, decree, order, settlement, injunction, writ, stipulation, determination or award issued or entered into by a Governmental Entity, in each case to the extent binding and finally determined.

" **Organizational Documents** " means any charter, certificate of incorporation, articles of association, partnership agreement, limited liability company agreement, bylaws, operating agreement or similar formation or governing documents and instruments.

" **Owned Cushion Gas** " has the meaning set forth in **Section 4.14(b)** .

" **PG&E** " means Pacific Gas and Electric Company, a California corporation.

" **Parameters** " means, with respect to the Facility, the Facility has a working gas capacity of 20 billion cubic feet, is capable of a maximum withdrawal rate of 650 thousand cubic feet per day, and is capable of a maximum injection rate of 320 thousand cubic feet per day, in each case

under normal operating conditions, including (i) adequate capacity and pressures on the pipeline system to which the Facility is interconnected, (ii) no planned or unplanned outages or curtailments on the pipeline system to which the Facility is interconnected, and (iii) no planned or unplanned outages at the Facility.

" **Park and Loan Contract** " means an agreement pursuant to which the Company provides interruptible park or loan gas storage services pursuant to its tariff on file with the CPUC.

" **Permit** " means any license, franchise, registration, permit or authorization of or from any Governmental Entity other than any lease, easement or right-of-way.

" **Permitted Liens** " has the meaning specified in **Section 4.4(b)** .

" **Person** " means an individual, corporation, partnership, limited liability company, association, trust, incorporated organization, other entity or group (as defined in Section 13(d)(3) of the Exchange Act).

" **Post-Closing Representation** " has the meaning specified in **Section 11.17(a)** .

" **Pre-Closing Period** " has the meaning specified in **Section 10.1(a)** .

" **Prime Rate** " means the annual rate of interest published from time to time as the " **Prime Rate** " in the " **Money Rates** " Section of The Wall Street Journal.

" **Proposal** " has the meaning specified in **Section 6.13** .

" **Property Use Agreements** " has the meaning specified in **Section 4.4(a)** .

" **Qualified Benefit Plan** " has the meaning specified in **Section 4.9(b)** .

" **Real Property Interests** " has the meaning specified in **Section 4.4(a)** .

" **Re-Calculation** " has the meaning set forth in **Section 2.1(c)(iii)** .

" **Representatives** " means, with respect to a Person, such Person's officers, directors, employees, managers, members, partners, shareholders, owners, counsel, accountants, financial advisors, sources of financing (including counsel for such sources) and consultants.

" **Resolution Period** " has the meaning specified in **Section 2.2(b)(iii)** .

" **Restoration Costs** " has the meaning specified in **Section 6.12(a)** .

" **Restricted Information** " has the meaning specified in **Section 6.2(b)** .

" **Review Period** " has the meaning set forth in **Section 2.1(c)(iii)** .

" **ROFR** " means the rights of PG&E set forth in Section 10.4 of the Joint Project Agreement.

“ **Schedule Update** ” has the meaning specified in **Section 6.8(a)** .

“ **Securities Act** ” has the meaning specified in **Section 5.7** .

“ **Seller** ” has the meaning specified in the Preamble.

“ **Seller Direct Claim** ” has the meaning specified in **Section 9.3(g)** .

“ **Seller Indemnified Parties** ” has the meaning specified in **Section 9.3(a)** .

“ **Seller Policies** ” means all of the policies of insurance carried by Seller or its Affiliates (excluding the Company) that insure the Company or the operation of its Business on or before the Closing Date.

“ **Site Employees** ” mean the employees listed on **Schedule 4.22(b)** .

“ **Straddle Period** ” has the meaning specified in **Section 10.1(a)** .

“ **Subsidiary** ” or “ **Subsidiaries** ” of any Person means any corporation, limited liability company, partnership, joint venture or other legal entity of which such Person (either alone or through or together with any other Subsidiary), owns, directly or indirectly, 50% or more of the stock or other equity or membership interests the holder of which is generally entitled to vote for the election of the board of directors, managers or other governing body of such entity or, directly or indirectly through one or more Subsidiaries, serves as the general partner or manager of such entity.

“ **Support Obligation** ” means the contracts or agreements set forth on **Schedule 6.9(b)** under which Seller or Buyer, as applicable, or any of their respective Affiliates (other than the Company) has agreed to act as guarantor or surety with respect to any obligation of the Company, whether by guaranty, suretyship contract, letter of credit, indemnity agreement, performance bond or otherwise.

“ **Survival Period** ” has the meaning specified in **Section 9.1(a)** .

“ **Taking** ” has the meaning specified in **Section 6.12** .

“ **Tax Claim** ” has the meaning specified in **Section 10.3(a)** .

“ **Tax** ” or “ **Taxes** ” means (a) any and all federal, state, local and foreign taxes, charges, fees, imposts, levies or other assessments, including income, franchise, gross receipts, sales, use, property, real estate, and any other similar taxes, and estimated taxes, customs duties, fees, assessments and charges of any kind whatsoever and (b) any interest, penalties, fines, additions to tax or additional amounts imposed by any Taxing Authority in connection with any item described in clause (a).

“ **Taxing Authority** ” means any Governmental Entity responsible for the imposition, collection or administration of any Tax.

“ **Tax Return** ” means any return, declaration, report, disclosure, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“ **Third-Party Approvals** ” means any approval, consent or authorization of or notification to any Person that is not a Governmental Entity or an Affiliate of the Person seeking such Third-Party Approval.

“ **Transfer Taxes** ” has the meaning specified in **Section 10.6** .

“ **Transition Services Agreement** ” means the Transition Services Agreement in the form attached as **Exhibit D** .

Section 1.2 **Interpretation.** When reference is made in this Agreement to an Article or Section, such reference shall be to an Article or Section of this Agreement unless otherwise indicated. For purposes of this Agreement, (a) words in the singular will be deemed to include the plural and vice versa and words of one gender shall be deemed to include the other gender as the context requires, (b) the terms “hereof”, “herein”, “herewith” and “hereunder” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, (c) the words “include”, “includes” and “including” shall be deemed to be followed by the words “without limitation”, (d) captions to articles, sections and subsections of, and schedules and exhibits to, this Agreement are included for convenience and reference only and shall not constitute a part of this Agreement or affect the meaning or construction of any provision hereof, and (e) volumetric measurements provided pursuant to **Section 2.5(e)** and **Section 4.14(b)** shall convert to dekatherms by multiplying the volume (in million cubic feet) by 1,030. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted.

ARTICLE II
PURCHASE PRICE; CLOSING

Section 2.1 **Purchase Price.**

(a) **Purchase Price.** The initial purchase price for the LLC Interests is $25,000,000 (the “ **Initial Purchase Price** ”). The Initial Purchase Price will be adjusted pursuant to **Section 2.2(a)** (as adjusted, the “ **Closing Date Purchase Price** ”), and further adjusted pursuant to **Section 2.2(b)** (as finally adjusted, the “ **Final Closing Date Purchase Price** ”). Upon execution of this Agreement, Buyer has paid to Seller the amount of $1,000,000 as a deposit against the Initial Purchase Price (the “ **Deposit** ”). Buyer shall have no right to return of the Deposit except upon termination of this Agreement as provided in **Section 8.3** .

(b) **Payment of Closing Date Purchase Price.** At the Closing, Buyer shall pay (i) to Seller an amount equal to the Closing Date Purchase Price less the Escrow Amount less the Deposit (without interest) and (ii) the Escrow Amount to the Escrow Agent, such payments to be made by wire transfer of immediately available funds, in United States Dollars, to the bank accounts

designated by Seller and, with respect to the Escrow Amount, by the Escrow Agent in writing at least one (1) Business Day before Closing.

(c) **Additional Payments** .

(i) As additional consideration for all of the LLC Interests, at such times as provided in **Section 2.1(c)(v)** , Buyer (or, at the direction of Buyer, the Company) shall pay to Seller, with respect to each Calculation Period within the Earnout Period for which EBITDA exceeds the applicable EBITDA Threshold, an amount (each, an " **Earnout Payment** "), if any, equal to the product of (1) an amount equal to (A) EBITDA for such Calculation Period, *minus* (B) the CapEx Allowance for such Calculation Period; *multiplied* by (2) fifty percent (50%); *provided* , *however* , that in no event shall Buyer be obligated to pay Earnout Payments to Seller in excess of $26,500,000 in the aggregate for all Calculation Periods during the Earnout Period. If EBITDA for a particular Calculation Period does not exceed the applicable EBITDA Threshold, no Earnout Payment shall be due for such Calculation Period.

(ii) Buyer shall maintain (and cause the Company to maintain) adequate books and records for the purpose of calculating the Earnout Payments. Buyer shall provide Seller and its accountant and other advisors, at no expense to Seller, reasonable access during normal business hours to the working papers, accounting and other books and records of the Business to the extent in Buyer's and/or the Company's possession and reasonably required to facilitate Seller's review of the calculation of the Earnout Payment. If Buyer sells or otherwise transfers all or substantially all of the Business during the Earnout Period, whether through the sale of assets or the sale of the LLC membership interests comprising the Business, Buyer shall cause the purchaser to assume in writing Buyer's obligations under this Agreement; any attempted transfer in violation of this **Section 2.1(c)(ii)** shall be null and void. During the Earnout Period, Buyer shall not, directly or indirectly, take any actions in bad faith that would have the purpose of avoiding or reducing any of the Earnout Payments, and shall not dispose of any material portion of the Business outside the ordinary course of business, except as contemplated in the preceding sentence.

(iii) On or before the date which is thirty (30) days after the last day of each Calculation Period, Buyer shall prepare and deliver to Seller a written statement (in each case, a " **Calculation Statement** ") setting forth in reasonable detail its determination of EBITDA and any adjustment to the CapEx Allowance for the applicable Calculation Period and its calculation of the resulting Earnout Payment (in each case, a " **Calculation** "). In addition, on or before the date which is thirty (30) days after the last day of each Calculation Period and the last day of each of the three (3) Gas Storage Years following after the end of the final Calculation Period, Buyer shall deliver to Seller a written attestation regarding whether the Company has been reimbursed under the Joint Project Agreement, the Operator Agreement, insurance, or otherwise by a third party for capital expenditures that increased the CapEx Allowance for any prior Calculation Period and if the Company has been so reimbursed, Buyer shall prepare and concurrently deliver a Calculation Statement to Seller setting forth in reasonable detail its recalculation of the Earnout Payment for that prior

Calculation Period after decreasing that CapEx Allowance for that prior Calculation Period by the amount reimbursed (in each case, a " **Re-Calculation** "). Seller shall have thirty (30) days after receipt of the Calculation Statement for a Calculation Period (in each case, the " **Review Period** ") to review the Calculation Statement and the Calculation or Re-Calculation, as the case may be, set forth therein. Prior to the expiration of the Review Period, Seller may object to the Calculation or Re-Calculation set forth in the Calculation Statement for the applicable Calculation Period by delivering a written notice of objection (an " **Objection Notice** ") to Buyer. Any Objection Notice shall specify the items in the applicable Calculation or Re-Calculation disputed by Seller and shall describe in reasonable detail the basis for such objection, as well as the amount in dispute.

If Seller fails to deliver an Objection Notice to Buyer prior to the expiration of the Review Period, the Calculation or Re-Calculation, as the case may be, set forth in the Calculation Statement shall be final, conclusive and binding on the parties. If Seller timely delivers an Objection Notice to Buyer, the parties shall negotiate in good faith to resolve the disputed items and agree upon the Calculation or Re-Calculation and the Earnout Payment. If Buyer and Seller are unable to reach agreement within thirty (30) days after an Objection Notice has been given, all unresolved disputed items shall be promptly referred to the Neutral Auditor. Buyer and Seller will direct the Neutral Auditor to render a written report on the unresolved disputed items with respect to the Earnout Payment as promptly as practicable and to resolve only those unresolved disputed items set forth in the Objection Notice. Buyer and Seller shall each furnish to the Neutral Auditor such work papers, schedules and other documents and information relating to the unresolved disputed items as the Neutral Auditor may reasonably request, along with a written presentation of its position. The Neutral Auditor shall resolve the unresolved disputed items based solely on the applicable definitions and other terms in this Agreement, the work papers, schedules and other documents and information furnished to the Neutral Auditor, and the written presentations by Buyer and Seller, and not by independent review. The resolution of the dispute and the Calculation or Re-Calculation that is the subject of the applicable Objection Notice by the Neutral Auditor shall be final, conclusive and binding on the parties. The fees and expenses of the Neutral Auditor shall be borne by Seller and Buyer in proportion to the amounts by which their respective Calculations or Re-Calculations differ from the Calculation or Re-Calculation, respectively, as finally determined by the Neutral Auditor.

(iv) Buyer's obligation to pay each of the Earnout Payments to Seller in accordance with this Agreement is an independent obligation of Buyer and is not otherwise conditioned or contingent upon the satisfaction of any conditions precedent to any preceding or subsequent Earnout Payment. For the avoidance of doubt and by way of example, if any conditions precedent to the payment of the Earnout Payment for the first Calculation Period are not satisfied, but the conditions precedent to the payment of the Earnout Payment for the second Calculation Period are satisfied, then Buyer would be obligated to pay such Earnout Payment for the second Calculation Period for which the corresponding conditions precedent have been satisfied, and not the Earnout Payment for the first Calculation Period.

(v) Any Earnout Payment that Buyer is required to pay pursuant to this Agreement shall be paid in full no later than ten (10) Business Days following the date upon which the determination of the Calculation or Re-Calculation, as the case may be, for the applicable Calculation Period becomes final, conclusive and binding upon the parties as provided in **Section 2.1(c)(iii)** (including any final resolution of any dispute raised by Seller in an Objection Notice). Buyer shall pay to Seller the applicable Earnout Payment by wire transfer of immediately available funds, in United States Dollars, to the bank account designated by Seller.

(vi) The parties understand and agree that (1) the contingent rights to receive any Earnout Payment will not be represented by any form of certificate or other instrument, are not transferable, except by operation of law, and do not constitute an equity or ownership interest in Buyer or the Company, (2) Seller has no rights as a securityholder of Buyer or the Company as a result of Seller's contingent right to receive any payment hereunder, and (3) no interest is payable with respect to any Earnout Payment.

Section 2.2 **Purchase Price Adjustments.**

(a) **Closing Purchase Price Adjustments and Procedures.**

(i) Not less than five (5) Business Days before the Closing Date, Seller shall deliver to Buyer a statement setting forth written calculation of Seller's good faith estimate, as of the Closing Date, of Net Working Capital (the " **Estimated Net Working Capital** ").

(ii) The Closing Date Purchase Price equals the Initial Purchase Price increased or decreased, as appropriate, by the amount of the Estimated Net Working Capital.

(b) **Final Closing Date Purchase Price Adjustment and Procedures.** The purchase price adjustments related to Net Working Capital will be calculated as of the Closing Date without giving effect to any of the transactions under this Agreement.

(i) Within sixty (60) days after the Closing Date, Seller shall prepare and deliver to Buyer a statement (the " **Adjustment Statement** ") that sets forth Seller's calculation, as of the Closing Date, of Net Working Capital (" **Closing Net Working Capital** "). Seller shall provide Buyer and its independent accountant and financial advisor, at no expense to Seller, with all reasonable access during normal business hours to the working papers, accounting and other books and records of the Business and employees to the extent in Seller's possession and reasonably required to facilitate Buyer's review of the Adjustment Statement.

(ii) After receipt of the Adjustment Statement, Buyer will have sixty (60) days to review the factual basis, mathematical calculations and accounting methods used therein. On or before the 60th day after receipt of the Adjustment Statement, Buyer shall deliver written notice to Seller specifying in detail any disputed items and the basis therefor. If Buyer fails to notify Seller of any disputes on or before the 60th day after receipt of the Adjustment Statement, all calculation and valuation of Closing Net Working Capital set

forth on the Adjustment Statement will be deemed accepted by Buyer and will be final, binding, conclusive and non-appealable for all purposes of this Agreement.

(iii) If Buyer notifies Seller of any disputed items on the Adjustment Statement in accordance with the above provisions, Seller and Buyer shall, over the thirty (30) days following the date of such notice (the " **Resolution Period** "), attempt to resolve their differences and any written resolution by them as to any disputed item will be final, binding, conclusive and nonappealable for all purposes of this Agreement. If at the conclusion of the Resolution Period, Seller and Buyer have not reached an agreement on any disputed item, such item shall be submitted by Seller and Buyer to the Neutral Auditor. Any fees and expenses of the Neutral Auditor incurred in resolving the disputed matter(s) shall be borne by Seller, on the one hand, and Buyer, on the other hand, in the same proportion that the dollar amount of disputed matters lost by Seller, on the one hand, or Buyer, on the other hand, bears to the total dollar amount in dispute resolved by the Neutral Auditor. Except as provided in the preceding sentence, all other costs and expenses incurred by the parties in connection with resolving any dispute hereunder before the Neutral Auditor shall be borne by the party incurring such cost and expense. The Neutral Auditor shall act as an arbitrator to determine only those items still in dispute at the end of the Resolution Period. The Neutral Auditor's determination must be within the range of amounts claimed by the respective parties with respect to those items in dispute. Seller and Buyer shall instruct the Neutral Auditor to render its reasoned written decision as soon as practicable but in no event later than forty-five (45) days after its engagement (which engagement must be made no later than ten (10) Business Days after the end of the Resolution Period). Such decision shall be set forth in a written statement delivered to Seller and Buyer and shall be final, binding, conclusive and non-appealable for all purposes hereunder. The term " **Final Adjustment Statement** " means the definitive Adjustment Statement agreed to (or deemed agreed to) by Seller and Buyer in accordance with **Section 2.2(b)(ii)** or this **Section 2.2(b)(iii)** , or the definitive Adjustment Statement resulting from the determination made by the Neutral Auditor in accordance with this **Section 2.2(b)(iii)** , in each case setting forth the final determination of Closing Net Working Capital (" **Final Net Working Capital** ").

(iv) If Final Net Working Capital is greater than Estimated Net Working Capital, Buyer shall pay to Seller an amount equal to the excess, and if the Final Net Working Capital is less than the Estimated Net Working Capital, Seller shall pay to Buyer an amount equal to the deficiency. Any payments required pursuant to this **Section 2.2(b)(iv)** (the " **Adjustment Amount** ") shall be made by wire transfer of immediately available funds to the account designated by Seller or Buyer, as the case may be, in United States Dollars, within five (5) Business Days after (a) the Adjustment Statement has been accepted or deemed accepted by Buyer pursuant to **Section 2.2(b)(ii)** , (b) any proposed change made by Buyer has been agreed upon in writing by the parties as described in **Section 2.2(b)(iii)** or (c) a final determination has been made by the Neutral Auditor as described in **Section 2.2(b)(iii)** , as applicable. Payments due shall be paid to the applicable party together with interest at the Prime Rate from and including the Closing Date to but excluding the date of payment.

Section 2.3 **Closing.** Unless this Agreement has been terminated and the transactions contemplated hereby have been abandoned pursuant to **Article VIII** , the closing of the transactions contemplated by this Agreement (the " **Closing** ") shall take place through the electronic exchange of signature pages on the Business Day after all of the conditions to the Closing set forth in **Article VII** (other than those that by their terms are to be satisfied at the Closing) are satisfied or waived, or such other date, time and place agreed upon by Seller and Buyer, and the Closing will be effective at 12:01 a.m. Pacific time on such date (the " **Closing Date** ").

Section 2.4 **Buyer Deliveries.** At the Closing, Buyer shall deliver to Seller:

(a) Buyer's duly executed counterpart of an assignment of the LLC Interests in the form set forth on attached **Exhibit C** ;

(b) A certificate from an authorized officer of Buyer, dated as of the Closing Date, to the effect that the conditions set forth in **Sections 7.2(a)** and **7.2(b)** have been satisfied;

(c) The Closing Date Purchase Price;

(d) A copy of completed Form BOE-100-B (Statement of Change in Control and Ownership of Legal Entities) that Buyer will timely submit to the State of California Board of Equalization;

(e) Releases acceptable in form and substance to Seller in favor of Seller or its Affiliates with respect to the guaranties required to be substituted by Buyer as of Closing pursuant to **Section 6.9(b);**

(f) Buyer's duly executed counterpart of the License Agreement;

(g) Buyer's duly executed counterpart of the Escrow Agreement; and

(h) Buyer's duly executed counterpart of the Transition Services Agreement.

Section 2.5 **Deliveries of Seller.** At the Closing, Seller shall deliver to Buyer:

(a) Seller's duly executed counterpart of an assignment of the LLC Interests in the form set forth on attached **Exhibit C** ;

(b) A certificate from an authorized officer of Seller, dated as of the Closing Date, to the effect that the conditions set forth in **Sections 7.3(a)** and **7.3(b)** have been satisfied;

(c) Resignations or terminations of all of the officers, directors and managers of the Company from their officer, director or manager capacities, as applicable, effective as of the Closing Date;

(d) A duly completed and executed certification of non-foreign and non-disregarded entity status pursuant to Section 1.1445-2(b)(2) of the Treasury regulations;

(e) An updated **Schedule 4.14(b)** (broken down by agreement and quantity into categories (ii) through (iv), as provided in **Section 4.14(b)**) of the inventory of natural gas in the Company's share of the Facility as of 7:00 a.m. Pacific time on the day immediately preceding the Closing Date;

(f) Seller's Affiliate's duly executed counterpart of the License Agreement;

(g) Seller's duly executed counterpart of the Escrow Agreement; and

(h) Sellers's duly executed counterpart of the Transition Services Agreement.

ARTICLE III
REPRESENTATIONS AND WARRANTIES RELATING TO SELLER

Seller represents and warrants to Buyer that as of the date of this Agreement:

Section 3.1 **Due Organization and Power of Seller.** Seller is duly organized or formed and validly existing under the laws of Oregon and has the requisite limited liability company power and authority, as applicable, to conduct its business as it is now being conducted, and to own, lease and operate its assets and properties. Seller is duly authorized, qualified or licensed to do business as a foreign limited liability company and is in good standing in every jurisdiction where such authorization, qualification, or license is required by Law, except in any jurisdiction where the failure to be so authorized, qualified or licensed would not reasonably be expected to prevent or materially delay the Closing.

Section 3.2 **Authorization and Validity of Agreement.** This Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite limited liability company action by Seller, and Seller has full limited liability company power and authority to execute and deliver this Agreement and to perform its obligations hereunder and no other action on the part of Seller is necessary to authorize the execution, delivery and performance of this Agreement or the consummation by Seller of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Seller and constitutes a valid and legally binding obligation of Seller enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar Laws affecting the enforcement of creditors' rights generally, and subject to general principles of equity.

Section 3.3 **Non-Contravention.** The execution and delivery by Seller of this Agreement does not, and the consummation by Seller of the transactions contemplated hereby and the compliance by Seller with any of the provisions hereof will not,

(a) violate or conflict with any provision of the Organizational Documents of Seller, including articles of organization, or limited liability company agreement of Seller or the Company; or

(b) assuming that all Governmental Approvals and Third-Party Approvals set forth in **Schedule 3.5** , or in the documents identified therein, have been obtained,

(i) violate any Law or Order to which Seller or the Company is subject or

(ii) constitute (with or without due notice or lapse of time or both) a breach or violation of or default (or give rise to any right of termination, cancellation, acceleration or "change of control", or any buy-out right, or any right of first offer or refusal) under any Contract or Permit to which Seller or the Company is a party or by which Seller's or the Company's assets are bound, except with respect to this clause (ii) for any such breach, violation, or default (A) which would not reasonably be expected to have a Material Adverse Effect on Seller or the Company or a material adverse effect on Seller's ability to perform its obligations hereunder or (B) that has been waived, cured or consented to on or before the Closing Date; or

(iii) result in the creation or imposition of any Lien or other restriction (whether on voting, sale, transfer, disposition or otherwise), encumbrance or limitation of every type and description, on any of the LLC Interests.

Section 3.4 **LLC Interests.** Seller holds of record and is the beneficial owner of 100% of the LLC Interests, free and clear of all Liens and other restrictions (whether on voting, sale, transfer, disposition or otherwise), encumbrances or limitations of every type and description, other than those arising pursuant to the Company's limited liability company agreement or transfer restrictions under the Joint Project Agreement, applicable securities laws or as identified on **Schedule 3.4** . The LLC Interests constitute all of the issued and outstanding membership interests in the Company. Except under the Joint Project Agreement and as set forth on **Schedule 3.4** , there are no outstanding options, warrants or other rights of any kind relating to the sale, issuance, repurchase or voting of any of the LLC Interests, nor are there any securities convertible into or evidencing the right to purchase such LLC Interests, except as contemplated by this Agreement. At the Closing, Seller shall transfer to Buyer the LLC Interests, free and clear of any Liens and other restrictions (whether on voting, sale, transfer, disposition or otherwise), encumbrances or limitations of every type and description, other than those created by Buyer and its Affiliates, those arising pursuant to this Agreement or the limited liability company agreement of the Company or transfer restrictions under applicable securities laws or as identified on **Schedule 3.4** .

Section 3.5 **Actions, Orders and Approvals.** Except as set forth in **Schedule 3.5** , no Action or Order is pending or, to the Knowledge of Seller, threatened against Seller by or before any Governmental Entity which would have, or would reasonably be expected to have, a Material Adverse Effect on Seller or the Company or would reasonably be expected to prevent or materially delay the consummation of the transactions contemplated herein. Except as set forth in **Schedule 3.5** , no Governmental Approval or Third-Party Approval is required on the part of Seller in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for such Governmental Approvals or Third-Party Approvals the failure of which to obtain would not reasonably be expected to have a Material Adverse Effect on Seller or the Company or which have been (or before Closing will be) obtained.

Section 3.6 **Litigation.** Except as set forth in **Schedule 3.6** , there are no (a) Orders against Seller or any of its Affiliates (other than the Company) or (b) Actions instituted by any Person other than Buyer or its Affiliates pending or, to the Knowledge of Seller, threatened against

or affecting Seller or any of its Affiliates (other than the Company), in either of the foregoing clauses (a) or (b), (i) that would reasonably be expected to restrain, delay or prohibit any of the transactions contemplated by this Agreement or (ii) that would prevent Seller from performing in all material respects its obligations under this Agreement.

Section 3.7 **Finders; Brokers.** Except for Bank of America Merrill Lynch, neither Seller nor its Affiliates has any liability or obligation to pay fees or commissions to any broker, finder or agent with respect to the transactions contemplated hereby for which Buyer could become liable or obligated. All fees of Bank of America Merrill Lynch shall be paid by Seller, and no portion thereof shall be charged to or paid by the Company or Buyer.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES RELATING TO THE COMPANY

Seller represents and warrants to Buyer that as of the date of this Agreement:

Section 4.1 **Due Organization of the Company; No Subsidiaries.**

(a) The Company is duly formed and validly existing under the laws of the State of Oregon. The Company has the requisite limited liability company power and authority to conduct its business as it is now being conducted, and to own, lease and operate its assets and properties. The Company is duly authorized, qualified or licensed to do business as a foreign limited liability company and is in good standing in every jurisdiction where such authorization, qualification or license is required by Law except in any jurisdiction where the failure to be so authorized, qualified or licensed would not reasonably be expected to have a Material Adverse Effect on the Company.

(b) Except as set forth in **Schedule 4.1** , the Company has no Subsidiaries and does not own any equity interest in any other Person.

(c) Seller has made available to Buyer in the Data Site true and complete copies of all existing Organizational Documents, as amended to date, of the Company and its Subsidiaries, and such Organizational Documents, as so amended, are in full force and effect. Neither the Company nor any of its Subsidiaries is in default under, or in violation of, any provision of its Organizational Documents.

Section 4.2 **Financial Statements.**

(a) **Schedule 4.2(a)** contains a copy of the unaudited financial statements of the Company as of, and for the years ended, December 31, 2017, 2016 and 2015 (collectively, the " **Annual Financial Statements** ") and the unaudited balance sheet and statements of income and cash flows of the Company as of, and for the quarter ended, March 31, 2018 (the " **Interim Financial Statements** " and, together with the Annual Financial Statements, the " **Financial Statements** "). Each of the Financial Statements fairly presents, in all material respects, the financial condition and the results of the operations of the Company, as of the respective dates and for the respective periods indicated. The Financial Statements have been prepared in accordance with GAAP on a consistent basis throughout the periods involved, except as otherwise disclosed in **Schedule 4.2(a)** or the

Financial Statements and, with respect to the Interim Financial Statements, subject to normal year-end adjustments and the absence of notes.

(b) The Company (i) makes and keeps books, records and accounts reflecting in all material respects its assets and liabilities and that, in reasonable detail, accurately and fairly reflect in all material respects the transactions and dispositions of assets of the Company, and (ii) maintains a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of the Company's Financial Statements in conformity with GAAP and to maintain accountability for assets. Except as described on **Schedule 4.2(b)** , there are no material deficiencies in the Company's internal accounting controls.

(c) Except as set forth on **Schedule 4.2(c)** , neither the Company nor any of its Subsidiaries has any Indebtedness. Neither the Company nor any of its Subsidiaries has any liabilities of a nature required by GAAP to have an amount set forth on a balance sheet, except:

(i) liabilities disclosed in the Financial Statements; and

(ii) liabilities incurred in the ordinary course of the operations of the Business, consistent with past practices since the date of the Interim Financial Statements.

Section 4.3 **Absence of Changes.** Except as otherwise disclosed in **Schedule 4.3** , from the date of the Interim Financial Statements to the date of this Agreement, (a) the Business has been conducted in all material respects in the ordinary course of business consistent with past practice, (b) the Company has not taken any of the actions described in **Sections 6.1(a)** through **6.1(r)** , and (c) there has been no change, event, or loss affecting the Business that has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 4.4 **Real Property.**

(a) **Schedule 4.4(a)** lists all of the Company's material agreements (including documents conveying or creating and granting real property interests to the Company), with respect to ownership interests in, and rights to use, real property (including surface, sub-surface and mineral rights) relating to the operation of the Business as currently conducted (collectively, " **Property Use Agreements** ," and the Company's rights thereunder, the " **Real Property Interests** ").

(b) The Company leases or has rights creating an interest in all material real property as are necessary to operate the Business as currently conducted free and clear of all Liens except: (i) Liens described in **Schedule 4.4(b)** ; (ii) Liens disclosed in the Financial Statements; (iii) Liens for taxes, assessments and other governmental charges not yet due and payable or, if due, not delinquent or being contested in good faith by appropriate proceedings (and as to which adequate reserves have been set aside in accordance with GAAP); (iv) mechanics', workmen's, repairmen's, warehousemen's, carriers' or other like Liens arising or incurred in the ordinary course of business, including construction liens that are reasonably required in connection with actions under **Section 6.1(i)** , but only to the extent the underlying obligations (1) are not more than thirty (30) days past due or are being contested in good faith and (2) with respect to those underlying obligations arising within the periods covered by the Financial Statements, for which adequate reserves under GAAP

have been established in the Financial Statements; (v) rights of any Governmental Entity to regulate such real property that do not, individually or in the aggregate, interfere materially with, or adversely affect in any material respect, the ownership or operation of the applicable property as currently used or the Business as presently conducted; (vi) restrictions set forth in applicable zoning, building and other similar regulations, so long as no such matter, individually or in the aggregate, prevents or hinders or interferes, in a material way, with the use of such property as currently used for the purposes of the Business; (vii) restrictions, if any, created or existing pursuant to the Disclosed Contracts, Property Use Agreements or the matters and agreements listed in **Schedules 3.4** , **3.5** and **4.7** ; and (viii) and such defects, burdens, encroachments, imperfections, irregularities of title, or other encumbrances or limitations of every type and description (including limitations on fee simple title to any interest in real property) whether imposed by Law, agreement, understanding or otherwise, if any, as are not substantial in character, amount or extent and do not, individually or in the aggregate, materially impair the conduct of operations of the Business as currently conducted or result in, or would reasonably be expected to result in, a Material Adverse Effect on the Company (the matters described in clauses (i) through (viii) above are collectively referred to herein as the " **Permitted Liens** ").

(c) Except as described in **Schedule 4.4(c)** , (i) each Property Use Agreement is valid and in full force and effect and is enforceable against the Company according to its terms, (ii) neither the Company nor, to the Knowledge of Seller, any other party thereto is in material default or breach under any such Property Use Agreement, (iii) to the Knowledge of Seller, no event has occurred that with the lapse of time or giving of notice would constitute a material default thereunder (iv) there are no material Actions affecting any such Property Use Agreement of which Seller or the Company has received written notice, and (v) no party has delivered written notice exercising any termination rights with respect thereto.

(d) The Existing Title Opinions are listed on **Schedule 4.4(d)** . Seller has made available to Buyer in the Data Site true, complete and correct copies of (i) all Property Use Agreements, (ii) all Existing Title Opinions and (iii) and all title insurance policies and ALTA surveys that are in the possession of Seller, Company, or any Affiliate thereof and that relate to any of the Real Property Interests. No claim has been made, and to the Knowledge of Seller, no claim has been threatened or asserted, by any third party that the Company does not possess the legal right to use any material real property currently used in connection with the Business in the manner or for the purpose for which it is being used. There is no pending or, to the Knowledge of Seller, threatened condemnation or eminent domain proceeding with respect to the Facility.

Section 4.5 **Contracts.**

(a) Except as entered into after the date of this Agreement in accordance with the provisions of **Section 6.1** , **Schedule 4.5** lists all outstanding commitments, contracts and agreements (other than Property Use Agreements) to which the Company is a party or by which it is bound that would be an obligation of the Company after Closing: (i) that are: (A) Firm Storage Contracts, (B) interconnect agreements with a third party pipeline or agricultural customer pipeline and associated rate sharing agreements, (C) Interruptible Contracts, (D) Park and Loan Contracts, (E) gathering and processing services contracts, (F) operational balancing agreements, or

(G) construction agreements, (ii) that involve (A) commitments by the Company for terms of twelve (12) months or longer that involve annualized payments by the Company of more than $300,000 or (B) payment of more than $300,000 in the aggregate, and in any such case, are not terminable by their terms, without penalty, on thirty (30) days or less notice, (iii) that contain a covenant not to compete restricting the Company from competing or engaging in any line of business; (iv) under which the Company has (A) created, incurred, assumed, or guaranteed (or may create, incur, assume, or guarantee) any Indebtedness, (B) granted a Lien (other than a Permitted Lien) on its assets, whether tangible or intangible, to secure such Indebtedness, or agreed to any restriction or limitation on distributions, dividends or return on equity, or extended credit to any Person in an amount, individually or in the aggregate, in excess of $300,000 of committed credit (excluding trade receivables in the ordinary course of business) or (C) granted any guaranty of performance or agreed to provide credit support or otherwise make capital contributions, loans or advances; (v) that are current contracts to which the Company is a party for the purchase or sale of any business, corporation, partnership, joint venture or other business organization; (vi) that involve hedges, swaps, fixed priced commitments or other derivatives; (vii) that are for lease of personal property involving aggregate payments in excess of $300,000; (viii) that create or evidence a partnership or joint venture; (ix) that are with a Governmental Entity (excluding any Property Use Agreements, any other agreements with respect to ownership interests in, and rights to use, real property, and Permits); or (x) that are tax abatement agreements. Contracts identified in **Schedule 4.5** are hereafter referred to as the " **Disclosed Contracts** ."

(b) Except as described in **Schedule 4.5** , (i) each Disclosed Contract is valid and in full force and effect and is enforceable against the Company according to its terms, (ii) neither the Company nor, to the Knowledge of Seller, any other party thereto is in material default or breach under any such Disclosed Contract, (iii) to the Knowledge of Seller, no event has occurred that with the lapse of time or giving of notice would constitute a material default thereunder and (iv) there are no material Actions affecting any such Disclosed Contract of which Seller or the Company has received written notice, and (v) no party has delivered written notice exercising any termination rights with respect thereto. Seller has made available to Buyer in the Data Site true and complete copies of all Disclosed Contracts.

Section 4.6 **Litigation.** Except as set forth in **Schedule 4.6** , there are no material Orders against and there are no material Actions pending or, to the Knowledge of Seller, threatened in Law or in equity, or before any Governmental Entity, against the Company.

Section 4.7 **Compliance with Laws; Permits.**

(a) Except as disclosed in **Schedule 4.7(a)** , (i) the Company has all material Permits issuable by Governmental Entities and required thereby for the ownership and operation of the Business as presently conducted, (ii) all such material Permits are in full force and effect and no action, claim or proceeding is pending nor, to Seller's Knowledge, threatened, to suspend, revoke, cancel, terminate, or materially and adversely modify any such material Permit or declare any such material Permit invalid, (iii) the Company has filed all necessary reports and maintained and retained all necessary records pertaining to such material Permits and (iv) the Company is and has been in

compliance in all material respects with all of the Laws, Orders and Permits applicable to its existence, financial condition, operations, and Business.

(b) **Schedule 4.7(b)** lists all material Permits currently held by the Company. All applications required to have been filed for the renewal of all such Permits have been duly filed on a timely basis with the appropriate Governmental Entity, and all other filings required to have been made with respect to each such Permit have been duly made on a timely basis with the appropriate Governmental Entity. The Company has not received written notice of any material violation of any Law applicable to the Company or the Business.

Seller is not making any representation or warranty in this **Section 4.7** with respect to any Taxes, employee benefit matters or any environmental matters with respect to the Company or the Business, it being agreed that such matters are addressed in **Sections 4.8** , **4.9** , **4.10** , respectively.

Section 4.8 **Tax Matters.** Except as set forth in **Schedule 4.8** :

(a) All Tax Returns required to be filed by or with respect to the Company, any Subsidiaries of the Company and the Business (or any of the income, assets or operations of the foregoing) have been timely filed on or before the Closing Date and all such Tax Returns are correct and complete in all material respects. All Taxes due and payable by or with respect to the Company, each of its Subsidiaries and the Business (or any of the income, assets and operations of any of the foregoing) have been timely paid (whether or not shown as due on such Tax Returns);

(b) Neither the Company, any of its Subsidiaries, nor the Business has ever been the subject of any audit, inquiry or other proceeding relating to Taxes. No audit, inquiry or other proceeding initiated by any Taxing Authority is pending or threatened in writing with respect to any Taxes due by or with respect to the Company, any of its Subsidiaries or the Business, and no adjustment relating to any Tax Return of the Company, any of its Subsidiaries or the Business has been proposed in writing. No written assessment of Tax is proposed against the Company, any of its Subsidiaries or the Business for any period ending before the Closing Date other than those assessments that are being contested in good faith and are set forth in **Schedule 4.8** ;

(c) No claim has been made by any Taxing Authority in a jurisdiction where the Company, any of its Subsidiaries or the Business does not file a Tax Return that the Company, a Subsidiary or the Business is or may be subject to taxation in that jurisdiction;

(d) Neither the Company, any of its Subsidiaries nor the Business has requested an extension of time to file any Tax Return;

(e) Neither the Company, any of its Subsidiaries nor the Business is a party to any Tax sharing, Tax indemnification or similar agreement;

(f) Neither the Company, any of its Subsidiaries nor the Business has extended or waived any statute of limitations regarding the assessment or collection of any Tax;

(g) The Company qualifies, and has since the date of its formation qualified, as disregarded as an entity separate from its owner for U.S. federal, state and local income Tax purposes and neither the Company nor any Taxing authority has taken a position inconsistent with such treatment;

(h) Neither the Company, any of its Subsidiaries nor the Business has (x) granted to any Person any power of attorney that currently is in force with respect to any Tax matter, or (y) applied for and/or received a ruling or determination from a Taxing Authority regarding a past or prospective transaction;

(i) Neither the Company, any of its Subsidiaries nor the Business is, or has at any time been, a member of any affiliated, unitary, combined or similar group of companies for any Tax period. Neither the Company, any of its Subsidiaries nor the Business has any liability for Taxes of any Person under Treasury Regulations Section 1.1502-6 (or any analogous provision of state or local Law);

(j) There are no Liens other than Permitted Liens on any of the assets of the Company, any of its Subsidiaries or the Business that arose in connection with the failure to pay any Tax;

(k) Neither the Company, any of its Subsidiaries nor the Business has agreed to make nor is required to make any adjustment under Section 481(a) of the Code (or any corresponding or similar provision of state, local or foreign Law) by reason of a change in accounting method or otherwise. No Taxing Authority has proposed or purported to require any such adjustment or change in accounting method, and no such adjustment under Section 481 of the Code or the corresponding Tax Laws of any nation, state or locality will be required of or with respect to the Company, any of its Subsidiaries or the Business upon the completion of, or by reason of, the transactions contemplated by this Agreement;

(l) All Taxes required to be collected or withheld (including from payments made to employees, independent contractors, creditors, stockholders and other third parties) with respect to the Company, each Subsidiary and the Business have been properly collected and withheld and such collected and withheld Taxes have been duly paid to the proper Governmental Entity;

(m) Neither the Company, any of its Subsidiaries, the Business, nor any Seller Indemnified Party will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) beginning after the Closing Date as a result of any (i) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Law) entered into prior to the Closing, (ii) installment sale or open transaction disposition made prior to the Closing, (iii) prepaid amount received prior to the Closing or (iv) election under Sections 108(i) or 965(h) of the Code made on or before the Closing Date; and

(n) Neither the Company, any of its Subsidiaries nor the Business has entered into any transaction that (x) is either a "listed transaction" or a "reportable transaction" (both as defined in Treas. Reg. § 1.6011 4 as modified issued revenue procedures and other Internal Revenue Service guidance) or (y) that lacks economic substance for purposes of Section 7701(o) of the Code.

Section 4.9 **Employee Benefit Plans.**

(a) **Section 1** of **Schedule 4.9** contains a complete list of each Employee Benefit Plan as of the date of this Agreement. Except for liabilities set forth in **Section 2** of **Schedule 4.9,** the Company does not have and has not had, any material liability, contingent or otherwise, with respect to any Employee Benefit Plan. Seller has made available to Buyer in the Data Site true and complete copies of all material documents with respect to each Employee Benefit Plan.

(b) Except as set forth in **Section 2** of **Schedule 4.9** , each Employee Benefit Plan (and each related trust, insurance contract or funding arrangement) has been maintained and operated in all material respects in accordance with its terms and complies in all material respects in form and operation with the applicable requirements of ERISA and the Code, and no condition exists with respect to any Employee Benefit Plan that has resulted or would reasonably be expected to result in a material liability to Buyer or any Lien upon the assets of the Company. Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code (a " **Qualified Benefit Plan** ") has received a favorable determination letter from the Internal Revenue Service, or with respect to a prototype plan, can rely on an opinion letter from the Internal Revenue Service to the prototype plan sponsor, to the effect that such Qualified Benefit Plan is so qualified and that the plan and the trust related thereto are exempt from federal income Taxes under Sections 401(a) and 501(a), respectively, of the Code, and, to the Knowledge of the Seller, no event has occurred that would reasonably be expected to give rise to the disqualification of any such Employee Benefit Plan.

(c) The Company does not sponsor, maintain or contribute to any Employee Benefit Plan subject to Section 302 of ERISA, Section 412 of the Code or Title IV of ERISA. None of the Employee Benefit Plans is a multiemployer plan (as defined in Section 3(37) of ERISA). With respect to any defined benefit plan that is subject to Section 302 of ERISA or Section 412 of the Code or any multiemployer plan (as defined in Section 3(37) of ERISA) subject to Title IV of ERISA that is sponsored, maintained or contributed to by any ERISA Affiliate of the Company, the minimum funding obligations have been satisfied and all contributions required to be paid by the Company's ERISA Affiliates have been timely paid to the applicable plan and, except as set forth in **Section 3** of **Schedule 4.9** , no ERISA Affiliate has incurred any withdrawal liability under Title IV of ERISA which remains unsatisfied. With respect to the Western States Office and Professional Employees Pension Fund, the Company's ERISA Affiliates have timely paid all required payments to the Western States Office and Professional Employees Pension Fund in accordance with ERISA Section 4219.

Section 4.10 **Environmental Matters.** Except as set forth in **Schedule 4.10** or as would not have, or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company:

(a) To the Knowledge of Seller, the operations of the Company are in compliance with all applicable Laws, Orders and Permits pertaining to environmental protection or the storage, handling, release, discharge or disposal of hazardous material, as in effect on the date of this Agreement until the Closing Date, and as in effect on the Closing Date for purposes of satisfying the conditions to Closing, including without limitation those arising under the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and

Liability Act of 1980 as amended (" **CERCLA** "), the Superfund Amendments and Reauthorization Act of 1986, the Federal Water Pollution Control Act, the Solid Waste Disposal Act, as amended, the Federal Clean Air Act, the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act of 1986, the Safe Drinking Water Act or any applicable similar Law of any other Governmental Entity of similar import, and all amendments or regulations promulgated thereunder (hereinafter " **Environmental Laws** ");

(b) The Company has not received any unresolved written notice from any third party, including without limitation any federal, state, municipal or local authority or regulatory body or other Governmental Entity, (A) that it has been identified by the United States Environmental Protection Agency as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (B) that any hazardous waste, as defined by 42 U.S.C. §6903(5), any hazardous substance as defined by 42 U.S.C. §9601(14), any pollutant or contaminant as defined by 42 U.S.C. §9601(33) or any other toxic substance, oil or hazardous material, in each case to the extent regulated by any Environmental Laws (" **Hazardous Substances** "), which the Company generated, transported or disposed of, has been found at any site at which a federal, state or local agency or other third party has conducted an investigation and in respect of which Hazardous Substances the Company may have a remediation liability or obligation pursuant to any Environmental Law; (C) that it is in violation of, alleged violation of, non-compliance with, or liable or potentially or allegedly liable pursuant to, any Environmental Law, Order or Permit involving the operations of the Facility other than notices with respect to matters that have been resolved to the satisfaction of any relevant Governmental Entity or for which the Company has no further unperformed obligations outstanding; or (D) that it is or may be a named party to any Action under Environmental Laws arising out of any third party's incurrence of costs, expenses, losses or damages in connection with the release (as that term is defined in 42 U.S.C. §9601(22)) of Hazardous Substances;

(c) **Schedule 4.10(c)** lists all Phase I and Phase II environmental site assessment reports prepared by or on behalf of Seller or Company regarding the Facility that have been prepared within the last five (5) years preceding the date of this Agreement. Seller has made available in the Data Site for inspection by Buyer copies of all Phase I and Phase II environmental assessments and copies of (i) all other material environmental assessment and audit reports and other material environmental studies in Seller's or the Company's reasonable possession or control relating to the real property of the Company or pertaining to the Business and (ii) all material Permits required under Environmental Laws for the operation of the Business as presently conducted;

(d) The Company has not released Hazardous Substances into the environment in violation of any Environmental Laws, or in a manner that would reasonably be expected to result in liability to the Company under any Environmental Law, at any real property presently or formerly owned, leased or operated by the Company; and

(e) The Company has all material Permits required under Environmental Laws for the operation of the Business as presently conducted, all such Permits are in full force and effect and no Action is pending nor, to Seller's Knowledge, threatened, to suspend, revoke, restrict or terminate any such Permit or declare any such Permit invalid.

Section 4.11 **Insurance. Schedule 4.11** sets forth a list of all of the policies of insurance carried by the Company that directly insure the operation of the Business on or before the Closing Date (collectively, the " **GRS Policies** "). As of the date of this Agreement, all material policies of property, fire and casualty, general liability, title, workers' compensation and other forms of insurance held by the Company or for the benefit of the Business are in full force and effect, all premiums with respect thereto covering all periods up to and including the date of this Agreement have been paid, and no written notice of cancellation or non-renewal of any GRS Policy has been received by the Company and there is no material claim pending under any such policy as to which coverage has been denied or disputed by the underwriters or issuers thereof.

Section 4.12 **Affiliate Transactions.** Except for the matters disclosed in **Schedule 4.12** (none of which will survive the Closing) or as specifically described in or required by this Agreement, neither Seller, nor any of the members, managers, partners, directors, officers and other Affiliates of the Company or Seller is a party to any agreement or contract with the Company or has any interest in any property used in the Business, other than salaries, expense reimbursement and employee benefits in respect of employment in the ordinary course of business.

Section 4.13 **Finders; Brokers.** Except for Bank of America Merrill Lynch, neither the Company nor its Affiliates has any liability or obligation to pay fees or commissions to any broker, finder or agent with respect to the transactions contemplated hereby for which the Company could, from and after Closing, become liable or obligated. All fees of Bank of America Merrill Lynch shall be paid by Seller, and no portion thereof shall be charged to or paid by the Company or Buyer.

Section 4.14 **Gas in Inventory; Liability for Gas.** As of the date of this Agreement and as of the Closing, with respect to the Company's share of the gas storage facilities subject to the Joint Project Agreement:

(a) The Company has at least the minimum volume of gas needed as inventory to maintain long-term operational integrity of the Facility, including the ability to maintain on a long-term basis the Parameters;

(b) The Company has physical possession and custody of a quantity of natural gas in the Facility (in each case measured on a volumetric basis) at least equal to (i) the quantity of Cushion Gas set forth in **Schedule 4.14(b)** , *plus* (ii) the quantity of natural gas that must be delivered to customers in order to satisfy the Company's obligations for delivery of natural gas under Firm Storage Contracts, Interruptible Contracts, and Park and Loan Contracts, *plus* (iii) the quantity of natural gas owned by the Company through unconsumed in-kind fuel payments, *minus* (iv) the quantity of natural gas loaned to customers through Park and Loan Contracts. **Schedule 4.14(b)** sets forth an accurate and complete list (broken down by categories (i) through (iv) above, and in the case of category (i) also by Cushion Gas owned by the Company (" **Owned Cushion Gas** ") and Cushion Gas leased by the Company and, in the case of categories (ii) though (iv), also by agreement and quantity) of the volume of natural gas in the Facility as of 7:00 a.m. Pacific time on the Business Day immediately preceding the date of this Agreement.

(c) There are no imbalances under the OBA that would give rise to any right of PG&E to (i) terminate, suspend, or modify the services provided under the OBA, or (ii) cash out any such imbalances (excluding any such amounts accounted for in Net Working Capital); and

(d) Except as set forth in **Schedule 4.14(d)** , the Company does not have any liability to any third party for any volume of gas or any payment obligations with regard to any gas other than gas then held by the Company in its gas storage facilities pursuant to Firm Storage Contracts, Interruptible Contracts, or Park and Loan Contracts.

Section 4.15 **Wells.** Except as set forth on **Schedule 4.15** :

(a) All wells drilled by the Company in connection with the Facility or the Business have been drilled, completed, and maintained in compliance in all material respects with all applicable Laws and Permits, and, to the Knowledge of Seller, all such wells currently in operation are in an operable state of repair adequate to maintain normal operations in accordance with past practices; and

(b) The Company does not own any wells that (i) are required by applicable Law or Permit to have been plugged and abandoned that have not been plugged and abandoned, (ii) are currently temporarily abandoned, or (iii) to the Knowledge of Seller, have been plugged and abandoned but not in compliance in all material respects with all applicable Laws, Permits, or other requirements of any Governmental Entity.

Section 4.16 **Facility Capacity, Injection Rate, Withdrawal Rate.** In the two (2) years preceding the date of this Agreement, the Facility has performed in accordance with the Parameters. As of the date of this Agreement, Seller has no Knowledge of any event or circumstance that could reasonably be expected to prevent the Facility from performing in accordance with the Parameters assuming the Facility is operated (i) in accordance with that degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator engaged in the same type of undertaking under the same or similar circumstances having regard to the age and condition of the Facility, and (ii) consistent with operating practice in the two (2) years preceding the date of this Agreement. At Closing assuming the Facility is operated (i) in accordance with that degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator engaged in the same type of undertaking under the same or similar circumstances having regard to the age and condition of the Facility, and (ii) consistent with operating practice in the two (2) years preceding the date of this Agreement, the Facility will perform in accordance with the Parameters.

Section 4.17 **CPUC Compliance.** The Company has met and continues to meet in all material respects regulatory conditions imposed by the CPUC (including the filing and maintenance of a CPUC-approved gas tariff, if required, and the filing of all annual and other required periodic reports) and has complied in all material respects with all CPUC-imposed requirements applicable to the construction and operation of a natural gas storage facility used to provide competitive storage service that is subject to the jurisdiction of the CPUC.

Section 4.18 **Intellectual Property. Schedule 4.18** sets forth a true and complete list of all of the patents, trademarks, registered copyrights, and domain names, and pending applications for any of the foregoing, owned by the Company as of the date hereof. The Company is the sole and exclusive owner of all such items, free and clear of all Liens other than Permitted Liens. To the Knowledge of Seller, within the past two (2) years, the Company has not infringed or misappropriated the patent, trademark, copyright or other intellectual property rights of any Person and the Company has not received any written notice of any claim of such infringement or misappropriation during such time period. To the Knowledge of Seller, no Person is infringing the patent, trademark or other intellectual property rights the Company.

Section 4.19 **Bank Accounts. Schedule 4.19** lists all bank, trust, checking, savings, custody and other accounts (including any trading or other accounts maintained with any brokerage, investment banking or commodity trading firms) together with the account numbers therefor, and lock boxes or safe deposit boxes in which there are or may be deposited monies or other assets of the Company, an indication of the purposes of each of such accounts and lock boxes or safe deposit boxes, all Persons authorized to make withdrawals or other transfers from such accounts or lock boxes or safe deposit boxes, each bank at which the Company has borrowing authority and an accurate and complete list of all Persons authorized to exercise such authority.

Section 4.20 **Title to Personal Properties.** Except as set forth on **Schedule 4.20** , the Company is the lawful owner of, or has a valid leasehold or license interest in, all of the tangible properties and assets (other than real property) used or held for use in connection with the Business free and clear of all Liens, except for (a) properties and assets sold or otherwise disposed of, and rights expiring or terminating, in the ordinary course of business consistent with past practices and not in violation of this Agreement during the period from the date of this Agreement until the Closing Date, and (b) Permitted Liens.

Section 4.21 **Condition and Sufficiency of Assets** . Except as set forth on **Schedule 4.21** , all of the material tangible assets used or held for use by the Company (other than real property and wells), whether owned or leased, (i) have been reasonably maintained consistent in all material respect with standards generally followed in the industry and are in a condition sufficient for the current operating business of the Company, and (ii) are adequate and suitable for their present and currently intended uses and, to the Knowledge of Seller, are free from material defects other than such defects as do not interfere with the intended use thereof in the conduct of normal operations in any material respect. Except as set forth on **Schedule 4.21** , the assets and properties owned or leased by the Company or that they otherwise have the right to use, constitute all the assets, properties and rights that are required or necessary in connection with the conduct of the Business as it is presently conducted.

Section 4.22 **Labor Relations; Employment Matters.**

(a) Except as set forth in **Schedule 4.22(a)** , the Company:

(i) is not a party to, and no Site Employees are covered by, any collective bargaining agreement or other labor union contract, and, to the Knowledge of Seller, there

are no organizational campaigns, petitions or other unionization activities involving Site Employees seeking recognition of a collective bargaining unit;

(ii) is not subject to any strikes, material slowdowns or material work stoppages pending or, to the Knowledge of Seller, threatened between the Company and any Person or involving Site Employees; and

(iii) has not taken any action with respect to the transactions contemplated by this Agreement that would reasonably be expected to constitute a "mass layoff" or "plant closing" within the meaning of the Workers Adjustment Retraining Notification (WARN) Act of 1989.

(b) **Schedule 4.22(b)** is a true and complete list of each Site Employee by job title as of May 31, 2018 and, with respect to each, sets forth (i) date of hire, (ii) current base salary or wage rate, (iii) bonus or other incentive opportunity and latest bonus paid on an annual basis, (iv) accrued but unused vacation accrual, and (v) status (active, or on short-term or long-term disability or other leave). There are no unfair labor practice complaints against the Company pending before any Governmental Entity, or material labor grievances pending against the Company.

(c) The Company has not received written notice of any material charges with respect to any current or former employee or independent contractor of the Company before any Governmental Entity responsible for the prevention of unlawful employment practices.

(d) Without limiting any other provision of this **Section 4.22** , the Company is in material compliance with all applicable Laws respecting labor and employment, including Laws relating to employment practices, terms and conditions of employment, discrimination, disability, workers compensation, immigration, occupational safety and health, wages and hours (including overtime wages), and employee terminations. The Company has no material liability with respect to any misclassification of (i) any Person as an independent contractor rather than as an employee or (ii) any employee currently or formerly classified as "exempt" from overtime wages under the Law.

(e) All amounts due or accrued due for all salary, wages, bonuses, commissions, vacation pay, and benefits under the employment contracts of the Site Employees and the Employee Benefit Plans have been paid or accrued prior to the Closing Date.

Section 4.23 **No Other Representations or Warranties.** Buyer and Seller covenant and agree that:

(a) EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN **ARTICLE III** , THIS **ARTICLE IV** AND ANY CERTIFICATE OR OTHER INSTRUMENT DELIVERED PURSUANT HERETO **,** SELLER, ITS AFFILIATES AND THEIR RESPECTIVE REPRESENTATIVES HAVE NOT MADE ANY OTHER REPRESENTATIONS OR WARRANTIES, WHETHER EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, CONCERNING THE COMPANY, THE BUSINESS OR ANY OTHER MATTER, INCLUDING BUT NOT LIMITED TO THE PROBABLE SUCCESS OR PROFITABILITY OF THE OWNERSHIP OF THE LLC INTERESTS OR THE OWNERSHIP, USE OR OPERATION OF THE BUSINESS OR

ANY OF THE ASSETS OF THE COMPANY BY BUYER AFTER THE CLOSING, OR ANY LIABILITIES OF THE COMPANY AS OF THE CLOSING, INCLUDING, WITHOUT LIMITATION, REPRESENTATIONS AND WARRANTIES CONCERNING THE MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY ASSET, AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED.

(b) EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN **ARTICLE III** , THIS **ARTICLE IV** AND ANY CERTIFICATE OR OTHER INSTRUMENT DELIVERED PURSUANT HERETO, BUYER ACKNOWLEDGES AND AGREES THAT SELLER IS MAKING NO REPRESENTATIONS OR WARRANTIES AS TO THE CONDITION, CAPACITIES, CAPABILITIES OR INTEGRITY OF THE NATURAL GAS RESERVOIRS, WELLS, PIPELINES, EQUIPMENT OR OTHER ASSETS OF THE COMPANY, AND ALL OF THE ASSETS OF THE COMPANY (INCLUDING REAL AND PERSONAL PROPERTY) ARE BEING PURCHASED BY BUYER, INDIRECTLY THROUGH THE PURCHASE OF THE LLC INTERESTS, ON AN "AS IS, WHERE IS" AND "WITH ALL FAULTS" BASIS.

ARTICLE V
REPRESENTATIONS RELATING TO BUYER

Buyer represents and warrants to Seller that, as of the date of this Agreement:

Section 5.1 **Due Organization and Power of Buyer.** Buyer is duly organized, validly existing and in good standing under the laws of Delaware and has the requisite limited liability company power and authority to conduct its business as it is now being conducted, and to own, lease and operate its assets and properties. Buyer is duly authorized, qualified or licensed to do business as a foreign limited liability company and is in good standing in every jurisdiction where such authorization, qualification or license is required by Law, except in any jurisdiction where the failure to be so authorized, qualified or licensed would not reasonably be expected to prevent or materially delay the Closing.

Section 5.2 **Authorization and Validity of Agreement.** This Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite limited liability company action by Buyer, and Buyer has full limited liability company power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and no other action on the part of Buyer is necessary to authorize the execution, delivery and performance of this Agreement or the consummation by Buyer of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Buyer and constitutes a valid and legally binding obligation of Buyer enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar Laws affecting the enforcement of creditors' rights generally, and subject to general principles of equity.

Section 5.3 **Non-Contravention.** The execution and delivery by Buyer of this Agreement does not, and the consummation by Buyer of the transactions contemplated hereby and the compliance by Buyer with any of the provisions hereof will not, (a) violate or conflict with any provision of the Limited Liability Company Agreement of Buyer or (b) assuming that all

Governmental Approvals and Third-Party Approvals set forth in **Schedule 5.4** or the documents identified therein have been obtained, (i) violate any Law or Order to which Buyer is subject or (ii) constitute a breach or violation of or default under any Contract to which Buyer or any of its Affiliates is a party or by which Buyer's assets are bound, except with respect to this clause (ii) for any such breach, violation or default (A) which would not reasonably be expected to have a Material Adverse Effect on Buyer or a material adverse effect on Buyer's ability to perform its obligations under this Agreement or (B) that has been waived, cured or consented to on or before the Closing Date.

Section 5.4 **Actions, Orders and Approvals.** No Action or Order is pending or, to the Knowledge of Buyer, threatened against Buyer by or before any Governmental Entity which would reasonably be expected to impair materially Buyer's ability to perform its obligations under this Agreement or to consummate the transactions contemplated hereby. No Third Party Approval and, except as set forth in **Schedule 5.4** , no Governmental Approval is required on the part of Buyer in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for such Governmental Approvals or Third Party Approvals the failure of which to obtain would not reasonably be expected to have a Material Adverse Effect on Buyer's ability to perform its obligations hereunder or which have been (or before Closing will be) obtained.

Section 5.5 **Litigation.** Except as set forth in **Schedule 5.5** , there are no (a) Orders against Buyer or any of its Affiliates or (b) Actions instituted by any Person other than Seller or its Affiliates pending or, to the Knowledge of Buyer, threatened against or affecting Buyer or any of its Affiliates, in either of the foregoing clauses (a) or (b), (i) that would reasonably be expected to restrain, delay or prohibit any of the transactions contemplated by this Agreement or (ii) that would prevent Buyer from performing in all material respects its obligations under this Agreement.

Section 5.6 **Independent Decision.**

(a) Buyer (i) is an experienced and knowledgeable investor in the United States, (ii) has the capability of evaluating the merits and risks of investing in the Business and (iii) can bear the economic risk of an investment in the LLC Interests. Buyer has conducted its own independent review and analysis of the Business and of the assets, liabilities, results of operations, financial condition, technology and prospects of the Company and acknowledges that it has been provided access to personnel, properties, premises and records of the Company for such purpose. In entering into this Agreement, Buyer has relied solely upon the representations and warranties and covenants contained in this Agreement and the schedules, annexes and exhibits hereto, and upon its own investigation and analysis of the Company, the assets of the Company and the Business (such investigation and analysis having been performed by Buyer).

(b) Buyer acknowledges that none of Seller, its Affiliates or any other Person has made any representations or warranties, expressed or implied, as to the accuracy or completeness of any information regarding the Business, the Company or the assets of the Company that has been furnished or made available to Buyer and its Representatives, except as expressly set forth in this Agreement, and none of Seller, the Company, their Affiliates and Representatives or any other Person shall have or be subject to any liability (other than pursuant to the express terms of this

Agreement) to Buyer or any other Person resulting from the distribution to Buyer, or Buyer's use, of any such information with respect to the Business, the Company or the assets of Company and any information, documents or material made available to Buyer in management presentations or in any other form in expectation of the transactions contemplated by this Agreement.

Section 5.7 **Purchase for Investment.** Buyer is an "accredited investor" as such term is defined in Rule 501 promulgated under the Securities Act of 1933, as amended (the " **Securities Act** "). Buyer acknowledges that the LLC Interests are not registered under the Securities Act or under any state or foreign securities Laws. Buyer represents that it is not an underwriter, as such term is defined under the Securities Act, and is purchasing the LLC Interests solely for investment, with no intention to distribute any of the LLC Interests to any Person, and Buyer will not sell, transfer or otherwise dispose of the LLC Interests except in compliance with the registration requirements or exemption provisions under the Securities Act and the rules promulgated thereunder, and any other applicable securities Laws.

Section 5.8 **Financial Capacity; No Financing Condition.** Buyer has available to it as of the date hereof (or has commitments therefor) and will at Closing have funds sufficient to consummate the transactions contemplated by this Agreement. Buyer acknowledges that its obligations to effect the transactions contemplated hereby are not subject to the availability to Buyer or any other Person of financing.

Section 5.9 **Finders; Brokers.** Neither Buyer nor its Affiliates has any liability or obligation to pay fees or commissions to any broker, finder or agent with respect to the transactions contemplated hereby for which Seller (or, before Closing, the Company) could become liable or obligated.

Section 5.10 **No Other Representations or Warranties.** Except for the representations and warranties contained in this **Article V** and any certificate or other instrument delivered pursuant hereto, neither Buyer nor any other Person makes any other representations or warranties, whether express or implied, on behalf of Buyer.

ARTICLE VI
AGREEMENTS OF BUYER AND SELLER

Section 6.1 **Operation of the Business.** Until the Closing, Seller shall cause the Company to conduct the Business and to operate and maintain its assets in the ordinary course, consistent with past practices. Without limiting the generality or effect of the foregoing and except as required by the Joint Project Agreement or Operator Agreement, from the date of this Agreement through the Closing, Seller shall cause the Company to (i) maintain its properties and assets, (ii) comply with all applicable Laws and Orders and perform all of its obligations under all Disclosed Contracts and Permits, and (iii) use its commercially reasonable efforts to preserve intact the Business and its relationships with customers, suppliers and others having business relationships with it, in each case in all material respects. Until Closing, Seller shall not, and shall cause the Company not to, without the prior written approval of Buyer (which approval shall not be unreasonably withheld, delayed or conditioned) or as otherwise contemplated by this Agreement

or **Schedule 6.1** or as required by Law or under the Joint Project Agreement or Operator Agreement, take any of the following actions with respect to (and only with respect to) the Company:

(a) Amend its articles of organization or limited liability company agreement, or issue or agree to issue any additional membership interests (or other equity interests) of any class or series, or any notes, bonds or other securities, or issue any options, warrants or other rights to acquire any membership interests (or other equity interests);

(b) Effect any split, combination or reclassification of or redeem, repurchase or otherwise acquire, directly or indirectly, any of the LLC Interests;

(c) Sell, transfer, lease, sublease, pledge, mortgage or otherwise dispose of or encumber or create any Lien (other than a Permitted Lien or any Lien that will be released at or before Closing) against any of the LLC Interests or any of the material assets of the Business;

(d) Except as contemplated by **Section 6.9(a)** , cancel any material debts or waive any material claims or rights pertaining to the Business;

(e) Incur, assume or guarantee any Indebtedness, other than Indebtedness that is included in the determination of Net Working Capital and does not exceed $300,000;

(f) Make or change any material Tax elections (except as required by Law), file any material amendment to a Tax Return, enter into any closing agreement with respect to Taxes or settle any material claim or assessment with respect to Taxes (for clarity, the Company may contest in good faith any Tax);

(g) Enter into or modify any material employment or severance agreement or any other material compensation arrangement (i) binding on the Company or (ii) with respect to any employee of Seller or its Affiliates providing services to the Company that would, in either of the foregoing clauses (i) and (ii), (1) have a material adverse impact on the OpEx Budget or (2) materially increase Buyer's liability under this Agreement with respect to employees;

(h) Except as may be required as a result of a change in Law or in GAAP, change any of the accounting principles or practices used by the Company;

(i) Except for those activities and expenditures contemplated by **Schedule 6.1** , make any single capital expenditure or make any commitment to make any single capital expenditure in excess of $300,000, other than (i) in accordance with the CapEx Budget or the OpEx Budget, as applicable, (ii) to repair, maintain or replace any assets, properties or facilities in the ordinary course of business and as Seller reasonably believes prudent for compliance with California Senate Bill 887 and the California Department of Conservation's Division of Oil, Gas & Geothermal Resources' implementing regulations, or California Air Resources Board regulations or (iii) as Seller reasonably believes prudent to maintain or restore safe operations of the Business or respond to any catastrophe or other emergency situation;

(j) Adopt a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other restructuring (for clarity, a restructuring of Seller's and the Company's parent entities does not constitute a restructuring of Seller or the Company);

(k) Allow or cause the Company to acquire (by purchase, merger or otherwise) any equity interest in, or otherwise make any investment in, any other Person, or enter into any joint venture, partnership or similar agreement, other than (i) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, in each case maturing within one year from the date of creation thereof, (ii) commercial paper maturing within one year from the date of creation, (iii) deposits maturing within one year from the date of creation thereof, including certificates of deposit, or (iv) deposits in money market funds investing exclusively in investments described in clauses (i), (ii) or (iii); or;

(l) initiate, commence or settle any lawsuit or claim related to the Company, other than with respect to any lawsuit or claim that would not reasonably be expected to result in payments to or from the Company after the Closing Date in excess of $100,000 (for clarity, a CPUC-approved agreement regarding restructuring of Seller's and the Company's parent entities does not constitute a settlement of a lawsuit or claim);

(m) liquidate, dissolve, recapitalize or otherwise wind up the Business;

(n) fail to maintain insurance coverage substantially equivalent to its existing insurance coverage of the Business as in effect on the date hereof;

(o) amend or apply to amend any tariff, or amend, modify, fail to renew in a timely fashion, allow to lapse or terminate or otherwise compromise the Company's ability to operate under any material Permit, except that the Company may amend or apply to amend its tariff to authorize injection and withdrawal fees;

(p) amend in any material respect or terminate (other than by completion or expiration thereof) any existing Disclosed Contract or Property Use Agreement or enter into any new Contract that would have been required to be disclosed in **Schedule 4.4** or **Schedule 4.5** , except that the Company may, in the ordinary course of business, consistent with past practice, enter into or amend any Contract that was disclosed, or would have been required to be disclosed, pursuant to **Sections 4.5(a)(i)(A)** , **4.5(a)(i)(C)** or **4.5(a)(i)(D)** or was a storage asset optimization assistance agreement disclosed pursuant to **Section 4.5(a)(ii)** but only if such Contract, as entered into or amended, expires on or before March 31, 2020;

(q) sell, transfer or otherwise dispose of any Owned Cushion Gas; or

(r) Agree, whether in writing or otherwise, to do any of the foregoing;

provided , *however* , that nothing in this **Section 6.1** shall preclude (i) Seller or the Company from obtaining the consent of any third party required in connection with the transactions contemplated by this Agreement or (ii) Seller from causing the Company to pay cash dividends, or make cash distributions or distribute intercompany receivables to Seller or its Affiliates at any time before the

Closing; and *provided* , *further* , that (1) the Company may prepare and submit to the CPUC and other Governmental Entities filings required to maintain or obtain Permits or other authorizations reasonably necessary to conduct the Business, and (2) Seller may take any and all actions required to comply with the obligations and requirements set forth in the Joint Project Agreement, Operator Agreement, Disclosed Contracts, or Property Use Agreements.

Section 6.2 **Investigation of Business; Confidentiality.**

(a) During the period commencing on the date hereof and ending upon the earlier of the date of termination of this Agreement and the Closing Date, Seller shall, and shall use its commercially reasonable efforts to cause the Company to, provide, upon reasonable request and notice, Buyer and its Representatives reasonable access during normal business hours to the properties, books and records of the Business for the purpose of reviewing information and documentation relative to the properties, books and records and appropriate officers and employees of the Business and shall furnish Buyer and its Representatives with all financial and operating data and other information concerning the affairs of the Company as Buyer and such Representatives may reasonably request; *provided* that Buyer shall not be entitled to perform any seismic tests or drilling or other "invasive" tests (environmental or otherwise) without the prior written consent of Seller (which may be withheld in its sole discretion). Notwithstanding anything to the contrary contained in this **Section 6.2** or in any other provision of this Agreement, Seller shall not be required to permit any inspection, to disclose any information, or to consent to any communication with any Person if, in the reasonable judgment of Seller, such action would (i) result in the disclosure of any trade secrets of third parties to whom Seller or its Affiliates owe an obligation of confidentiality (*provided* that Seller shall use its reasonable efforts to obtain the consent of such third parties to such disclosure) or proprietary predictive models of Seller or its Affiliates, (ii) violate any obligation of Seller or its Affiliates with respect to confidentiality (*provided* that Seller shall use its reasonable efforts to obtain the consent of any third party to such inspection, disclosure or communication), or applicable Law, (iii) result in (as determined by Seller's legal counsel) the loss of a legal privilege or a violation of HSR or any other applicable laws, rules or regulations. In addition, nothing in this Agreement shall be construed to permit Buyer or its Affiliates or any of their respective Representatives to have access to any files, records, contracts or documents of Seller or its Affiliates relating to this transaction, including any bids or offers received thereby for the sale of the LLC Interests or any information or analyses (including financial analyses) relating thereto, it being agreed that all such bids, offers, information and analyses shall be the sole property of Seller and its Affiliates. Buyer agrees to indemnify and hold harmless, release and defend Seller, the Company, their respective Affiliates and the respective Representatives of the foregoing from and against any and all losses arising, in whole or in part, from the acts or omissions of Buyer or its Affiliates or any of their respective Representatives in connection with Buyer's or its Representatives' inspection of the properties, including claims for personal injuries, property damage and reasonable attorneys' fees and expenses, except in each case to the extent caused by the gross negligence or willful misconduct of Seller, the Company or their respective Affiliates, or any of their respective Representatives, which indemnification obligation shall survive the Closing and the termination of this Agreement. Buyer and its Affiliates and their respective Representatives will hold in confidence all information obtained from Seller, the Company, their respective Affiliates or the respective Representatives of the foregoing in accordance with the provisions of the Non-Disclosure

Agreement dated July 14, 2017 (the " **Confidentiality Agreement** ") by and between Sciens eCORP Natural Gas Storage Assets LLC and Northwest Natural Gas Company, the terms and provisions of which shall survive the termination of this Agreement. Before Closing, Buyer shall not, without the prior consent of Seller, contact or communicate with customers or suppliers of Seller or the Company.

(b) From and after the Closing Date, Seller shall, and shall cause its Affiliates and their respective Representatives to, keep confidential and not disclose any information relating to the Company (whether in the possession of Seller, its Affiliates or such Representative at the time of the Closing or subsequently obtained by Seller, any Affiliate of Seller or any such Representative from Buyer pursuant to this Agreement) (collectively, " **Restricted Information** "), and shall not directly or indirectly use such Restricted Information for any purpose, except as and to the extent permitted by the terms of this Agreement. The obligation to keep such Restricted Information confidential shall not apply to any information that: (i) at the time of disclosure to Seller, any of its Affiliates or any of their respective Representatives is in the public domain other than as a result of a breach of any obligation of confidentiality by Seller, any of its Affiliates or any of their respective Representatives; (ii) after disclosure to Seller, any of its Affiliates or any of their respective Representatives, enters the public domain other than through an unauthorized disclosure by Seller, any of its Affiliates or any of their respective Representatives; (iii) Seller, any of its Affiliates or any of their respective Representatives is required to disclose by Law, including oral questions, written interrogatories, request for information or documents, subpoena, or similar process, or the requirements of any stock exchange or other regulatory organization to which Seller, any of its Affiliates or any of their Representatives are subject; or (iv) that was independently developed by Seller, any of its Affiliates or any of their respective Representatives prior to the disclosure of such Restricted Information by the Company and without use of the Restricted Information.

Section 6.3 **Efforts; Cooperation; No Inconsistent Action.**

(a) Subject to the terms and conditions of this Agreement, each of the parties will use its reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the transactions contemplated by this Agreement, including using commercially reasonable efforts to ensure satisfaction of the conditions precedent that it is required to satisfy (or cause to be satisfied). Notwithstanding anything to the contrary in this Agreement, Buyer shall take, or refrain from taking, any action and shall agree to any remedy requested (other than in a Material Request) in order to obtain approval or resolve the concerns of the relevant Governmental Entity. Each of Buyer and Seller shall make all filings which it may be required to file in connection with any Governmental Approval necessary for the consummation of the transactions contemplated by this Agreement; and specifically, no later than fifteen (15) Business Days after the date of this Agreement, an application under the California Act (which shall be made jointly by Buyer and Seller), and filings under HSR, if required. Buyer and Seller shall use reasonable efforts to obtain all material consents and approvals of the counterparties to the Disclosed Contracts for the consummation of the transactions contemplated by this Agreement. Each party shall promptly furnish to the other party such necessary information and assistance as such other party may reasonably request in connection with the preparation of any necessary filings or submissions by it to any Governmental Entity, including any

filings necessary under the provisions of HSR and the California Act. Each party shall provide the other party the opportunity to make copies of all correspondence, filings or communications (or memoranda setting forth the substance thereof) between such party and its Representatives, and the Federal Trade Commission, the Antitrust Division of the United States Department of Justice, the CPUC or any other Governmental Entity and members of their respective staffs with respect to this Agreement and the transactions contemplated hereby. If any objections are asserted with respect to the transactions contemplated hereby under HSR or the California Act or if any suit or proceeding is instituted or threatened by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of HSR or the California Act, each of Buyer and Seller shall use its reasonable efforts to promptly resolve such objections; *provided* that neither Party nor any of its Affiliates has any obligation to hold separate or divest any property or assets of such Party or any of its Affiliates or to defend against any lawsuit, action or proceeding, judicial or administrative, challenging this Agreement or the transactions contemplated hereby.

(b) For sake of clarity, nothing in this Agreement will obligate Buyer to take or refrain from any action or to agree to any remedy requested in order to obtain approval or resolve the concerns of the relevant Governmental Entity to the extent such action or inaction would result in an adverse modification to the approval requested by Buyer or Seller by (1) materially impacting either the value of the Business, including by requiring the Company to make or commit to make material expenditures not otherwise required by Law, or the Company's or Buyer's ability to expand the Facility, in each case with the material impact measured by reference to the Initial Purchase Price, or (2) imposing restrictions that would materially adversely affect Buyer's or the Company's ability to acquire other gas storage facilities (any request referred to in (1) or (2), a " **Material Request** "), it being understood that Buyer or the Company would need to file a separate application to seek CPUC approval of any expansion of the Facility or acquisition of other gas storage facilities. Buyer shall notify Seller in writing (i) promptly of any Material Request received in writing from any Governmental Entity, and (ii) at least ten (10) Business Days prior to taking or refraining from taking any action in response to a Material Request.

(c) From time to time after the Closing Date, without further consideration, Seller will, at its own expense, execute and deliver such documents to Buyer as Buyer may reasonably request in order to more effectively consummate the transactions contemplated by this Agreement. From time to time after the Closing Date, without further consideration, Buyer will, at its own expense, execute and deliver such documents as Seller may reasonably request in order to more effectively consummate the transactions contemplated by this Agreement.

(d) Seller and Buyer shall notify and keep the other advised as to any litigation or administrative proceeding pending and known to such party, or to its Knowledge, threatened, which challenges the transactions contemplated hereby. Seller and Buyer shall act in good faith and shall not take any action inconsistent with its obligations under this Agreement or which would materially hinder or delay the consummation of the transactions contemplated by this Agreement, or the prompt receipt of required consents or approvals under HSR (if required), the California Act or other applicable Laws.

(e) After the Closing Date, each party must provide the other party reasonable access to its employees and its Affiliates' employees, for purposes of consultation or otherwise, to the extent that such access may reasonably be required in connection with matters relating to or affected by the operation of the Business before the Closing Date. The parties agree to cooperate in connection with any audit, investigation, hearing or inquiry by any Governmental Entity, litigation or regulatory or other proceeding which may arise following the Closing Date and which relates to the ownership of LLC Interests or the operation of the Business, before the Closing Date. Notwithstanding any other provision of this Agreement to the contrary, each party shall bear its own expenses, including fees of attorneys or other representatives, in connection with any such matter described in this **Section 6.3** in which Seller and Buyer are subjects or parties or in which they have a material interest; *provided* , *however* , that all filing or application fees payable by any of the Parties to any Governmental Entity with respect to the transactions contemplated by this **Section 6.3** shall be borne 50% by Buyer and 50% by Seller.

Section 6.4 **Public Disclosures.** Before the Closing Date, no party to this Agreement or its Representatives or Affiliates will issue any press release or make any public disclosure concerning the transactions contemplated by this Agreement without the prior written consent of the other party, except that the Parties and their Affiliates may make any such disclosures required by applicable securities law or securities exchange rules or the California Act. After the Closing Date (if Closing shall occur), no party will issue any press release or make any public disclosure concerning the transactions contemplated by this Agreement or the contents of this Agreement without the prior written consent of the other party, which shall not be unreasonably withheld, delayed or conditioned. Notwithstanding the above, nothing in this Section will preclude any party from making any disclosures that are required by Law or the rules or regulations of any agency with jurisdiction over such party (or the securities of any of its Affiliates) or are necessary and proper in conjunction with the filing of any Tax Return or other document required to be filed with any Governmental Entity; *provided* that, where practicable, the party required to make such disclosure shall allow the other party reasonable time to review and comment thereon in advance of such disclosure.

Section 6.5 **Access to Records and Personnel.**

(a) Buyer shall retain (or use reasonable efforts to cause the Company after Closing to retain) the books, records, documents, instruments, accounts, correspondence, writings, evidences of title and other papers (in each case, including electronic versions thereof) relating to the Business or the Company and the period before Closing (the " **Books and Records** ") for the period of time set forth in its records retention policies on the Closing Date or for such longer period as may be required by Law or any applicable Order or other court order but in any event for at least seven (7) years. After the seven-year period, before Buyer or the Company shall dispose of any such Books and Records, Buyer shall give at least forty-five (45) days' prior written notice to such effect to Seller, and Seller shall be given the opportunity, at its expense, to remove and retain all or any part of such Books and Records as Seller may elect. Notwithstanding the foregoing, Buyer shall retain (or cause the Company to retain) for such longer periods any and all material Books and Records that relate to any ongoing litigation, investigation, Action or proceeding until such time as Buyer is notified of the final conclusion of such matter.

(b) The parties will allow each other reasonable access to Books and Records, and to personnel having knowledge of the whereabouts and contents of Books and Records, for the preparation of Tax Returns or the defense of litigation and responding to data requests from Governmental Entities. Each party shall be entitled to recover its out-of-pocket costs (including copying costs) incurred in providing such records and personnel to the other party. The requesting party will hold in confidence (except as required by applicable Law, and then only after giving the disclosing party an opportunity to seek an appropriate remedy) all confidential information identified as such by, and obtained from, the disclosing party or any of its Representatives, *provided* , *however* , that information which (i) was in the public domain; (ii) was in fact known to the requesting party before disclosure by the disclosing party or its Representatives; or (iii) becomes known to the requesting party from or through a third party not under an obligation of non-disclosure to the disclosing party, shall not be deemed to be confidential information.

Section 6.6 **Employee Matters.** Buyer shall be responsible for, and shall reimburse Seller for, severance pay payable to any employee of Seller that provides services to the Company that Buyer elects not to hire or that Buyer terminates pursuant to Seller's policies in place as of Closing and disclosed to Buyer.

Section 6.7 **Non-Solicitation.** Each of Seller and Buyer agrees that, except with respect to the employees listed on **Schedule 6.7** , for a period of two (2) years beginning on the date of this Agreement, it shall not directly or indirectly induce or attempt to induce any employee of the other party or such other party's Affiliates (including the Company to the extent applicable) to leave its employ, or in any way directly or indirectly interfere or attempt to interfere with the relationship between such other party and such employee. This **Section 6.7** applies only to employees who, in the case of Seller, devote significant time to the Company before Closing and, in the case of Buyer, devote significant time to the Company after Closing. Notwithstanding the foregoing, the limitations set forth herein shall not prohibit the use of any general solicitations not directed at such other party's employees or prohibit the employment of any such employee if such Person initiates contact with the hiring party without the hiring party's encouragement (excluding the general solicitations described above).

Section 6.8 **Amendments of Disclosure Schedules.**

(a) Seller may, from time to time, before the Closing, by written notice to Buyer, supplement or amend its Disclosure Schedules (each a " **Schedule Update** ") to disclose any matter if such supplement or amendment relates to a matter that did not arise until after the date of this Agreement or to remove any matter if such supplement or amendment relates to an occurrence after the date of this Agreement. The representations and warranties to which any such supplemented or amended portions of the Disclosure Schedule relate, so long as the matter so disclosed or removed would not reasonably be expected to have a Material Adverse Effect on the Company and provided that the supplement or amendment does not relate to a matter that would require the consent of Buyer pursuant to **Section 6.1** and to which Buyer did not consent under **Section 6.1** , shall be deemed amended as if made on the date hereof to reflect such changes for purposes of determining whether the conditions set forth in **Article VII** have been fulfilled. However, if the Closing occurs, the Disclosure Schedules (i) shall be deemed to include only that information contained therein on

the date of this Agreement and in any Schedule Updates reflecting actions taken by Seller or the Company as permitted or authorized by **Section 6.1** , and (ii) shall be deemed to exclude all other information contained in any Schedule Update for purposes of determining Buyer's rights to indemnification under **Article IX** .

(b) In the event Seller provides a Schedule Update after the execution and delivery of this Agreement as permitted by **Section 6.8(a)** , and if the matter disclosed thereby would reasonably be expected to have a Material Adverse Effect on the Company, Buyer may terminate this Agreement by giving written notice to Seller which contains complete and full particulars as to all reasons for such termination within ten (10) days of receipt of such amended Disclosure Schedule or, if receipt of such amended Disclosure Schedule was less than ten (10) days before the Closing, on or before the Closing. If Buyer does not provide written notice to Seller of termination of the Agreement in accordance with this **Section 6.8(b)** , the representations and warranties to which such Schedule Update relates shall be deemed amended as set forth in **Section 6.8(a)** .

Section 6.9 **Intercompany Liabilities; Support Obligations.**

(a) Before or on the Closing Date, Seller shall, and shall cause the Company to, settle, repay or cancel all intercompany accounts that are unpaid as of the Closing Date between the Company, on the one hand, and Seller and its Affiliates (other than the Company), on the other hand.

(b) As of the Closing Date, Seller and its Affiliates (other than the Company) shall be released from any and all obligations under any Support Obligations related to or entered into with respect to the Business. Buyer acknowledges the list of Support Obligations set forth in **Schedule 6.9(b)** and agrees to substitute for each such Support Obligation by Seller or one of its Affiliates, a Support Obligation by Buyer or one of its Affiliates acceptable to the counterparty thereto.

(c) Except for Support Obligations set forth on **Schedule 6.9(c)** , Seller shall take (or cause to be taken) all action necessary such that all contracts with its Affiliates terminate prior to, or simultaneously with, the Closing without any further action or Liability on the part of the parties thereto or Buyer or any of its Affiliates (including the Company).

Section 6.10 **Insurance and Indemnities.**

(a) Buyer shall purchase a six-year extended reporting period endorsement (" **reporting tail coverage** ") under the Company's existing directors' and officers' liability insurance coverage, provided that such reporting tail coverage shall extend the director and officer liability coverage in force as of the date of this Agreement from the Closing Date on terms, that in all material respects, are no less favorable to the intended beneficiaries thereof than the existing directors' and officers' liability insurance. Buyer shall maintain for a six-year period all director and officer indemnities in the Organizational Documents of the Company, and shall extend such indemnities to the individuals serving as directors or officers of the Company immediately before the Closing, even though the individuals serving in such capacities may no longer be directors or officers after the Closing.

(b) Buyer, on behalf of itself and its successors acknowledges and agrees to all of the following:

(i) After the Closing Date, no insurance coverage is provided under the Seller Policies with respect to the Company or its Business;

(ii) All rights or claims, whether or not known, which may arise under or with respect to the Seller Policies, are deemed assigned to Seller and its Affiliates;

(iii) No claims regarding any matter whatsoever, whether or not arising from events occurring before the Closing Date, shall be made against the Seller Policies by Buyer or its successors, or any Person subrogated to their rights; and

(iv) Each of the agreements set out in this **Section 6.10** shall continue in force after Closing.

Section 6.11 **Notice of Certain Events.** Until Closing, Seller shall promptly notify Buyer in writing of any fact, change, event, circumstance, development, occurrence or action the existence, occurrence or taking of which (a) has had, or would reasonably be expected to have, a Material Adverse Effect, (b) has resulted in, or would reasonably be expected to result in, any representation or warranty made by Seller hereunder not being true and correct, or (c) has resulted in, or would reasonably be expected to result in, the failure of any of the conditions set forth in **Article VII** to be satisfied. Buyer's receipt of information pursuant to this **Section 6.11** will not operate as a waiver or otherwise affect any representation, warranty or covenant given or made by Seller in this Agreement and will not be deemed to amend or supplement the Schedules.

Section 6.12 **Casualty Loss and Condemnation.** Except as otherwise provided in this **Section 6.12** , during the period after the date of this Agreement but prior to the Closing, all risk of loss or damage to the property or assets of the Company shall, as between Buyer and Seller, be borne by Seller. If during such period the property or assets of the Company are damaged by an earthquake, landslide, hurricane, tornado, adverse weather condition, fire or other natural disaster, act of God or other casualty (each such event, an " **Event of Loss** "), or are taken by a Governmental Entity by exercise of the power of eminent domain (each, a " **Taking** "), then the following provisions of this **Section 6.12** shall apply:

(a) Following the occurrence of (i) any one or more Events of Loss, if the aggregate costs to restore, repair or replace the property or assets of the Company subject to such Event of Loss to a condition reasonably comparable to their prior condition, plus the amount of any lost profits reasonably expected to accrue after Closing as a result of such Event of Loss, such amount pursuant to this clause (i) to be determined by an independent third party appraiser or other qualified expert selected by Buyer and reasonably acceptable to Seller (collectively, " **Restoration Costs** "), or (ii) any one or more Takings, if the value of the property subject to such Taking plus the amount of any lost profits reasonably expected to accrue after Closing as a result of such Taking, less any condemnation award received by Buyer (provided that any such condemnation award is made available to Buyer), such amount pursuant to this clause (ii) to be determined by an independent third party appraiser or other qualified expert selected by Buyer and reasonably acceptable to Seller

(collectively, the " **Condemnation Value** "), is, in the aggregate, less than or equal to $1,000,000, there shall be no effect on the transactions contemplated hereby (including for purposes of the closing conditions and the indemnification and termination provisions hereunder), except that Buyer shall be entitled to receive any insurance proceeds attributed to such casualty that are not used by Buyer to restore, repair or replace any damaged property or assets and any condemnation award, and any such proceeds and award will be excluded from the calculation of the Final Net Working Capital.

(b) Subject to the Joint Project Agreement and the termination right of Buyer set forth in **Section 6.12(d)** , upon the occurrence of any one or more Events of Loss or Takings involving aggregate Restoration Costs and Condemnation Value in excess of $1,000,000 (a " **Major Loss** "), Seller shall have, in the case of a Major Loss relating solely to one or more Events of Loss, the option, exercised by notice to Buyer, to restore, repair or replace the damaged assets or properties prior to Closing to a condition reasonably comparable to their prior condition. If Seller elects to so restore, repair or replace the assets or properties relating to a Major Loss, which election shall be made by notice to Buyer prior to the Closing Date and as soon as practicable following the occurrence of the Major Loss, Seller will complete or cause to be completed prior to the Closing, as a condition to Buyer's obligation to consummate the Closing, the repair, replacement or restoration of the damaged assets or property to their condition as of the date of this Agreement, and the Closing Date shall be postponed until the amount of time reasonably necessary to complete the restoration, repair or replacement of such property or assets as reasonably agreed among Buyer and Seller has elapsed. If Seller elects not to cause the restoration, repair or replacement of the property or assets affected by a Major Loss, or such Major Loss is the result in whole or in part of one or more Takings or is otherwise not capable of being restored, repaired or replaced, the provisions of **Section 6.12(c)** will apply.

(c) Subject to the Joint Project Agreement and to the termination right of Buyer set forth in **Section 6.12(d)** , in the event that Seller elects not to cause the restoration, repair or replacement of a Major Loss, or in the event that Seller, having elected to cause the repair, replacement or restoration of the Major Loss, fails to cause its completion within the period of time agreed upon by the Parties pursuant to or as otherwise required by **Section 6.12(b)** , or in the event that a Major Loss is the result in whole or in part of one or more Takings or is otherwise not capable of being restored, repaired or replaced, then the Parties shall, within thirty (30) days following Seller's election not to cause the restoration, repair or replacement, failure to complete, or the occurrence of such Major Loss, as the case may be, adjust the Initial Purchase Price by the aggregate Restoration Cost and Condemnation Value related thereto, as mitigated by any repair, replacement or restoration work actually completed by Seller, and proceed to Closing. To assist Buyer in its evaluation of any and all Events of Loss, Seller shall provide Buyer such access to the properties and assets and such information as Buyer may reasonably request in connection therewith.

(d) In the event that the aggregate Restoration Costs and Condemnation Value with respect to one or more Events of Loss and/or Takings equals an amount in excess of $5,000,000, then Buyer shall have the right to terminate this Agreement by notice in writing to Seller.

Section 6.13 **Exclusivity** . Except with respect to this Agreement and the transactions contemplated hereby and except to the extent Seller determines any action is necessary to comply with the ROFR, Seller shall not, and shall cause its Affiliates and its and their respective Representatives (including any investment banking, legal or accounting firm retained by any of the foregoing) not to: (a) initiate, solicit or seek, directly or indirectly, any inquiries or the making or implementation of any proposal or offer with respect to a merger, acquisition, consolidation, recapitalization, liquidation, dissolution, equity investment or similar transaction involving, or any purchase of all or any substantial portion of the assets or any equity interests of, Seller or any Acquired Company (any such proposal or offer being hereinafter referred to as a " **Proposal** "); (b) engage in any negotiations concerning, or provide any confidential information or data to, or have any substantive discussions with, any Person relating to a Proposal; (c) otherwise cooperate in any effort or attempt to make, implement or accept a Proposal; or (d) enter into a Contract with any Person relating to a Proposal. The obligations set forth in this **Section 6.13** shall expire upon the earlier of (y) the termination of this Agreement and (z) the Closing Date.

ARTICLE VII
CONDITIONS

Section 7.1 **Conditions Precedent to Obligations of Buyer and Seller.** The respective obligations of Buyer and Seller to consummate the transactions contemplated by this Agreement on the terms specified herein shall be subject to the satisfaction at or before the Closing of each of the following conditions:

(a) **Regulatory Authorizations.** (i) The Governmental Approvals set forth in **Schedules 3.5** and **5.4** shall have been obtained, (ii) the CPUC shall have issued a final and unappealable decision approving without adverse modification (assessed under the materiality threshold set forth in **Section 6.3(b)**) the transfer of the LLC Interests under the California Act and under decisions of the CPUC relating to the gas storage facilities owned by the Company (the " **CPUC Order** "), and (iii) if required, approval shall have been granted under HSR or all applicable waiting periods thereunder shall have lapsed or been terminated; and

(b) **Certain Rights.** The ROFR shall have terminated, expired, or been waived, or otherwise is no longer be in effect.

Section 7.2 **Conditions Precedent to Obligation of Seller.** The obligation of Seller to consummate the transactions contemplated by this Agreement on the terms specified herein shall be subject to the satisfaction of each of the following conditions:

(a) **Representations and Warranties.** (i) Buyer's representations and warranties made in **Section 5.1** , **Section 5.2** , **Section 5.4** , and **Section 5.9** shall be true and correct in all respects as of the date of this Agreement and the Closing Date as though made on such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case as of such earlier date), and (ii) each of Buyer's other representations and warranties made in **Article V** shall be true and correct in all respects (without regard to materiality qualifiers) as of the date of this Agreement and the Closing Date as though made on such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case as of such earlier

date), and except as would not, individually or in the aggregate, reasonably be expected to prevent, materially delay or materially impair the ability of Buyer to perform its material obligations under this Agreement or to consummate the transactions contemplated hereby;

(b) **Performance of Covenants.** Buyer shall have performed and complied in all material respects with all obligations and covenants required by this Agreement to be performed by it before or at the Closing;

(c) **Deliveries** . Buyer shall have delivered to Seller the items required by **Section 2.4** ;

(d) **No Injunction, etc.** There shall be no Law or Order that is in effect that prohibits the consummation of any of the transactions contemplated by this Agreement and no Action before any Governmental Entity shall be pending which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the enforceability of this Agreement; and

(e) **Substitution of Support Obligations.** Buyer shall have provided in accordance with **Section 6.9(b)** substitute Support Obligations for the Support Obligations set forth in **Schedule 6.9(b)** and delivered releases acceptable in form and substance to Seller in favor of Seller or its Affiliates with respect to such substituted Support Obligations.

Section 7.3 **Conditions Precedent to Obligation of Buyer.** The obligation of Buyer to consummate the transactions contemplated by this Agreement on the terms specified herein is subject to the satisfaction of each of the following conditions:

(a) **Representations and Warranties.** (i) Seller's representations and warranties made in **Section 3.1** , **Section 3.2** , **Section 3.4** , **Section 3.7** , **Section 4.1** , and **Section 4.13** shall be true and correct in all respects as of the date of this Agreement and the Closing Date as though made on such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case as of such earlier date), and (ii) each of Seller's other representations and warranties made in **Articles III** and **IV** shall be true and correct in all respects (without regard to materiality qualifiers, including Material Adverse Effect) as of the date of this Agreement and the Closing Date as though made on such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case as of such earlier date), and except as would not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect on Seller or the Company;

(b) **Performance of Covenants.** Seller shall have performed and complied in all material respects with all obligations and covenants required by this Agreement to be performed by it before or at the Closing;

(c) **Deliveries** . Seller shall have delivered to Buyer the items required by **Section 2.5** ; and

(d) **No Injunction, etc.** There shall be no Law or Order that is in effect that restrains, restricts or prohibits the consummation of any of the transactions contemplated by this Agreement

and no Action before any Governmental Entity shall be pending which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the enforceability of this Agreement.

ARTICLE VIII
TERMINATION

Section 8.1 **Termination Events.** This Agreement may be terminated at any time before the Closing:

(a) By the mutual written consent of Buyer and Seller;

(b) By either Buyer or Seller, by written notice to the other party, if the Closing has not occurred by the close of business on the first anniversary of the date of this Agreement (subject to extension (i) automatically for an additional six (6) months after such date if as of such date the CPUC has not issued the CPUC Order and/or (ii) to accommodate any cure period specified in **Sections 8.1(c)** or **8.1(e)**), *provided* that the failure to consummate the transactions contemplated by this Agreement did not result from the failure by the party seeking termination of this Agreement to fulfill any material obligation or covenant provided for herein that is required to be fulfilled by it before the Closing;

(c) By Buyer, by written notice to Seller, if Seller breaches or fails to perform in any material respect any of its representations, warranties, covenants or obligations contained in this Agreement, which breach or failure to perform (i) would give rise to the failure of a condition set forth in **Section 7.3** and (ii) cannot be or has not been cured within thirty (30) days after the giving of written notice to Seller; *provided* that Buyer is not then in material breach of this Agreement;

(d) By Buyer in accordance with **Section 6.8(b)** ;

(e) By Seller, by written notice to Buyer, if Buyer breaches or fails to perform in any material respect any of its representations, warranties, covenants or obligations contained in this Agreement, which breach or failure to perform (i) would give rise to the failure of a condition set forth in **Section 7.2** and (ii) cannot be or has not been cured within thirty (30) days after the giving of written notice to Buyer; *provided* that Seller is not then in material breach of this Agreement;

(f) By either Buyer or Seller if any Law or Order becomes effective prohibiting or making illegal the consummation of the transactions contemplated by this Agreement, upon written notification of the non-terminating party by the terminating party;

(g) By Seller or Buyer, by written notice to the other party, if PG&E exercises the purchase right set forth in the Joint Project Agreement;

(h) By Buyer pursuant to **Section 6.12(d)** ; or

(i) By Seller by written notice to Buyer, or by Buyer by written notice to Seller, following the expiration of the period set forth in **Section 6.3(b)(ii)** , in the event Buyer has notified Seller

pursuant to **Section 6.3(b)(i)** and Buyer has notified Seller pursuant to **Section 6.3(b)(ii)** that it has elected not to agree to a Material Request.

Section 8.2 **Effect of Termination.** If this Agreement is terminated as provided in **Section 8.1** , neither Buyer nor Seller shall have any further obligations to any other party and the provisions of this Agreement shall have no further force and effect; *provided* , *however* , (a) no such termination shall serve or operate to release any party from any liability with respect to any breach of its duties and obligations hereunder before such termination, it being expressly agreed and acknowledged that such liabilities, and the terms and provisions hereof relating thereto (including provisions of indemnity), survive any such termination, and (b) **Sections 6.4** , **6.7** , **8.2** , **8.3 and 9.2(d)** and **Article XI** , and Buyer's indemnification obligations under **Section 6.2** , survive the termination of this Agreement.

Section 8.3 **Deposit.**

(a) Seller shall be entitled to retain the Deposit as liquidated damages in the event of the termination of this Agreement in any of the following circumstances:

(i) Seller terminates this Agreement pursuant to **Section 8.1(e)** ; or

(ii) Seller or Buyer terminates this Agreement pursuant to **Section 8.1(b)** and at the time of such termination (A) the conditions set forth in **Section 7.1** and **Section 7.3** have been satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing and that were, at the time of termination, capable of being satisfied), (B) Seller has confirmed in writing to Buyer that Seller is ready, willing, and able to consummate the Closing, and (C) Buyer shall have failed to consummate the Closing.

Notwithstanding anything to the contrary in this Agreement, Seller's right to retain the Deposit pursuant to this **Section 8.3(a)** will be the sole and exclusive remedy of Seller or any of its Affiliates against Buyer or any of its Affiliates or any of its or their respective Representatives for any and all Damages that may be suffered based upon, resulting from or arising out of the circumstances giving rise to such termination, and upon retention of the Deposit by Seller, none of Buyer or any of its Affiliates or any of its or their respective Representatives will have any further liability or obligation relating to or arising out of this Agreement or the transactions contemplated by this Agreement. The parties agree that the actual damages sustained by Seller in the event of a termination of this Agreement pursuant are difficult to ascertain with any certainty, that the Deposit is a reasonable estimate of such damages, and that such payment shall be considered as liquidated damages and not a penalty.

(b) Except as provided in **Section 8.3(a)** , upon termination of this Agreement Seller shall promptly return the Deposit, without interest, to Buyer.

ARTICLE IX
SURVIVAL; INDEMNIFICATION

Section 9.1 **Survival.**

(a) The respective representations and warranties of Seller and of Buyer contained in this Agreement shall, without regard to any investigation made by any party, survive the Closing Date for a period ending eighteen (18) months after the Closing Date; *provided* , *however* , that (i) the representations and warranties contained in **Sections 3.1** , **3.2** , **3.4** , **4.1** , **5.1** , **5.2** , and **5.7** shall survive the Closing Date indefinitely and (ii) the representations and warranties contained in **Section 4.8** and the provisions of **Article X** shall survive until the date that is ninety (90) days following expiration of the applicable statute of limitations (including any extensions thereof). The covenants and agreements that by their terms do not contemplate performance after the Closing Date shall terminate at Closing. The covenants and agreements that by their terms contemplate performance after the Closing Date shall survive the Closing in accordance with their respective terms until such covenant or agreement has been performed. The applicable survival period set forth above for each such covenant, agreement, representation or warranty is referred to herein as the " **Survival Period** ".

(b) No claim for Damages or other relief of any kind (including a claim under **Sections 9.2(a)** or **9.3(a)**) arising out of or relating to the breach of any covenant, agreement, representation or warranty under this Agreement may be brought unless a written notice describing the nature of the claim, the theory of liability or the nature of the relief sought and the material factual assertions upon which the claim is based is given to the other party, before the termination of the applicable Survival Period. Notwithstanding anything herein to the contrary, any covenant, agreement, representation or warranty that would otherwise terminate shall continue to survive for any claim for Damages with respect to which such notice is given pursuant to this Agreement before the end of the Survival Period, until the matter is finally resolved and any related Damages are paid.

Section 9.2 **Indemnification by Seller.**

(a) Except as otherwise provided in **Article X** below with respect to Tax matters and subject to the other provisions of this Agreement, Seller shall, from and after Closing, pay, defend, indemnify and hold Buyer, its Affiliates (including, following the Closing, the Company) and its and their respective successors and permitted assigns, and their respective shareholders, members, partners (general and limited), officers, directors, managers, employees, agents and representatives, and each of their heirs, executors, successors and assigns (" **Buyer Indemnified Parties** "), harmless from and against and in respect of any and all Actions, demands, claims, lawsuits, causes of action, losses, payments, costs, expenses, penalties, liabilities, damages, obligations, assessments, investigations and other proceedings (whether or not before a Governmental Entity and whether or not brought by a third party), including reasonable attorney's fees, consultant fees, court costs and other documented out-of-pocket expenses incurred investigating or preparing for the foregoing (collectively, " **Damages** "):

(i) any breach of any representation or warranty made by Seller as though such representation or warranty was made on and as of the date of this Agreement and the Closing Date;

(ii) any breach of any of the covenants or obligations of Seller in this Agreement; and

(iii) any and all liabilities for Taxes of the Company or any of its Subsidiaries for which Seller is responsible pursuant to **Article X** of this Agreement.

(b) The foregoing obligation to indemnify Buyer Indemnified Parties set forth in **Section 9.2(a)(i)** through **Section 9.2(a)(iii)** shall be subject to each of the following limitations:

(i) Such indemnification obligations shall terminate upon expiration of the applicable Survival Period.

(ii) With respect to **Section 9.2(a)(i)** , no reimbursement or payment for any Damages asserted against Seller under such indemnification obligations shall be required unless and until the cumulative aggregate amount of such Damages equals or exceeds one percent (1%) of the Final Closing Date Purchase Price (the " **Deductible** "), and then only to the extent that the cumulative aggregate amount of Damages, as finally determined, exceeds the Deductible; *provided* that any Damages which individually total less than $25,000 (" **De Minimis Losses** ") shall be excluded in their entirety and Seller has no liability hereunder to any Buyer Indemnified Parties for any such De Minimis Losses. Notwithstanding the foregoing, breach of the representations and warranties contained in **Section 3.1, 3.2** , **3.4** , **3.7** , **4.1** , **4.8** , **4.13** or **4.14(b)** shall not be subject to the Deductible or the De Minimis Losses limitations.

(c) Notwithstanding anything to the contrary contained in this Agreement, (i) with respect to **Section 9.2(a)(i)** , Seller's aggregate liability to the Buyer Indemnified Parties for Damages under or relating to this Agreement and the transactions contemplated hereby (including the indemnification provisions set forth in **Article X**), other than to the extent arising out of any breach by Seller of the representations and warranties contained in **Section 3.1, 3.2** , **3.4** , **3.7** , **4.1** , **4.8** , **4.13** or **4.14(b)** , shall not exceed ten percent (10%) of the Final Closing Date Purchase Price and (ii) in no event shall Seller's aggregate liability to the Buyer Indemnified Parties for all Damages under or relating to this Agreement and the transactions contemplated hereby exceed the Final Closing Date Purchase Price.

(d) The indemnities provided in this **Section 9.2** shall survive the Closing. From and after the Closing, the indemnity provided in this **Section 9.2** and the provisions of **Section 11.18** , shall be the sole and exclusive remedy of the Buyer Indemnified Parties against Seller at law or in equity relating to this Agreement or the transactions contemplated hereby, and Buyer hereby waives, to the fullest extent permitted under Law, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant, agreement or obligation of Seller set forth in this Agreement or otherwise relating to the subject matter of this Agreement that Buyer may have against Seller and its Affiliates and each of their respective Representatives arising under or based upon any Law, except pursuant to the indemnification provisions set forth in this **Section 9.2** ; *provided* , *however* , that nothing in this **Section 9.2(d)** shall prevent or otherwise limit Buyer from (i) seeking injunctive or equitable relief, including specific performance pursuant to **Section 11.18** , for claims

of breach or failure to perform covenants under this Agreement or (ii) pursuing, and recovering in respect of, any claim based on fraud or willful misconduct.

(e) Buyer shall give Seller prompt written notice of any third party claim which may give rise to any indemnity obligation under this Section, together with the estimated amount of such claim, and Seller has the right to assume the defense of any such claim through counsel of its own choosing, by so notifying Buyer within sixty (60) days of receipt of Buyer's written notice. Failure to give prompt notice shall not affect the indemnification obligations hereunder in the absence of actual prejudice. If Buyer desires to participate in any such defense assumed by Seller, it may do so at its sole cost and expense; *provided* that Seller shall be entitled to control any such defense. If Seller fails to assume any such defense, it shall be liable to the extent provided under **Section 9.2(a)** for all reasonable costs and expenses of defending such claim as and when incurred by Buyer, including reasonable fees and disbursements of counsel, in the event it is ultimately determined by Order of a competent court that Seller is liable for such claim pursuant to the terms of this Agreement. No party shall, without the prior written consent of the other party, settle, compromise or offer to settle or compromise any such claim or demand on a basis which would result in the imposition of a consent order, injunction or decree which would restrict the future activity or conduct of the other party or any Subsidiary or Affiliate thereof or if such settlement or compromise does not include an unconditional release of the other party and Subsidiaries and Affiliates thereof for any liability arising out of such claim or demand or any related claim or demand.

(f) Seller shall not be entitled to assume the defense of such third-party claim, but shall be able to participate fully and jointly with Buyer, if:

(i) The third-party claim seeks, in addition to or in lieu of monetary damages, any injunctive or other equitable relief (except where non-monetary relief is merely incidental to a primary claim or claims for monetary damages);

(ii) The third-party claim relates to or arises in connection with any criminal proceeding, action, indictment, allegation or investigation; or

(iii) The third-party claim would give rise to Damages that are more than the amount indemnifiable by Seller pursuant to this **Article IX** .

(g) Any claim by Buyer on account of Damages that does not result from a third party claim (a " **Buyer Direct Claim** ") will be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) days after the Indemnified Party becomes aware of the events that gave rise to such Direct Claim; *provided* , that failure to provide timely notice shall not affect the Indemnified Party's indemnification hereunder, except to the extent that the Indemnifying Party is actually materially prejudiced by such delay or omission. Such notice by the Indemnified Party will describe the Buyer Direct Claim in reasonable detail and will indicate the estimated amount, if reasonably practicable, of Losses that has been or may be sustained by the Indemnified Party. Seller will have a period of thirty (30) days within which to respond in writing to such Buyer Direct Claim. If Seller does not so respond within such thirty (30) day period, Seller will be deemed to have rejected such claim, in which event Buyer will be free to

pursue such remedies as may be available to Buyer on the terms and subject to the provisions of this Agreement.

Section 9.3 **Indemnification by Buyer.**

(a) Except as otherwise provided in **Article X** below and subject to the further provisions of this Agreement, Buyer shall, from and after Closing, pay, defend, indemnify and hold Seller, its Affiliates and their respective successors and permitted assigns, and their respective shareholders, members, partners (general and limited), officers, directors, managers, employees, agents, and representatives, and each of their heirs, executors, successors and assigns (" **Seller Indemnified Parties** "), harmless from and against and in respect of any and all Damages arising out of any breach of

(i) any of the representations and warranties of Buyer in **Article V** ; and

(ii) any of the covenants or obligations of Buyer in this Agreement.

(b) The foregoing obligation to indemnify Seller Indemnified Parties set forth in **Section 9.3(a)(i)** through **Section 9.3(a)(ii)** shall be subject to each of the following limitations:

(i) Buyer's indemnification obligations under **Section 9.3(a)** shall terminate upon expiration of the applicable Survival Period.

(ii) With respect to **Section 9.3(a)(i)** , no reimbursement or payment for any Damages asserted against Buyer under such indemnification obligations shall be required unless and until the cumulative aggregate amount of such Damages equals or exceeds the Deductible, and then only to the extent that the cumulative aggregate amount of Damages, as finally determined, exceeds the Deductible; *provided* that any De Minimis Losses shall be excluded in their entirety and Buyer has no liability hereunder to any Seller Indemnified Parties for any such De Minimis Losses.

(c) Notwithstanding anything to the contrary contained in this Agreement, (i) with respect to **Section 9.3(a)(i)** , Buyer's aggregate liability to the Seller Indemnified Parties for Damages under or relating to this Agreement and the transactions contemplated hereby (including the indemnification provisions set forth in **Article X**), other than to the extent arising out of any breach by Buyer of the representations and warranties contained in **Sections 5.1** or **5.2** , shall not exceed ten percent (10%) of the Final Closing Date Purchase Price and (ii) in no event shall Buyer's aggregate liability to the Seller Indemnified Parties for all Damages under or relating to this Agreement and the transactions contemplated hereby exceed the Final Closing Date Purchase Price, other than to the extent arising out of any failure by Buyer to make any Earnout Payment due to Seller under **Section 2.1(c)** .

(d) The indemnities provided in this **Section 9.3** shall survive the Closing. From and after the Closing, the indemnity provided in this **Section 9.3** and the provisions of **Section 11.18** shall, from and after Closing, be the sole and exclusive remedy of the Seller Indemnified Parties against Buyer at law or in equity relating to this Agreement in the transactions contemplated hereby,

and Seller hereby waives, to the fullest extent permitted under Law, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant, agreement or obligation of Buyer set forth in this Agreement or otherwise relating to the subject matter of this Agreement that Seller may have against Buyer and its Affiliates and each of their respective Representatives arising under or based upon any Law, except pursuant to the indemnification provisions set forth in this **Section 9.3** ; *provided* , *however* , that nothing in this **Section 9.3(d)** shall prevent or otherwise limit Seller from (i) seeking injunctive or equitable relief, including specific performance pursuant to **Section 11.18** , for claims of breach or failure to perform covenants under this Agreement or (ii) pursuing, and recovering in respect of, any claim based on fraud or willful misconduct.

(e) Seller shall give Buyer prompt written notice of any third party claim which may give rise to any indemnity obligation under this Section, together with the estimated amount of such claim, and Buyer has the right to assume the defense of any such claim through counsel of its own choosing, by so notifying Seller within sixty (60) days of receipt of Seller's written notice. Failure to give prompt notice shall not affect the indemnification obligations hereunder in the absence of actual prejudice. If Seller desires to participate in any such defense assumed by Buyer it may do so at its sole cost and expense; *provided* that Buyer shall be entitled to control any such defense. If Buyer fails to assume any such defense, it shall be liable to the extent provided under **Section 9.2(a)** for all reasonable costs and expenses of defending such claim as and when incurred by Seller, including reasonable fees and disbursements of counsel, in the event it is ultimately determined by Order of a competent court that Buyer is liable for such claim pursuant to the terms of this Agreement. No party shall, without the prior written consent of the other party, settle, compromise or offer to settle or compromise any such claim or demand on a basis which would result in the imposition of a consent order, injunction or decree which would restrict the future activity or conduct of the other party or any Subsidiary or Affiliate thereof or if such settlement or compromise does not include an unconditional release of the other party and Subsidiaries and Affiliates thereof for any liability arising out of such claim or demand.

(f) Buyer shall not be entitled to assume the defense of such third-party claim, but shall be able to participate fully and jointly with Seller, if:

(i) The third-party claim seeks, in addition to or in lieu of monetary damages, any injunctive or other equitable relief (except where non-monetary relief is merely incidental to a primary claim or claims for monetary damages);

(ii) The third-party claim relates to or arises in connection with any criminal proceeding, action, indictment, allegation or investigation; or

(iii) The third-party claim would give rise to Damages that are more than the amount indemnifiable by Buyer pursuant to this **Article IX** .

(g) Any claim by Seller on account of Damages that does not result from a third party claim (a " **Seller Direct Claim** ") will be asserted by giving Buyer reasonably prompt written notice thereof, but in any event not later than thirty (30) days after Seller becomes aware of the events that gave rise to such Seller Direct Claim; *provided* , that failure to provide timely notice shall not affect Seller's indemnification hereunder, except to the extent that Buyer is actually materially prejudiced

by such delay or omission. Such notice by Seller will describe the Seller Direct Claim in reasonable detail and will indicate the estimated amount, if reasonably practicable, of Damages that has been or may be sustained by Seller. Buyer will have a period of thirty (30) days within which to respond in writing to such Seller Direct Claim. If Buyer does not so respond within such thirty (30) day period, Buyer will be deemed to have rejected such claim, in which event Seller will be free to pursue such remedies as may be available to Seller on the terms and subject to the provisions of this Agreement.

Section 9.4 **Other Indemnification Matters.**

(a) The amount of any Damages for which indemnification is provided under this **Article IX** shall be computed net of any insurance or other proceeds received or recoverable by the indemnified party in connection with such Damages.

(b) Each of the Seller Indemnified Parties and Buyer Indemnified Parties shall use its commercially reasonable efforts to mitigate any Damages in connection with this Agreement, including the pursuit in good faith of claims under any applicable insurance policies and against third parties who may be responsible for Damages. Without limiting the foregoing, the amount of Damages for which indemnification is provided under **Section 9.2(a)(i)** for breach of the representations and warranties contained in **Section 4.14** shall be calculated based on the cost to procure the requisite gas by the least costly method available to Buyer at the time in question (consistent with historic business practices of the Company).

(c) The parties agree that the indemnification provisions set forth in this Agreement shall not apply to any Damages to the extent such Damages are accounted for in the calculations of the purchase price adjustments set forth in **Section 2.2** .

(d) For purposes of this **Article IX** , the amount of any indemnifiable Damages in respect of the inaccuracy or breach of any representation or warranty (but not whether the inaccuracy or breach occurred) shall be determined without regard to any materiality, Material Adverse Effect or other similar qualification contained in or otherwise applicable to such representation or warranty; provided that the materiality qualifications in **Section 4.6** will be disregarded for purposes of determining whether any inaccuracy or breach of such representation or warranty occurred solely with respect to such representation or warranty as of the date of this Agreement.

(e) The representations, warranties, covenants and agreements of the indemnifying Party, and Seller Indemnified Parties and Buyer Indemnified Parties right to indemnification with respect thereto, shall not be affected or deemed waived by reason of any investigation made by or on behalf of Seller Indemnified Parties or Buyer Indemnified Parties (including by any of their Representatives) or by reason of the fact that Seller Indemnified Parties or Buyer Indemnified Parties or any of their Representatives knew or should have known that any such representation or warranty, is, was or might be inaccurate or by reason of Seller Indemnified Parties' or Buyer Indemnified Parties' waiver of any condition set forth in **Article VIII** .

(f) In the event that the transactions contemplated hereby are consummated at the Closing, the parties agree to treat any indemnity payment made pursuant to **Article IX** as an

adjustment to the Final Closing Date Purchase Price unless otherwise required pursuant to a "determination" within the meaning of Section 1313(a) of the Code.

ARTICLE X
TAX MATTERS

Section 10.1 **Tax Indemnification.**

(a) Seller shall indemnify and hold Buyer and its Affiliates harmless from (i) all liability for Taxes imposed on or with respect to the Company, any of its Subsidiaries and the Business and all liability for Taxes imposed on any of the income, assets or operations of the Company, any of its Subsidiaries or the Business (and any Taxes of Seller or any other Person for which the Company may be liable by contract, operation of law, or otherwise) with regard to any taxable period ending on or before the Closing Date (the " **Pre-Closing Period** ") and the portion ending on the Closing Date of any taxable period that begins before and ends after the Closing Date (a " **Straddle Period** "), (ii) all Taxes that are the subject of a breach of any of the representations and warranties set forth in **Section 4.8** ; (iii) all Taxes for which the Company, any Subsidiary or the Business may be liable by reason of being a member of a consolidated, combined, unitary or affiliated group at or prior to the Closing, and (iv) all Taxes imposed on the Company, any Subsidiary or the Business as a result of the transactions contemplated by this Agreement.

(b) With respect to a Straddle Period, the portion of Taxes attributable to the portion of such taxable period ending on the Closing Date shall be calculated as though the tax year terminated as of the close of business on the Closing Date; *provided* , *however* , that in the case of a Tax not based on income, receipts, proceeds, profits or similar items, or other Taxes on specific transactions occurring before or after the Closing Date (including use tax attributable to property purchased before or after the Closing Date), such Taxes shall be equal to the amount of Tax for the taxable period multiplied by a fraction, the numerator of which shall be the number of days from the beginning of the taxable period through the Closing Date and the denominator of which shall be the number of days in the taxable period .

(c) The indemnities provided in this **Section 10.1** shall survive the Closing until ninety (90) days after the expiration of the applicable statutes of limitation plus any extensions or waivers thereof.

(d) The parties agree that the indemnification provisions set forth in this **Article X** shall not apply to any Taxes to the extent such Taxes are accounted for in the calculations of the purchase price adjustments set forth in **Section 2.2** .

Section 10.2 **Preparation and Filing of Tax Returns.**

(a) Seller shall not, without the written consent of Buyer (such consent not to be unreasonably withheld, conditioned or delayed), file any amended Tax Return after the Closing Date with respect to the Company, any of its Subsidiaries or the Business for any Pre-Closing Period if and to the extent such amended Tax Return would reasonably be expected to impact Buyer or the

Company after the Closing. Except as may be required by applicable Law, Buyer shall not file, and shall not cause the Company or any of its Subsidiaries to file, any amended Tax Return with respect to the Company, any Subsidiary or the Business for any Pre-Closing Period or for a Straddle Period without the written consent of Seller, not to be unreasonably withheld, conditioned or delayed. Seller shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company for all Pre-Closing Periods, and shall pay all Taxes due with respect to such Tax Returns.

(b) With respect to any Tax Return covering a Straddle Period other than a consolidated income Tax Return of Seller's parent that is required to be filed after the Closing Date with respect to the Company, Buyer shall cause such Tax Return to be prepared in a manner consistent with practices followed in prior years with respect to similar Tax Returns, unless otherwise required by the Laws of an applicable jurisdiction. At least twenty (20) days before the due date (including any extensions) of such Tax Return, Buyer shall furnish a copy of such Tax Return to Seller. Buyer shall permit Seller to review and comment on such Tax Return. Buyer and Seller shall negotiate in good faith to resolve any disagreements with respect to any of Seller's comments to such Tax Returns. If Buyer and Seller are unable to resolve any such disagreement within ten (10) Business Days, then the issue shall be submitted to the Neutral Auditor for resolution in accordance with the procedures set forth in **Section 2.2(b)** . Seller shall pay to Buyer an amount equal to the portion of such Taxes which relates to the portion of such Straddle Period ending on the Closing Date, as determined in accordance with **Section 10.1(b)** (" **Allocable Tax** ") no later than the due date of the Tax Return but only to the extent that such amount has not been given effect in the calculation of any purchase price adjustment pursuant to **Section 2.2** . Buyer shall refund to Seller an amount equal to any Allocable Tax paid by Seller that is not properly allocable to Seller pursuant to the provisions of this **Section 10.2(b)** , but only to the extent such amount has not been given effect in the calculation of any purchase price adjustment pursuant to **Section 2.2** . Buyer shall timely file such Tax Return with the appropriate Taxing Authority and pay all Taxes due with respect to such Tax Returns.

(c) If a dispute arises between Seller and Buyer as to the amount of Taxes for a Straddle Period or any other issues with respect to a Tax Return covering the Straddle Period, the parties shall attempt in good faith to resolve such dispute. Upon resolution of any disputed items, Buyer shall timely file such Tax Return and pay all Taxes due with respect to such Tax Return. If the dispute is not resolved by the time for filing of such Tax Return, Buyer shall timely file the Tax Return and pay the Taxes due, and the parties shall jointly request that the Neutral Auditor resolve any issue, which resolution shall be final, conclusive and binding on the parties. The scope of the Neutral Auditor's review shall be limited to the disputed items and the parties, shall, if necessary, file an amended Tax Return reflecting the final resolution of the disputed items. Notwithstanding anything in this Agreement to the contrary, the fees and expenses of the Neutral Auditor in resolving the dispute shall be borne 50% by Buyer and 50% by Seller. Any payment required to be made as a result of the resolution of the dispute by the Neutral Auditor shall be made within ten (10) days after such resolution, together with any interest determined by the Neutral Auditor to be appropriate. Buyer shall not extend the statute of limitations with respect to any Tax Return of the Company for any Pre-Closing Period without the written consent of Seller, such consent not to be unreasonably withheld, delayed or conditioned.

(d) Buyer and Seller agree to provide such assistance as may reasonably be requested by the other party in connection with the preparation of any Tax Return, any audit or other examination by any Taxing Authority or any judicial or administrative proceedings relating to liability for Taxes, and each will retain and provide the requesting party with any records or information which may be relevant to such return, audit or examination, proceedings or determination. Any information obtained pursuant to this **Section 10.2(d)** or pursuant to any other Section hereof providing for the sharing of information relating to or review of any Tax Return or other schedule relating to Taxes shall be kept confidential by the parties hereto in accordance with **Section 6.5(b)** .

Section 10.3 **Procedures Relating to Indemnification of Tax Claims.**

(a) Following Closing, if a claim shall be made against the Company by any Taxing Authority for which Seller is or may be liable pursuant to this Agreement, Buyer shall notify Seller in writing within ten (10) Business Days of receipt by Buyer of notice of such claim (a " **Tax Claim** ").

(b) With respect to any Tax Claim, Seller, at Seller's expense, shall control all proceedings taken in connection with such Tax Claim (including selection of counsel), and Buyer shall execute or cause to be executed powers of attorney or other documents necessary to enable Seller to take all actions desired by Seller with respect to such Tax Claim. Seller shall permit Buyer to participate in (but not control), at Buyer's sole cost and expense, such proceeding through counsel chosen by Buyer and shall keep Buyer reasonably informed as to the status of such proceeding. Seller may in its sole discretion pursue or forego any and all administrative appeals, proceedings, hearings and conferences with any Taxing Authority with respect to such Tax Claim, and may initiate any claim for refund, file any amended return, or take any other action which is deemed appropriate by Seller with respect to such Tax Claim, except that if and to the extent such Tax Claim would reasonably be expected to have a continuing impact on Buyer or the Company after the Closing, such action or inaction may be taken by Seller only with Buyer's consent (which consent shall not be unreasonably withheld, conditioned or delayed). Notwithstanding the foregoing, Seller and Buyer shall jointly control all proceedings in connection with any Tax Claim relating solely to Taxes for a Straddle Period, and all costs and expenses related to such proceedings shall be borne 50% by Buyer and 50% by Seller. No party shall settle a Tax Claim relating solely to Taxes of the Company for a Straddle Period without the other party's prior written consent (which consent may not be unreasonably withheld, conditioned or delayed; and which consent shall be considered to be unreasonably withheld if such settlement has no adverse effect on the other party).

(c) Buyer and its Affiliates (including after the Closing, the Company), on the one hand, and Seller, on the other hand, shall cooperate with each other in contesting any Tax Claim, which cooperation shall include the retention and, at the contesting party's request and expense, the provision of records and information which are reasonably relevant to such Tax Claim, and making employees and representatives available on a mutually convenient basis to provide additional information or explanation of any material provided hereunder or to testify at proceedings relating to such Tax Claim.

Section 10.4 **Tax Refunds and Credits.** Any refund or credits of Taxes paid or payable that are attributable to the Company for any Pre-Closing Period (or for any Straddle Period to the

extent allocable (determined in a manner consistent with **Section 10.2(b)**) to the portion of such period beginning before and ending on the Closing Date) shall be for the account of Seller. Any refunds or credits of Taxes paid or payable that are attributable to the Company for any other taxable period shall be for the account of Buyer. To the extent permitted by applicable Law, Buyer shall, if Seller so requests and at Seller's expense, cause the Company to use commercially reasonable efforts to file for and obtain any refunds or credits to which Seller is entitled pursuant to this **Section 10.4** , *provided* that Buyer shall not be required to cause the Company to take any action that could prejudice the legal or economic position of Buyer, the Company or any of their Affiliates. Buyer shall cause the Company to forward to Seller such refund within thirty (30) Business Days after the refund is received (or reimburse Seller for any such credit within thirty (30) Business Days after the credit is applied against another Tax liability); *provided* , *howeve* r, that Seller shall indemnify Buyer for any amount paid to it pursuant to this **Section 10.4** if any such refund or credit is subsequently disallowed. The parties agree that to the extent Tax Refunds covered by this **Section 10.4** are accounted for in the calculations of the purchase price adjustments set forth in **Section 2.2** such Tax Refunds shall not be owed.

Section 10.5 **Tax Treatment of Payments.** Except as otherwise required by applicable Law, the parties shall treat any indemnification payment made pursuant to this Agreement as a purchase price adjustment for Tax purposes.

Section 10.6 **Transfer Taxes.** All excise, sales, use, value added, transfer (including real property transfer), stamp, documentary, filing, recordation and other similar taxes, levies, assessments, customs, duties, imposts, charges or fees, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the transactions arising under this Agreement (the " **Transfer Taxes** ") shall be borne equally by Buyer and Seller. Buyer shall prepare and timely file, or will cause to be prepared and timely filed, all Tax Returns or other documentation relating to the Transfer Taxes; *provided* , *however* , that to the extent required by applicable Law, Seller will join the execution of any such Tax Returns or other documents relating to the Transfer Taxes, in which case, Buyer shall provide Seller with copies of each such Tax Return or other document at least fifteen (15) days prior to the date on which such Tax Return or other document is required to be filed. Seller shall pay to Buyer or any of Buyer's Affiliates, as applicable, one half of the amounts shown as due on such Tax Return no later than five (5) days after Buyer has provided a copy of such Tax Return to Seller.

Section 10.7 **Purchase Price Allocation.** Seller and Buyer agree and acknowledge that the purchase and sale of the LLC Interests will be treated for federal and applicable state and local income tax purposes as a purchase and sale of the assets of the Company. The Final Closing Date Purchase Price, assumed liabilities, and any other items constituting consideration for applicable Tax purposes shall be allocated among the assets of the Company for all income Tax purposes (including for purposes of Section 1060 of the Code) in accordance with the allocation schedule set forth in attached **Schedule 10.7** . Seller and Buyer shall, and shall cause their Affiliates to, report consistently with such allocation in all returns, including IRS Form 8594, which Buyer and Seller shall timely file with the Internal Revenue Service, and neither Seller nor Buyer shall take any position in any return, or in any audit or other proceeding, that is inconsistent with such allocation unless required to do so by a change in Law occurring after the date hereof, a final determination

as defined in Section 1313 of the Code. Each of Seller and Buyer agree to promptly advise each other regarding the existence of any Tax audit, controversy or litigation related to the allocation

Section 10.8 **Termination of Tax Sharing Agreements.** All tax sharing agreements among the Company, its Affiliates and the Business shall be terminated as they relate to the Company immediately prior to Closing.

ARTICLE XI
MISCELLANEOUS

Section 11.1 **Notices.** All communications provided for hereunder shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, when emailed and received (if received before 5:00 p.m. Pacific time on a Business Day and otherwise, on the next succeeding Business Day), and in either case only if such emailed communication is also sent no later than the next Business Day by overnight delivery by private courier, or five (5) days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and,

If to Seller:

NW Natural Gas Storage, LLC
220 NW 2nd Avenue
Portland, Oregon 97209
Attention: MardiLyn Saathoff
Email:

with a copy (which shall not itself constitute notice) to:

Stoel Rives LLP
760 SW Ninth Avenue, Suite 3000
Portland, Oregon 97205
Attention: James M. Kearney and Eric L. Martin
Email:

If to Buyer:

SENSA Holdings LLC
10000 Memorial Drive, Suite 200
Houston, TX, 77024
Attention: Jack Bellinger, General Counsel
Email:

and

SENSA Holdings LLC
667 Madison Ave # 5
New York, NY 10065
Attn: John Rigas
Email:

with a copy (which shall not itself constitute notice) to:

Orrick, Herrington & Sutcliffe LLP
51 West 52 nd Street
New York, New York 10019
Attn: R. King Milling
Email:

or to such other address as any such party shall designate by written notice to the other party hereto.

Section 11.2 **Expenses.** Except as may be otherwise provided in **Sections 2.1(c)(iii)** , **2.2(b)(iii)** and **10.2(c)** , Seller and Buyer shall each pay their respective expenses (such as legal, investment banker and accounting fees) incurred in connection with the origination, negotiation, execution and performance of this Agreement. If the Closing occurs, no such expenses shall be charged to or paid by Company unless they are paid before the Closing or unless they are included as a current liability in the calculation of Net Working Capital at the Closing Date.

Section 11.3 **Non-Assignability.** This Agreement shall inure to the benefit of and be binding on the parties hereto and their respective successors and permitted assigns. This Agreement shall not be assigned by any party hereto without the express prior written consent of the other party, in its sole discretion, and any attempted assignment, without such consent, shall be null and void. In no event shall any assignment or transfer hereunder serve to release or discharge the assigning party from any of its duties and obligations hereunder, unless expressly released, in writing, by the non-assigning party. Notwithstanding the foregoing, Buyer shall have the right to assign its rights under this Agreement to (a) any of its Affiliates, or (b) a potential financing source or any of its Affiliates as collateral security in connection with such financing, but, with respect to the foregoing clauses (a) and (b), only if such assignment does not (i) trigger the ROFR or (ii) require filing a new or amended application under the California Act or otherwise hinder or delay receipt of required consents or approvals under the California Act for the consummation of the transactions contemplated by this Agreement.

Section 11.4 **Amendment; Waiver.** Except as otherwise provided in **Section 6.8** , this Agreement may be amended, supplemented or otherwise modified only by a written instrument executed by each of the parties hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party so waiving. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained herein, and in any documents delivered or to be delivered pursuant to this Agreement and in connection with the Closing hereunder. The waiver by any party hereto of a

breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

Section 11.5 **No Third Party Beneficiaries.** Except as expressly provided herein, this Agreement is not intended, nor shall it be deemed, construed or interpreted, to confer upon any Person not a party hereto any rights or remedies hereunder.

Section 11.6 **Governing Law.** This Agreement and the rights and duties of the parties hereunder shall be governed by, and construed in accordance with, the laws of the State of California without giving effect to any conflict of law provision.

Section 11.7 **Consent to Jurisdiction.** Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the United States District Court for the District of Oregon, the courts of the State of Oregon sitting in Multnomah County, Oregon, the United States District Court for the Southern District of Texas, and the courts of the State of Texas sitting in Harris County, Texas, and the appropriate appeals courts therefrom (collectively the " **Approved Courts** "), for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby; *provided* , *however* , that (i) if Seller desires to file any such suit, action or other proceeding against Buyer, then Seller shall only do so in the United States District Court for the Southern District of Texas or the courts of the State of Texas sitting in Harris County, Texas, and (ii) if Buyer desires to file any such suit, action or other proceeding against Seller, then Buyer shall only do so in the United States District Court for the District of Oregon or the courts of the State of Oregon sitting in Multnomah County, Oregon. Subject to the preceding sentence, each of the parties hereto irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the Approved Courts and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each of the parties hereto further agrees that service of any process, summons, notice or document by United States registered mail to such party's respective address set forth in **Section 11.1** shall be effective service of process for any action, suit or proceeding with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence.

Section 11.8 **Entire Agreement.** This Agreement and the schedules and exhibits hereto, along with the Confidentiality Agreement, set forth the entire understanding of the parties hereto with respect to the subject matter hereof.

Section 11.9 **Severability.** If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect so long as the economic and legal substance of the transactions contemplated hereby is not affected in any adverse manner to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

Section 11.10 **Counterparts.** This Agreement may be executed in any number of counterparts (including by means of electronic transmission in portable document format (pdf)), each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

Section 11.11 **Further Assurances.** Upon request from time to time, Seller and Buyer shall execute or cause to be executed and delivered such other documents and instruments and shall do such other acts that may be reasonably necessary or desirable, to consummate the transactions contemplated hereby and to carry out the intent of this Agreement.

Section 11.12 **Schedules, Annexes and Exhibits.** All schedules, annexes and exhibits hereto are hereby incorporated by reference and made a part of this Agreement.

Section 11.13 **Waiver of Jury Trial.** THE PARTIES HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT BETWEEN THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY AND THAT ANY ACTION OR PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

Section 11.14 **Time.** Time is of the essence in the performance of this Agreement in all respects.

Section 11.15 **Limitation on Damages.** NEITHER BUYER NOR SELLER HAS ANY LIABILITY FOR, AND EACH PARTY HEREBY WAIVES ANY RIGHT TO RECOVER FROM THE OTHER PARTY OR ANY OF ITS OWNERS, OFFICERS OR AFFILIATES, PUNITIVE, INCIDENTAL, SPECIAL, EXEMPLARY, CONSEQUENTIAL AND OTHER INDIRECT DAMAGES (INCLUDING LOST PROFITS) ARISING IN CONNECTION WITH OR WITH RESPECT TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED IN CONTRACT, TORT, STRICT LIABILITY, OTHER LAW OR OTHERWISE. FOR THE AVOIDANCE OF DOUBT, THIS **SECTION 11.15** SHALL NOT PREVENT ANY PARTY FROM SEEKING INDEMNIFICATION HEREUNDER FOR CLAIMS OF THIRD PARTIES FOR DAMAGES THAT ARE PUNITIVE, INCIDENTAL, SPECIAL, EXEMPLARY, CONSEQUENTIAL OR INDIRECT IN NATURE (INCLUDING LOST PROFITS) (FOR PURPOSES OF CLARITY, IN NO EVENT SHALL ANY BUYER INDEMNIFIED PARTY BE ABLE TO SEEK INDEMNIFICATION FOR ANY SUCH PUNITIVE, INCIDENTAL, SPECIAL, EXEMPLARY, CONSEQUENTIAL OR INDIRECT DAMAGES (INCLUDING LOST PROFITS) IN RESPECT OF CLAIMS BROUGHT AGAINST IT BY ANY OTHER BUYER INDEMNIFIED PARTY).

Section 11.16 **No Affiliate Liability.** Notwithstanding anything in this Agreement to the contrary, (i) no Representative or Affiliate of Seller (nor any Representative of any such Affiliate or any Person directly or indirectly owning any interest in Seller) has any liability to Buyer or any other Person as a result of the breach of any representation, warranty, covenant, agreement or obligation of Seller in this Agreement or in any certificate delivered pursuant to this Agreement, and (ii) no Representative or Affiliate of Buyer (nor any Representative of any such Affiliate or any Person directly or indirectly owning any interest in Buyer) has any liability to Seller or any other Person as a result of the breach of any representation, warranty, covenant, agreement or obligation of Buyer in this Agreement or in any certificate delivered pursuant to this Agreement.

Section 11.17 **Role of Seller's Legal Counsel; Waiver of Conflicts and Privilege.**

(a) Buyer waives and will not assert, and agrees to cause the Company to waive and not to assert, any conflict of interest arising out of or relating to the potential representation, after the Closing (the " **Post-Closing Representation** "), of Seller, its Affiliates or their respective Representatives (any such Person, a " **Designated Person** ") in any matter involving this Agreement or the transactions contemplated hereby, by any legal counsel (including Stoel Rives LLP) currently representing Seller in connection with this Agreement or the transactions contemplated hereby (the " **Current Representation** ").

(b) Buyer waives and will not assert, and agrees to cause the Company to waive and not to assert, any attorney-client privilege with respect to any communication between any such legal counsel (including Stoel Rives LLP) and any Designated Person occurring during the Current Representation in connection with any Post-Closing Representation, including in connection with a dispute with Buyer and, following the Closing, with the Company, it being the intention of the parties hereto that following the Closing all such rights to such attorney-client privilege and to control such attorney-client privilege shall be exclusively vested in and belong to Seller, its Affiliates and their respective Representatives; *provided* , that the foregoing waiver and acknowledgement of retention shall not extend to any communication not involving this Agreement or the transactions contemplated hereby, or to communications with any Person other than the Designated Persons and their advisors.

Section 11.18 **Specific Performance.** In the event of any actual or threatened breach by any of the Parties of any of the covenants or agreements in this Agreement, the Party who is or is to be thereby aggrieved shall have the right to seek specific performance and injunctive relief giving effect to its rights under this Agreement. The Parties agree that any such breach would cause irreparable injury, that the remedies at law for any such breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived.

[SIGNATURE PAGE FOLLOWS]

The parties have caused this Agreement to be duly executed as of the date first above written.

NW NATURAL GAS STORAGE, LLC

By: /s/ David Weber
Name: David Weber
Title: President

SENSA HOLDINGS LLC

By: /s/ John F. Thrash
Name: John F. Thrash
Title: Director

By: /s/ John P. Rigas
Name: John P. Rigas
Title: Director

EXHIBIT A

ESCROW AGREEMENT

Escrow Agreement

Dated : [_____], 2018

Between: NW Natural Gas Storage, LLC
220 NW 2nd Avenue
Portland, Oregon 97209
Facsimile:
Attention: MardiLyn Saathoff " **Seller** "

And: SENSA Holdings LLC
10000 Memorial Drive, Suite 200
Houston, TX, 77024
Attention: Jack Bellinger, General Counsel " **Buyer** "

And : U.S. Bank National Association
Global Corporate Trust
555 SW Oak Street; PD-OR-P4TD
Portland, OR 97204
Facsimile:
Email:
Attn: Cheryl Nelson " **Escrow Agent** "

Recitals

A. Seller and Buyer have entered into Purchase and Sale Agreement dated June 20, 2018 (the " **Purchase Agreement** "), pursuant to which Buyer has purchased from Seller all of the membership interests in Gill Ranch Storage, LLC.

B. Pursuant to **Section 2.1(b)** of the Purchase Agreement, Buyer has deposited into escrow, to be administered by the terms of this Agreement, [$_____] to secure the payment by Seller of Damages relating to claims of Buyer under the Purchase Agreement (the " **Claims** ").

In consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows.

Agreement

1. **Defined Terms** . Solely as between Buyer and Seller, all capitalized terms used in this Agreement but not otherwise defined herein are given the meanings set forth in the Purchase Agreement.

2. **Escrow Deposit** . The amounts deposited in escrow, together with all interest, dividends, income, capital gains and other amounts earned thereon or derived therefrom (" **Escrow Income** ") pursuant to the investments made pursuant to **Section 3** (collectively with the amounts deposited in escrow, the " **Escrow Funds** "), will be available to pay Damages that are recoverable by Buyer. The Escrow Agent acknowledges receipt of the Escrow Amount and agrees to hold the Escrow Funds in a separate and distinct account, in the name of NW Natural Gas Storage/SENSA Holdings Escrow Account, as Escrow Agent for Seller and Buyer (the " **Escrow Account** "). The Escrow Funds shall not be subject to any lien, attachment, trustee process or any other judicial process of any creditor of any party to this Agreement. The Escrow Agent shall not distribute or release the Escrow Funds except in accordance with the terms and conditions of this Agreement.

3. **Investment of Escrow Account** .

(a) The Escrow Agent shall invest the Escrow Funds pursuant to joint written instructions signed by Seller and Buyer; *provided* , *however* , the investment instructions shall be limited to:

(i) interest bearing deposits with maturity dates of 90 days or less of any bank or trust company located within the United States, including one or more accounts maintained in the commercial banking department (if any) of the Escrow Agent, *provided* , that the bank or trust company must have capital and surplus of at least $500,000,000;

(ii) certificates of deposit with maturity dates of 90 days or less issued by the commercial banking department, if any, of the Escrow Agent, or of any bank or trust company located in the United States, *provided* , that the bank or trust company must have capital and surplus of at least $500,000,000;

(iii) direct obligations of, or obligations guaranteed as to all principal and interest by, the United States, in each case with maturity dates of 90 days or less;

(iv) repurchase agreements with maturity dates of 90 days or less that are fully secured as to payment of principal and interest by collateral consisting of obligations described in clauses (i) through (iii) above; or

(v) any money market fund substantially all of which is invested in the investment categories described in clauses (ii) through (iv) above, including any money market fund managed by the Escrow Agent or any of its Affiliates.

(b) Written investment instructions, if any, must specify the type and identity of the investments to be purchased or sold. In the absence of instructions, the Escrow Funds shall be invested in the U.S. Bank Money Market Account, as described on attached **Exhibit A** . The Escrow

Agent is authorized to execute purchases and sales of investments through the facilities of its own trading or capital markets operations or those of any affiliated entity. The parties recognize and agree that the Escrow Agent will not provide supervision, recommendations or advice relating to either the investment of moneys held in the Escrow Account or the purchase, sale, retention or other disposition of any investment described herein. The Escrow Agent has the right to liquidate any investments held to make required payments under this Agreement. The Escrow Agent is not liable for any loss sustained as a result of any investment made pursuant to the terms of this Agreement or as a result of any liquidation of an investment before its maturity or for the failure of the parties to give the Escrow Agent instructions to invest or reinvest the Escrow Funds. Any loss or expense incurred as a result of an investment will be borne by the Escrow Account.

4. **Release of Escrow Funds for Indemnification Claims** . The Escrow Funds held pursuant to this Agreement, are intended to provide a non-exclusive source of funds to pay amounts in respect of Damages on or before the Distribution Date (as defined below). Accordingly, in addition to Tax distributions made pursuant to **Section 10(d)** , the Escrow Funds will be distributed and released as follows:

(a) *Indemnification-Related Claims* .

(i) On or before eighteen (18) month anniversary of this Agreement (the " **Escrow Release Date** "), if any Buyer Indemnified Party makes a Claim, Buyer shall deliver to the Escrow Agent and Seller a written notice (an " **Escrow Notice** ") setting forth the amount of the Claim by the Buyer Indemnified Party. If the Escrow Agent has not received a written objection (a " **Dispute Notice** ") to the Claim or portion thereof or the amount of the Claim from Seller within 30 days following the Escrow Agent's receipt of the Escrow Notice, then on the 31st day following receipt, the Escrow Agent shall release to Buyer, by wire transfer to an account or accounts designated by Buyer, an amount of Escrow Funds equal to the amount of the Claim.

(ii) If Seller delivers to the Escrow Agent and Buyer a Dispute Notice to any Claim or portion thereof or the amount of the Claim within 30 days following the Escrow Agent's receipt of the Escrow Notice, then the Escrow Agent shall not distribute to Buyer any portion of the Escrow Funds that is the subject of the Dispute Notice until the Escrow Agent receives either (A) joint written instructions signed by Seller and Buyer authorizing the release to Buyer of the portion of the Escrow Funds that is agreed upon as the amount recoverable in respect of the Dispute Notice or (B) a court order as set out in **Section 4(d)** directing the release to Buyer of the portion of the Escrow Funds that is determined to be the amount recoverable in respect of the Dispute Notice; *provided* , that notwithstanding the foregoing, if Seller objects in part to the amount of the Claim, the Escrow Agent shall, within two Business Days following receipt of such Dispute Notice, release to Buyer an amount from the Escrow Funds equal to the portion of the Claim not objected to by Seller. Upon receipt of the joint written instructions, the Escrow Agent shall release to Buyer the amount of the Escrow Funds in accordance with those written instructions.

(iii) Escrow Agent shall have no responsibility to determine the validity or sufficiency of any Escrow Notice or Dispute Notice or whether any Escrow Notice or Dispute Notice has been received by, or to provide a copy of any Escrow Notice or Dispute Notice to, Seller or Buyer. Escrow Agent may conclusively presume that any Escrow Notice or Dispute Notice delivered to it has been simultaneously delivered to Seller or Buyer, as the case may be.

(b) Release of Remaining Escrow Funds.

(i) Within 10 Business Days after the Escrow Release Date (the " **Distribution Date** "), the Escrow Agent will pay to Seller, by wire transfer to an account or accounts designated by Seller, the remaining balance of the Escrow Funds, less the amount of all Unresolved Claims. For purposes of this Agreement, the term " **Unresolved Claims** " means, as of the Escrow Release Date, the aggregate amount of all Claims that are the subject of any Dispute Notices that have not previously been resolved or satisfied in accordance with **Section 4(a)(ii)** or that were otherwise properly and timely asserted under this Agreement but otherwise unsatisfied as of the Escrow Release Date, including any Claims for which an Escrow Notice has been delivered but for which the 30-day objection period has not expired as of the Escrow Release Date.

(ii) Unresolved Claims for which Seller has objected in accordance with **Section 4(a)** shall be administered in accordance with **Section 4(a)** . Upon the expiration of the 30-day objection period for any Unresolved Claims for which no Dispute Notice has been delivered, the Escrow Agent shall release, by wire transfer to an account or accounts designated by Buyer, the amount of Escrow Funds in the Escrow Account equal to the amount of such Unresolved Claim. After the resolution of each Unresolved Claim, any remaining portion of the Escrow Funds not distributed to Buyer pursuant to the immediately preceding sentences and not subject to other Unresolved Claims shall be released by wire transfer promptly thereafter by the Escrow Agent to an account or accounts designated by Seller.

(c) *Distributions Deemed Adjustments to Purchase Price* . All distributions of the Escrow Funds to Buyer pursuant to this Agreement shall be deemed to be adjustments to the Purchase Price for the assets pursuant to the terms of the Purchase Agreement.

(d) *Court Order* . Notwithstanding any contrary provision in this Agreement, the Escrow Agent shall disburse the Escrow Funds (or any portion thereof) in accordance with a notice from either Buyer or Seller confirming to the Escrow Agent that accompanying the notice is a court order, along with a copy of the order and a written certification by the prevailing party attesting that such court order is final and non-appealable along with written instructions for payment to the relevant parties from an authorized Representative of the instructing party, pursuant to which the court has determined whether and to what extent Buyer or Seller are entitled to the Escrow Funds (or any portion thereof), upon which certification and instructions the Escrow Agent may conclusively rely and shall have no responsibility to review the order to which such confirmation and instruction refers.

(e) *Claims in Excess of the Escrow Funds* . If the amount of any payment required to be made by the Escrow Agent to Buyer pursuant to **Section 4(a)** with respect to an Escrow Notice exceeds the amount of Escrow Funds, the Escrow Agent shall pay to Buyer the entire amount of Escrow Funds (including any Escrow Income). Notwithstanding that payment, the rights of Buyer or any Buyer Indemnified Party under the Purchase Agreement may not be satisfied or extinguished, and any Buyer Indemnified Party may be entitled to recover the balance of any amounts owed to them under the Purchase Agreement in accordance with the terms thereof.

5. **Inspection Rights and Account Statements** . Buyer and Seller have the right, upon reasonable advance notice to the Escrow Agent, to inspect and obtain copies of the records of the Escrow Agent pertaining to this Agreement and to receive monthly reports of the status of the Escrow Account. On or before the 10th Business Day following each month during the term of this Agreement, the Escrow Agent shall deliver account statements to Buyer and Seller with respect to the Escrow Account for the prior month, which statements will include the account balance, disbursements made pursuant to **Section 4** and Escrow Income earned during the preceding month. On or before the 10th Business Day following each month during the term of this Agreement, the Escrow Agent shall deliver to Buyer and Seller notice of the amount of any Unresolved Claims with respect to the Escrow Account for the prior month.

6. **Termination** . This Agreement will terminate when all of the Escrow Funds have been distributed in accordance with this Agreement.

7. **Conditions to Escrow** . The Escrow Agent agrees to hold the Escrow Funds and to perform in accordance with this Agreement. Seller and Buyer agree that the Escrow Agent does not assume any responsibility for the failure of Seller or Buyer to perform in accordance with the Purchase Agreement or this Agreement. The acceptance by the Escrow Agent of its responsibilities hereunder is subject to the following terms and conditions, which the parties hereto agree shall govern and control with respect to the Escrow Agent's rights, duties, Liabilities and immunities:

(a) The Escrow Agent shall have no implied duties and only those duties as are specifically provided herein, which shall be deemed purely ministerial in nature, and shall under no circumstance be deemed a fiduciary for any of the other parties to this Agreement. The Escrow Agent shall not be obligated to take any action or commence any proceeding in connection with the Escrow Funds, any account in which Escrow Funds are deposited, this Agreement or the Purchase Agreement, or to appear in, prosecute or defend any such legal Action or proceeding or to take any other action that in Escrow Agent's sole judgment may expose it to potential expense or liability. The Escrow Agent may consult nationally recognized legal counsel selected by it in the event of any dispute or question as to the construction of any of the provisions hereof or of any other agreement or of its duties hereunder, or relating to any dispute involving any party hereto and shall incur no liability and shall be fully indemnified from any liability whatsoever in relying on and acting in good faith in accordance with the advice of such counsel. The reasonable and documented fees and expenses of any such counsel shall be paid to the Escrow Agent in accordance with **Section 12** . Buyer and Seller agree to perform or procure the performance of all further acts and things, and execute and deliver such further documents, as may be required by Law or as Escrow Agent may reasonably request in connection with its duties hereunder.

(b) The Escrow Agent is protected in acting upon any written notice, consent, receipt or other paper or document furnished to it, not only as to its due execution and validity and effectiveness of its provisions, but also as to the truth and accuracy of any information therein contained, which the Escrow Agent in good faith believes to be true and accurate. If it is necessary for the Escrow Agent to act upon any instructions, directions, documents or instruments issued or signed by or on behalf of any corporation, fiduciary or individual acting on behalf of another party hereto, which the Escrow Agent in good faith believes to be genuine, it is not necessary for the Escrow Agent to inquire into the corporation's, fiduciary's or individual's authority.

(c) Escrow Agent shall not be liable for any Action taken or omitted by it in good faith except to the extent that the Escrow Agent's gross negligence, bad faith or willful misconduct was the cause of any loss to Buyer or Seller. In no event will Escrow Agent be liable for indirect, special, consequential or punitive damages or penalties (including, but not limited to lost profits) even if Escrow Agent has been advised of the likelihood of such damages or penalty and regardless of the form of action.

(d) The Escrow Agent shall neither be responsible for, nor chargeable with knowledge of, the terms and conditions of any other agreement, instrument or document between the other parties hereto, including, without limitation, the Purchase Agreement. This Agreement sets forth all matters pertinent to the escrow contemplated hereunder, and no additional obligations of the Escrow Agent shall be inferred from the terms of this Agreement or any other agreement, instrument or document.

(e) If the Escrow Agent is uncertain as to its duties or rights under this Agreement or receives instructions, claims or demands from Buyer or Seller that, in its opinion, conflict with any of the provisions of this Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safe all property held in escrow until it is directed otherwise in writing jointly by Buyer and Seller or by a court order. The Escrow Agent has the option, after 30 days' notice to Buyer and Seller of its intention to do so, to file an action in interpleader requiring Buyer and Seller to answer and litigate any claims and rights among themselves.

(f) The Escrow Agent is authorized, in its sole discretion, to comply with a final court order or process entered by any court with respect to the Escrow Funds, without determination by the Escrow Agent of such court's jurisdiction in the matter. If any portion of the Escrow Funds is at any time attached, garnished or levied upon under any court order, or in case the payment, assignment, transfer, conveyance or delivery of any such property shall be stayed or enjoined by any court order, or in case any court order shall be made or entered by any court affecting such property or any part thereof, then the Escrow Agent is authorized, in its sole discretion, to rely upon and comply with any such court order which it is advised by legal counsel selected by it is binding upon it; and if the Escrow Agent complies with any such court order, it shall not be liable to any of the parties hereto or to any other person or entity by reason of such compliance.

(g) Any corporation or association into which the Escrow Agent may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its escrow business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, shall be and become the successor escrow agent hereunder without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto.

8. **Resignation and Removal of Escrow Agent** .

(a) The Escrow Agent reserves the right to resign at any time by giving 30 days' prior written notice of resignation, specifying the effective date thereof. On the effective date of its resignation, the Escrow Agent shall deliver this Agreement together with the Escrow Funds and any and all related instruments or documents to any successor escrow agent mutually agreed upon in writing by Buyer and Seller. If a successor escrow agent has not been appointed and has not accepted such appointment before the expiration of 30 days following the date of the notice of such resignation, the Escrow Agent may, but shall not be obligated to, apply to a court of competent jurisdiction for the appointment of a successor Escrow Agent. Any such resulting appointment shall be binding upon all of the parties to this Agreement. Notwithstanding anything to the contrary in the foregoing, the Escrow Agent or any successor escrow agent shall continue to act as Escrow Agent until a successor is appointed and qualified to act as Escrow Agent.

(b) The Escrow Agent may be removed, with or without cause, and a new escrow agent may be appointed upon mutual written agreement of Buyer and Seller. In that event, Buyer and Seller shall deliver 30 days' prior joint written notice to the Escrow Agent of removal together with joint written instructions authorizing delivery of this Agreement together with the Escrow Funds and any and all related instruments or documents to a successor escrow agent.

(c) Upon delivery of the Escrow Funds to a successor escrow agent in accordance with this Section, the Escrow Agent shall thereafter be discharged from any further obligations hereunder. All power, authority, duties and obligations of the Escrow Agent shall apply to any successor escrow agent and all obligations of Buyer and Seller to Escrow Agent shall remain.

9. **Indemnification of Escrow Agent** . Buyer and Seller shall jointly and severally indemnify and hold the Escrow Agent harmless from and against any liability, loss, damage or expense (including, without limitation, reasonable and documented attorneys' fees) that the Escrow Agent may incur in connection with this Agreement and its performance hereunder or in connection herewith, including with respect to any claim asserted by either Buyer or Seller, or any other person or entity, except to the extent such liability, loss, damage or expense is determined by a court of competent jurisdiction to have been directly caused by Escrow Agent's willful misconduct, bad faith or gross negligence. Buyer and Seller further agree, jointly and severally, to indemnify Escrow Agent for all costs, including without limitation reasonable attorney's fees, incurred by Escrow Agent in connection with the enforcement of Buyer's and Seller's obligations hereunder. Buyer and Seller further agree, solely as between themselves, that the indemnification provided for under this Section shall be allocated and paid in the same manner as fees and expenses under **Section 12** . The indemnification provided for under this Section shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

10. **Taxes** .

(a) *Ownership for Tax Purposes* . Each of Buyer and Seller agree that, for purposes of United States federal and other Taxes based on income, Seller shall be treated as the owner of the Escrow Funds and that Seller shall, to the extent required under the Internal Revenue Code of 1986, as amended, report the income, if any, that is earned on, or derived from, the Escrow Funds as its income, in the taxable year or years in which such income is properly includible and pay any Taxes attributable thereto.

(b) *Tax Forms and Filings* . Each of Buyer and Seller has provided the Escrow Agent with a fully executed Internal Revenue Service (" **IRS** ") Form W-9, or W-8, properly completed and signed, and such other forms and documents that the Escrow Agent has reasonably requested in connection with the preparation and filing with the IRS of all applicable Form 1099 and Form 1042-S documents with respect to all distributions as well as in the performance of Escrow Agent's other reporting obligations under applicable U.S. federal law or regulation. Buyer and Seller jointly and severally agree to (a) assume all obligations imposed now or hereafter by any applicable tax law or regulation with respect to payments or performance under this Agreement and (b) request and direct the Escrow Agent in writing with respect to withholding and other taxes, assessments or other governmental charges, and advise the Escrow Agent in writing with respect to any certifications and governmental reporting that may be required under any applicable laws or regulations. Except as otherwise agreed by Escrow Agent in writing, Escrow Agent has no tax reporting or withholding obligation except with respect to Form 1099-B reporting on payments of gross proceeds under Internal Revenue Code Section 6045 and Form 1099 and Form 1042-S reporting with respect to investment income earned on the Escrow Funds, if any. To the extent that U.S. federal imputed interest regulations apply, Buyer and Seller shall so inform the Escrow Agent, provide the Escrow Agent with all imputed interest calculations and direct the Escrow Agent to disburse imputed interest amounts as Buyer and Seller deem appropriate. The Escrow Agent shall rely solely on such provided calculations and information and shall have no responsibility for the accuracy or completeness of any such calculations or information.

(c) *Withholding* . The Escrow Agent is entitled to deduct and withhold from any amount distributed or released from the Escrow Funds all Taxes that may be required to be deducted or withheld under any provision of applicable Tax Law. All withheld amounts shall be treated as having been delivered to the party entitled to the amount distributed or released in respect of which such Tax has been deducted or withheld.

(d) *Tax Distributions* . If Seller is required to file United States federal or state Tax returns, then, subject to the availability of Escrow Funds, the Escrow Agent shall, pursuant to written instructions from Seller, make a distribution to Seller on or before January 31 of any year that precedes the distribution of the entire Escrow Fund in an amount equal to 40% of the aggregate Escrow Income earned during the preceding calendar year. Such distribution shall be funded from the Escrow Funds. Concurrently with the distribution, the Escrow Agent shall notify Buyer of the amount disbursed to Seller.

11. **Business Days** . A " **Business Day** " is any day on which the Escrow Agent is open for business. If any date on which the Escrow Agent is required to make an investment or a delivery pursuant to the provisions hereof is not a day on which the Escrow Agent is open for business, then the Escrow Agent shall make such investment or delivery on the next succeeding Business Day.

12. **Escrow Fees and Costs** . Buyer and Seller jointly and severally agree to pay the fees and expenses (including reasonable and documented attorneys' fees and indemnity amounts) of the Escrow Agent for the services to be rendered by the Escrow Agent pursuant to this Agreement in accordance with the fee schedule attached as **Exhibit B** hereto, *provided* that Buyer and Seller further agree, solely as between themselves, that each shall pay 50% of such fees and expenses. The obligations of Buyer and Seller under this Section shall survive any termination of this Agreement and the resignation or removal of Escrow Agent.

Escrow Agent is authorized to, and may disburse to itself from the Escrow Funds, from time to time, the amount of any compensation and reimbursement of out-of-pocket expenses due and payable hereunder. Escrow Agent shall notify Buyer and Seller of any disbursement from the Escrow Funds to itself in respect of any compensation or reimbursement hereunder and shall furnish Buyer and Seller copies of related invoices and other statements.

Buyer and Seller hereby grant to Escrow Agent a first priority security interest in, lien upon and right of offset against and deduction from the Escrow Funds with respect to any compensation or reimbursement due Escrow Agent. If the Escrow Funds are insufficient to cover such compensation and reimbursement, Buyer and Seller shall promptly pay such amounts to Escrow Agent upon receipt of an itemized invoice.

13. **Force Majeure** . No party shall be liable or responsible to the other parties, nor be deemed to have defaulted under or breached this Agreement, for any failure or delay in fulfilling or performing any term of this Agreement, when and to the extent such failure or delay is caused by or results from acts beyond the affected party's reasonable control, including, without limitation: (a) acts of God; (b) flood, fire or explosion; (c) war, invasion, riot or other civil unrest; (d) government order or law; (e) actions, embargoes or blockades in effect on or after the date of this Agreement; (f) action by any governmental authority; and (g) national or regional emergency (a " **Force Majeure Event** "). The party suffering a Force Majeure Event shall give notice to the other party, stating the period of time the occurrence is expected to continue and shall use good faith efforts to end the failure or delay and minimize the effects of such Force Majeure Event.

14. **Notices** . All notices, requests, consents, claims, demands, waivers and other communications under this Agreement must be in writing and will be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Communications must be sent to the respective parties at the addresses or telecopy numbers set forth on the first page of this Agreement (or at such other address

or telecopy number for a party specified in a notice given in accordance with this Section), with copies to:

In the case of Seller:	Stoel Rives LLP 760 SW Ninth Avenue, Suite 3000 Portland, Oregon 97205 Facsimile: Attn: James M. Kearney Email:
In the case of Buyer:	Orrick, Herrington & Sutcliffe LLP 51 West 52nd Street New York, New York 10019 Facsimile: Attn: R. King Milling Email:

15. **Entire Agreement** . This Agreement and exhibits hereto (together with, as between Seller and Buyer only, the Purchase Agreement and related exhibits and schedules thereto) constitutes the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency between a statement in this Agreement and a statement in the Purchase Agreement, (i) with respect to any inconsistency as between Buyer and Seller, the statements in the body of the Purchase Agreement shall control; and (ii) with respect to any inconsistency as between the Escrow Agent, on the one hand, and Buyer or Seller, on the other hand, the statements in the body of this Agreement shall control.

16. **Successor and Assigns** . This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Subject to **Section 7(g)** , with respect to the Escrow Agent, no party may assign any of its rights or obligations hereunder without the prior written consent of the other parties hereto, which consent shall not be unreasonably withheld or delayed. No assignment shall relieve the assigning party of any of its obligations hereunder.

17. **Third-Party Beneficiaries** . This Agreement is for the sole benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

18. **Headings** . The headings in this Agreement are for reference only and do not affect the interpretation of this Agreement.

19. **Amendment and Modification; Waiver** . This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each party hereto. No waiver by any party of any of the provisions of this Agreement will be effective unless explicitly set forth in writing and

signed by the party so waiving. Except as otherwise set forth in this Agreement, no failure to exercise, or delay in exercising, any rights, remedy, power or privilege arising from this Agreement will operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

20. **Severability** . If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, that invalidity, illegality or unenforceability will not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

21. **Governing Law** . This Agreement is governed by and shall be construed in accordance with the internal laws of the state of Oregon without giving effect to any choice or conflict of law provision or rule (whether of the state of Oregon or any other jurisdiction).

22. **Waiver of Jury Trial** . EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE OTHER TRANSACTION DOCUMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS **SECTION 22** .

23. **Counterparts** . This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, email or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

24. **Identifying Information** . To help the government fight the funding of terrorism and money laundering activities, Federal Law requires all financial institutions to obtain, verify, and record information that identifies each Person who opens an account. For a non-individual Person such as a business entity, a charity, a trust, or other legal entity, the Escrow Agent requires documentation to verify its formation and existence as a legal entity. The Escrow Agent may ask to see financial

statements, licenses, identification and authorization documents from individuals claiming authority to represent the entity or other relevant documentation. The parties acknowledge that a portion of the identifying information set forth herein is being requested by the Escrow Agent in connection with the USA Patriot Act, Pub.L.107-56 (the " **Act** "), and each agrees to provide any additional information requested by the Escrow Agent in connection with the Act or any other legislation or regulation to which Escrow Agent is subject, in a timely and reasonable manner.

25. **Optional Security Procedures.** In the event funds transfer instructions, address changes or change in contact information are given (other than in writing at the time of execution of this Agreement), whether in writing, by facsimile or otherwise, the Escrow Agent is authorized but shall be under no duty to seek confirmation of such instructions by telephone call-back to the person or persons designated on the signature blocks to the Agreement or any other person believed by the Escrow Agent to be an authorized officer of the parties hereto, including without limitation those persons specified on attached **Exhibit C** , and the Escrow Agent may rely upon the confirmation of anyone purporting to be such person. The persons and telephone numbers for call-backs may be changed only in writing actually received and acknowledged by Escrow Agent and shall be effective only after Escrow Agent has a reasonable opportunity to act on such changes. The Escrow Agent may request at any time a fully executed incumbency certificate from any party, and the Escrow Agent may rely upon the confirmation of anyone purporting to be an officer as set forth in the incumbency certificate. Buyer and Seller agree that the Escrow Agent may at its option record any telephone calls made pursuant to this Section. The Escrow Agent in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by Buyer or Seller to identify (a) the beneficiary, (b) the beneficiary's bank, or (c) an intermediary bank. The Escrow Agent may apply any of the Escrow Funds for any payment order it executes using any such identifying number, even when its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary's bank or an intermediary bank designated. Buyer and Seller acknowledge that these optional security procedures are commercially reasonable.

26. **Dealings.** Provided it is not done on the basis of information obtained from Buyer or Seller through its engagement under this Agreement, and except to the extent prohibited by applicable law, the Escrow Agent and any stockholder, director, officer or employee of the Escrow Agent may buy, sell, and deal in any of the securities of the Buyer or Seller and become pecuniarily interested in any transaction in which the Buyer or Seller may be interested, and contract and lend money to the Buyer or Seller and otherwise act as fully and freely as though it were not Escrow Agent under this Agreement. Nothing herein shall preclude the Escrow Agent from acting in any other capacity for the Buyer or Seller or for any other entity. Escrow Agent understands and acknowledges that Buyer is a publicly traded company, and agrees to maintain as confidential information received by it from Buyer and Seller, to the extent is identified in writing as confidential at the time of disclosure to the Escrow Agent hereunder or that would be considered confidential by a reasonable person based on the nature of the information and the circumstances of the disclosure, subject to Escrow Agent's obligations under applicable laws and regulations.

27. **Brokerage Confirmation Waiver.** Buyer and Seller acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant either the right to receive brokerage confirmations for certain security transactions as they occur, Buyer and Seller specifically waive receipt of such confirmations to the extent permitted by law. The Escrow Agent will furnish the Buyer and Seller periodic cash transaction statements that include detail for all investment transactions made by the Escrow Agent.

[SIGNATURE PAGE FOLLOWS]

The parties have executed this Escrow Agreement on the date first written above.

BUYER: **SENSA Holdings LLC**

By_____
Name:
Title:

SELLER: **NW Natural Gas Storage, LLC**

_____
David Weber, President

ESCROW AGENT: **U.S. Bank National Association**

By_____
Name: Cheryl Nelson
Title: Vice President

[Signature Page to Escrow Agreement]

Exhibit A

U.S. BANK NATIONAL ASSOCIATION

MONEY MARKET ACCOUNT AUTHORIZATION FORM

DESCRIPTION AND TERMS

The U.S. Bank Money Market account is a U.S. Bank National Association (" **U.S. Bank** ") interest-bearing money market deposit account designed to meet the needs of U.S. Bank's Corporate Trust Services Escrow Group and other Corporate Trust customers of U.S. Bank. Selection of this investment includes authorization to place funds on deposit and invest with U.S. Bank.

U.S. Bank uses the daily balance method to calculate interest on this account (actual/365 or 366). This method applies a daily periodic rate to the principal balance in the account each day. Interest is accrued daily and credited monthly to the account. Interest rates are determined at U.S. Bank's discretion, and may be tiered by customer deposit amount.

The owner of the account is U.S. Bank as Agent for its corporate trust customers. U.S. Bank's corporate trust department performs all account deposits and withdrawals. Deposit accounts are FDIC Insured per depositor, as determined under FDIC Regulations, up to applicable FDIC limits.

U.S. BANK IS NOT REQUIRED TO REGISTER AS A MUNICIPAL ADVISOR WITH THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF COMPLYING WITH THE DODD-FRANK WALL STREET REFORM & CONSUMER PROTECTION ACT. INVESTMENT ADVICE, IF NEEDED, SHOULD BE OBTAINED FROM YOUR FINANCIAL ADVISOR.

AUTOMATIC AUTHORIZATION

In the absence of specific written direction to the contrary, U.S. Bank is hereby directed to invest and reinvest proceeds and other available moneys in the U.S. Bank Money Market Account. U.S. Bank has been advised that the U.S. Bank Money Market Account is a permitted investment under the attached agreement and this authorization is the permanent direction for investment of the moneys until notified in writing of alternate instructions.

Account includes existing and future sub-accounts unless otherwise directed.

[Exhibit A to Escrow Agreement]

Exhibit B

Schedule of Fees for Services of
US Bank as Escrow Agent

For

NW Natural Gas Storage, LLC and [Buyer] Escrow

1010	**Acceptance Fee** (One Time Fee) The acceptance fee includes the administrative review of documents, initial set-up of the account, and other reasonably required services up to and including the Closing. This is a one-time fee, payable at Closing. U.S. Bank Corporate Trust Services reserves the right to refer any or all escrow documents for legal review before execution. Legal fees (billed on an hourly basis) and expenses for this service will be billed to, and paid by, the customer. If appropriate and upon request by the customer, U.S. Bank Corporate Trust Services will provide advance estimates of these legal fees.	$1,000
04460	Escrow Agent (One Time Fee) One time administration fee for performance of the routine duties of the escrow agent associated with the management of the account. Administration fees are payable in advance.	$1,500

Direct Out of Pocket Expenses

Reimbursement of expenses associated with the performance of our duties, including but not limited to publications, legal counsel after the initial close, travel expenses and filing fees.	At Cost

Extraordinary Services

Extraordinary services are duties or responsibilities of an unusual nature, including termination, but not provided for in the governing documents or otherwise set forth in this schedule. A reasonable charge will be assessed based on the nature of the service and the responsibility involved. At our option, these charges will be billed at a flat fee or at our hourly rate then in effect.

Account approval is subject to review and qualification. Fees are subject to change at our discretion and upon reasonable advanced written notice. Fees paid in advance will not be prorated. The fees set forth above and any subsequent modifications thereof are part of your agreement. Finalization of the transaction constitutes agreement to the above fee schedule, including agreement to any subsequent changes upon reasonable written notice. In the event your transaction is not finalized, any related out-of-pocket expenses will be billed to you directly. Absent your written instructions to sweep or otherwise invest, all sums in your account will remain uninvested and no accrued interest or other compensation will be credited to the account. Payment of fees constitutes acceptance of the terms and conditions set forth.

Dated: _____, 2018

[Exhibit B to Escrow Agreement]

Exhibit C

Authorized Representatives

The following individual(s) have been appointed as authorized representative(s), at the date hereof, and are authorized to act on behalf of the Seller:

1. Authorized Representative/
   Specimen Signature: _____
   [Name, Title]

   Phone: _____

2. Authorized Representative/
   Specimen Signature: _____
   [Name, Title]

   Phone: _____

3. Authorized Representative/
   Specimen Signature: _____
   [Name, Title]

   Phone: _____

The following individual(s) have been appointed as authorized representative, at the date hereof, and are authorized to act on behalf of the Buyer:

1. Authorized Representative/
   Specimen Signature: _____
   [Name, Title]

   Phone: _____

2. Authorized Representative/
   Specimen Signature: _____
   [Name, Title]

   Phone: _____

3. Authorized Representative/
   Specimen Signature: _____
   [Name, Title]

   Phone: _____

EXHIBIT B

LICENSE AGREEMENT

This License Agreement is made as of [_____] (" **Effective Date** ") by and between Northwest Natural Gas Company, an Oregon corporation (" **Licensor** "), and Gill Ranch Storage, LLC, an Oregon limited liability company (" **Licensee** ").

Recitals:

A. Licensor is the sole and exclusive owner of U.S. Patent No. 9,803,803, issued October 31, 2017, entitled "System for Compressed Gas Energy Storage" (the " **Patent** ");

B. Licensee desires to acquire a royalty-free, nonexclusive and nontransferable license under the Patent to make and use a system and methods for compressed-gas energy storage; and

C. Licensor has the power and authority to grant to Licensee such a license.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this License Agreement, the parties to this License Agreement agree as follows:

1. License.

(a) Licensor hereby grants to Licensee, upon and subject to all the terms and conditions of this License Agreement, a royalty-free, nonexclusive license under the Licensed Patents to make and use the systems and methods embodying the invention(s) claimed in the Licensed Patents at the Licensed Facility (the " **Licensed System** ") for the Term of this License Agreement.

(b) As used in this License Agreement, the " **Licensed Patents** " shall mean the following:

(i) The Patent;

(ii) Any patents that shall issue directly from any divisional, continuation, or substitute U.S. patent application that claims priority to the Patent, excluding continuation-in-part applications except as provided in **Section 5(d)** below;

(iii) Any patent made subject to this License Agreement under **Section 5(d)** below; and

(iv) Any reissues or reexaminations of the above-described patents.

(c) As used in this License Agreement, the " **Licensed Facility** " shall mean the facility known as Gill Ranch Gas Storage Project, located off California Highway 180 between Fresno, California and Mendota, California.

(d) Licensee may not grant sublicenses under this License Agreement.

2. Term.

This License Agreement shall be effective as of the Effective Date and shall expire simultaneously with the expiration of the longest-lived patent or the rejection or abandonment beyond further appeal of the last-remaining patent application comprised within the Licensed Patents, whichever occurs later, unless sooner terminated by the parties under the terms of this License Agreement. The previous sentence defines the " **Term** ", as used in this License Agreement.

3. Recordkeeping.

All books and records relative to Licensee's prosecution of patent applications pursuant to **Section 4(b)** or its obligations under **Section 4(b)** , **Section 5(d)** , **Section 6** , **Section 10** , and **Section 11(d)** of this License Agreement shall be maintained and made accessible to Licensor for inspection at a location in the United States for at least five years after termination of this License Agreement.

4. Intellectual Property Prosecution.

(a) Starting on the Effective Date, all patent applications comprised within the Licensed Patents shall be prosecuted to issuance or final rejection by Licensor at Licensor's cost and expense. Any taxes, annuities, working fees, maintenance fees, and/or renewal and extension charges with respect to each patent application and patent subject to this License Agreement shall be punctually paid by Licensor.

(b) Notwithstanding **Section 4(a)** above, starting on the Effective Date, all patents and patent applications made subject to this License Agreement under **Section 5(d)** below may, at Licensee's sole discretion, be prosecuted to issuance or final rejection by Licensee at Licensee's cost and expense. Any taxes, annuities, working fees, maintenance fees, and/or renewal and extension charges with respect to each such patent application and patent may, at Licensee's sole discretion, be punctually paid by Licensee. For clarity, neither Licensee nor Licensor shall be required to (i) prosecute any such patent applications made subject to this License Agreement under **Section 5(d)** or (ii) pay any such taxes, annuities, working fees or the like with respect to any such patent application or patent, *provided* that should Licensee exercise its discretion under this **Section 4(b)** to either not prosecute to issuance or final rejection any patent or patent application or not punctually pay any tax, annuity, working fee, maintenance fee and/or renewal and extension charges, Licensee shall provide Licensor with notice of that decision not less than 30 days before the deadline to take such action.

5. Warranties and Obligations.

(a) Licensor represents and warrants that it is the owner of the entire right, title, and interest in and to the Licensed Patents; that it has the right and power to grant the licenses granted herein; and that there are no other agreements with any other party in conflict with such grant.

(b) Licensor further represents and warrants that there are no actions for infringement against Licensor with respect to systems and methods it uses embodying the invention of the Licensed Patents anywhere in the world.

(c) Licensor shall not be responsible for the construction, operation, or upkeep of the Licensed System and will not bear any costs associated therewith.

(d) In the event that Licensee shall develop any improvement to the apparatus claimed in the Licensed Patents, and later incorporate it into an improved or modified system or method by Licensee, such improvement (i) becomes, upon incorporation into an improved system or method, the property of Licensor and subject to this License Agreement, and (ii) shall be promptly disclosed to Licensor by Licensee. Licensee hereby agrees to execute any and all documents necessary to perfect Licensor's rights in such improvements.

6. Marking and Samples.

Licensee shall fully comply with the patent marking provisions of the intellectual property laws of the United States, including 35 U.S.C. § 287(a).

7. Termination.

The following termination rights are in addition to the termination rights that may be provided elsewhere in this License Agreement:

(a) Immediate Right of Termination . Licensor shall have the right to immediately terminate this License Agreement by giving written notice to Licensee in the event that Licensee does any of the following:

(i) Files a petition in bankruptcy or is adjudicated as bankrupt or insolvent, or makes an assignment for the benefit of creditors or an arrangement pursuant to any bankruptcy law, or if Licensee discontinues or dissolves its business or if a receiver is appointed for Licensee or for Licensee's business and such receiver is not discharged within 60 days; or

(ii) Attempts to transfer or assign its rights and obligations under this License Agreement, except as expressly provided in this License Agreement.

(b) Right to Terminate Upon Notice . Either party may terminate this License Agreement upon 30 days' advance written notice to the other party in the event of a breach of any material provision of this License Agreement by the other party, *provided* that, during the 30-day period, the breaching party fails to cure such breach.

8. Post-Termination Rights.

Upon expiration or termination of this License Agreement, Licensee shall thereafter immediately, except for reason of termination because of expiration or a declaration of patent invalidity, cease all further use of the Licensed Patents and all rights granted to Licensee under this License Agreement shall forthwith terminate and immediately revert to Licensor.

9. Infringements.

(a) Licensor shall have the sole and exclusive right, in its discretion, to institute and prosecute lawsuits against third persons for infringement of the Licensed Patents. Licensee shall not be entitled to any sums recovered in such lawsuits, whether such sums are recovered by judgment, settlement or otherwise.

(b) Licensee agrees to fully cooperate with Licensor in the prosecution of any such suit against a third party and shall, as reasonably requested, execute papers, testify on matters, and otherwise cooperate as reasonably requested for the prosecution of any such lawsuit. Licensor shall reimburse Licensee for the reasonable expenses incurred by Licensee as a result of such cooperation.

10. Publicity and Confidentiality.

(a) For purposes of this License Agreement, " **Confidential Information** " shall mean any confidential technical data, trade secret, know-how or other confidential information related to the Licensed System disclosed by any party hereunder in writing, orally, or by drawing or other form and which shall be marked by the disclosing party as "Confidential" or "Proprietary." If such information is disclosed orally, or through demonstration, to be deemed Confidential Information, it must be specifically designated as being of a confidential nature at the time of disclosure and reduced in writing and delivered to the receiving party within five business days of such disclosure.

(b) Notwithstanding the foregoing, Confidential Information shall not include information which: (i) is known to the receiving party at the time of disclosure or becomes known to the receiving party without breach of this License Agreement; (ii) is or becomes publicly known through no wrongful act of the receiving party or any subsidiary of the receiving party; (iii) is rightfully received from a third party without restriction on disclosure; (iv) is independently developed by the receiving party or any subsidiary; (v) is furnished to any third party by the disclosing party without restriction on its disclosure; (vi) is approved for release upon a prior written consent of the disclosing party; or (vii) is disclosed pursuant to judicial order, requirement of a governmental agency or by operation of law.

(c) The receiving party agrees that it will not disclose any Confidential Information to any third party and will not use Confidential Information of the disclosing party for any purpose other than for the performance of the rights and obligations hereunder during the term of this License Agreement and for a period of 5 years thereafter, without the prior written consent of the disclosing party. The receiving party further agrees that Confidential Information shall remain the sole property

of the disclosing party and that it will take all reasonable precautions to prevent any unauthorized disclosure of Confidential Information by its employees. No license shall be granted by the disclosing party to the receiving party with respect to Confidential Information disclosed hereunder unless otherwise expressly provided herein.

(d) Upon the request of the disclosing party, the receiving party will promptly return all Confidential Information furnished hereunder and all copies thereof.

(e) The parties agree that all publicity and public announcements concerning the formation and existence of this License Agreement shall be jointly planned and coordinated by and among the parties. Neither party shall disclose any of the specific terms of this License Agreement to any third party without the prior written consent of the other party, which consent shall not be withheld unreasonably. Notwithstanding the foregoing, any party may disclose information concerning this License Agreement as required by the rules, orders, regulations, subpoenas or directives of a court, government or governmental agency, after giving prior notice to the other party.

(f) If a party breaches any of its obligations with respect to confidentiality and unauthorized use of Confidential Information hereunder, the non-breaching party shall be entitled to equitable relief to protect its interest therein, including but not limited to injunctive relief, as well as money damages.

11. Indemnity; Insurance.

(a) Licensee shall defend, indemnify and hold Licensor, its affiliates and respective successors and permitted assigns, and their respective shareholders, members, partners (general and limited), officers, directors, managers, employees, agents and representatives, and each of their heirs, executors, successors and assigns (collectively, " **Licensor Parties** ") harmless from and against all costs, expenses, and losses (including reasonable attorney fees and costs) incurred through claims of third parties based on making or using the Licensed System; provided, however for clarity, that Licensee shall have no liability for third party claims that use of the Licensed Patents infringes the rights of such third party.

(b) Licensor shall defend, indemnify and hold Licensee, its affiliates and respective successors and permitted assigns, and their respective shareholders, members, partners (general and limited), officers, directors, managers, employees, agents and representatives, and each of their heirs, executors, successors and assigns harmless from and against costs, expenses, and losses (including reasonable attorney fees and costs) incurred through claims of third parties based on a breach by Licensor of any representation and warranty made in this License Agreement, including, for clarity, any third party claims that use of the Licensed Patents infringes the rights of such third party.

(c) NEITHER LICENSOR NOR LICENSEE HAS ANY LIABILITY FOR, AND EACH PARTY HEREBY WAIVES ANY RIGHT TO RECOVER FROM THE OTHER PARTY OR ANY OF ITS OWNERS, OFFICERS OR AFFILIATES, PUNITIVE, INCIDENTAL, SPECIAL, EXEMPLARY, CONSEQUENTIAL AND OTHER INDIRECT DAMAGES (INCLUDING LOST PROFITS) ARISING IN CONNECTION WITH OR WITH RESPECT TO THIS LICENSE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED IN CONTRACT, TORT, STRICT LIABILITY, OTHER LAW OR OTHERWISE. FOR THE AVOIDANCE OF DOUBT, THIS **SECTION 11(C)** SHALL NOT PREVENT ANY PARTY FROM SEEKING INDEMNIFICATION HEREUNDER FOR CLAIMS OF THIRD PARTIES FOR DAMAGES THAT ARE PUNITIVE, INCIDENTAL, SPECIAL, EXEMPLARY, CONSEQUENTIAL OR INDIRECT IN NATURE (INCLUDING LOST PROFITS).

(d) Upon commencing operation of the Licensed System and for the remainder of the Term, and at Licensee's sole expense, (i) Licensee shall obtain and maintain for itself customary commercial general liability insurance, covering bodily injury and property damage, written on an occurrence basis by a company or companies authorized to do business in the State of California, (ii) Licensor Parties shall be named additional insureds by endorsement on such policy, (iii) the policy and the additional insured coverage for Licensor Parties shall be endorsed to be primary and non-contributory with any insurance maintained by Licensor Parties and must provide additional insured status for Licensor Parties during the entire period, and (iv) upon the written request of Licensor, Licensee will provide Licensor with evidence of such insurance.

12. Notice.

All communications provided for hereunder shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, when emailed and received (if received before 5:00 p.m. Pacific time on a business day and otherwise, on the next succeeding business day), and in either case only if such emailed communication is also sent no later than the next business day by overnight delivery by private courier, or five days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and,

If to Licensor:

NW Natural
220 NW 2nd Avenue
Portland, Oregon 97209
Attention: MardiLyn Saathoff
Email:

If to Licensee, C/O:

SENSA Holdings LLC
10000 Memorial Drive, Suite 200
Houston, TX 77024
Attention: Jack Bellinger, General Counsel
Email:

and

SENSA Holdings LLC
667 Madison Ave # 5
New York, NY 10065
Attn: John Rigas
Email:

or to such other address as any such party shall designate by written notice to the other party hereto.

13. Governing Law; Consent to Jurisdiction.

This License Agreement and the rights and duties of the parties hereunder shall be governed by, and construed in accordance with, the laws of the State of Oregon without giving effect to any conflict of law provision. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the United States District Court for the District of Oregon and the courts of the State of Oregon sitting in Multnomah County, Oregon and, and the appropriate appeals courts therefrom, for the purposes of any suit, action or other proceeding arising out of this License Agreement or any transaction contemplated hereby. Each of the parties hereto further agrees that service of any process, summons, notice or document by United States registered mail to such party's respective address set forth under **Section 12** above shall be effective service of process for any action, suit or proceeding in Oregon with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence. Each of the parties hereto irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this License Agreement or the transactions contemplated hereby in (a) the courts of the State of Oregon sitting in Multnomah County, Oregon, or (b) the United States District Court for the District of Oregon and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

14. Non-Assignability.

This License Agreement shall inure to the benefit of and be binding on the parties hereto and their respective successors and permitted assigns. This License Agreement shall not be assigned by Licensee without the express prior written consent of Licensor, in its sole discretion; *provided* , *however* , that Licensee shall be entitled to assign this License Agreement to any purchaser of Licensee's interest in the Licensed Facility if (i) Licensee obtains Licensor's prior written consent,

which consent shall not be unreasonably withheld, and (ii) the purchaser assumes in writing Licensee's obligations under this License Agreement. Any attempted assignment in violation of this **Section 14** shall be null and void, and in no event shall any assignment or transfer hereunder serve to release or discharge Licensee from any of its duties and obligations hereunder, unless expressly released, in writing, by Licensor.

15. Waiver.

No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party so waiving. Except as provided in the preceding sentence, no action taken pursuant to this License Agreement, including without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained herein, and in any documents delivered or to be delivered pursuant to this License Agreement. The waiver by any party hereto of a breach of any provision of this License Agreement shall not operate or be construed as a waiver of any subsequent breach.

16. Severability.

If any provision of this License Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this License Agreement shall not be affected and shall remain in full force and effect so long as the economic and legal substance of the transactions contemplated hereby is not affected in any adverse manner to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this License Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

17. Counterparts.

This License Agreement may be executed in any number of counterparts (including by means of electronic transmission in portable document format (pdf)), each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

18. Entire Agreement.

This License Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof. This License Agreement may be amended, supplemented or otherwise modified only by a written instrument executed by each of the parties hereto. This License Agreement shall take precedence over any previous agreements between the parties hereto which may conflict with this License Agreement.

[SIGNATURE PAGE FOLLOWS]

The parties have executed this License Agreement to be duly executed as of the Effective Date.

NORTHWEST NATURAL GAS COMPANY

By: _____
Name: _____
Title: _____

GILL RANCH STORAGE, LLC

By: _____
Name: _____
Title: _____

EXHIBIT C

ASSIGNMENT OF LLC INTERESTS
IN GILL RANCH STORAGE, LLC

This Assignment of LLC Interests (this " **Assignment** ") is made as of [_____], by NW Natural Gas Storage, LLC, an Oregon limited liability company (" **Assignor** "), in favor of SENSA Holdings LLC, a Delaware limited liability company (" **Assignee** ").

RECITALS

WHEREAS, Assignor owns all of the issued and outstanding limited liability company interests (the " **Assigned LLC Interests** ") of Gill Ranch Storage, LLC, an Oregon limited liability company (the " **Company** ");

WHEREAS, Assignor and Assignee have entered into a Purchase and Sale Agreement, dated June 20, 2018, (the " **Purchase Agreement** ") whereby Assignor has agreed to sell to Assignee and Assignee has agreed to purchase all of the issued outstanding limited liability company interests in Company; and

WHEREAS, Assignor is the sole member of the Company and has agreed to sell and assign the Assigned LLC Interests to Assignee pursuant to the terms of the Purchase Agreement.

AGREEMENTS

Section 1. ***Definitions*** . Capitalized terms used but not defined in this Assignment shall have the respective meanings assigned to such terms in the Purchase Agreement.

Section 2. ***Assignment and Assumption*** . Subject to the Purchase Agreement and effective immediately, Assignor does hereby irrevocably SELL, ASSIGN, CONVEY, TRANSFER AND DELIVER to Assignee all right, title and interest in, to, of and under the Assigned LLC Interests, and Assignee hereby accepts such assignment and assumes all right, title and interest in, to, of and under the Assigned LLC Interests.

Section 3. ***Terms of the Purchase Agreement*** . This Assignment is delivered pursuant to, and is hereby made subject to, the terms and conditions of the Purchase Agreement. The Parties acknowledge and agree that the representations, warranties, covenants, agreements and indemnities contained in the Purchase Agreement shall not be superseded hereby but shall remain in full force and effect to the full extent provided therein and in accordance with the terms thereof. In the event of any conflict or inconsistency between the terms of the Purchase Agreement and the terms hereof, the terms of the Purchase Agreement shall govern.

Section 4. ***Governing Law; Consent to Jurisdiction*** .

(a) **Governing Law.** This Assignment and the rights and duties of the parties hereunder shall be governed by, and construed in accordance with, the laws of the State of California without giving effect to any conflict of law provision.

(b) **Consent to Jurisdiction.** Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the United States District Court for the District of Oregon, the courts of the State of Oregon sitting in Multnomah County, Oregon, the United States District Court for the Southern District of Texas, and the courts of the State of Texas sitting in Harris County, Texas, and the appropriate appeals courts therefrom (collectively the " **Approved Courts** "), for the purposes of any suit, action or other proceeding arising out of this Assignment or any transaction contemplated hereby; *provided* , *however* , that (i) if Assignor desires to file any such suit, action or other proceeding against Assignee, then Assignor shall only do so in the United States District Court for the Southern District of Texas or the courts of the State of Texas sitting in Harris County, Texas, and (ii) if Assignee desires to file any such suit, action or other proceeding against Assignor, then Assignee shall only do so in the United States District Court for the District of Oregon or the courts of the State of Oregon sitting in Multnomah County, Oregon. Subject to the preceding sentence, each of the parties hereto irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Assignment or the transactions contemplated hereby in the Approved Courts and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each of the parties hereto further agrees that service of any process, summons, notice or document by United States registered mail to such party's respective address set forth in **Section 6** hereof shall be effective service of process for any action, suit or proceeding with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence.

Section 5. ***Amendment*** . This Assignment may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of the Parties.

Section 6. ***Notices .*** All communications provided for hereunder shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, when emailed and received (if received before 5:00 p.m. Pacific time on a Business Day and otherwise, on the next succeeding Business Day), and in either case only if such emailed communication is also sent no later than the next Business Day by overnight delivery by private courier, or five days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and,

If to Assignor:

NW Natural Gas Storage, LLC
220 NW 2nd Avenue
Portland, Oregon 97209
Attention: MardiLyn Saathoff
Email:

with a copy (which shall not itself constitute notice) to:

Stoel Rives LLP
760 SW Ninth Avenue, Suite 3000
Portland, Oregon 97205
Attention: James M. Kearney and Eric L. Martin
Email:

If to Assignee:

SENSA Holdings LLC
10000 Memorial Drive, Suite 200
Houston, TX, 77024
Attention: Jack Bellinger, General Counsel
Email:

and

SENSA Holdings LLC
667 Madison Ave # 5
New York, NY 10065
Attn: John Rigas
Email:

with a copy (which shall not itself constitute notice) to:

Orrick, Herrington & Sutcliffe LLP
51 West 52 nd Street
New York, New York 10019
Attn: R. King Milling
Email:

or to such other address as any such party shall designate by written notice to the other party hereto.

Section 7. ***Counterparts*** . This Assignment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and

the same agreement. A signed copy of this Assignment delivered by electronic mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Assignment.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have caused this Assignment to be signed as of the date first set forth above.

ASSIGNOR:

NW NATURAL GAS STORAGE, LLC

By: _____

Name: David Weber
Title: President

EXHIBIT D

TRANSITION SERVICES AGREEMENT

This Transition Services Agreement (this " **Agreement** "), dated as of [●] (the " **Effective Date** "), is entered into by and between NW Natural Gas Storage, LLC, an Oregon limited liability company, on behalf of itself and its Affiliates (" **Seller** "), and SENSA Holdings LLC, a Delaware limited liability company (" **Buyer** ") and its subsidiary Gill Ranch Storage, LLC, an Oregon limited liability company (the " **Company** "). Seller, Buyer and the Company are referred to herein as the " **Parties** " and each as a " **Party** ".

WHEREAS, Buyer and Seller have entered into that certain Purchase and Sale Agreement, dated as of June 20, 2018 (the " **Purchase Agreement** "), pursuant to which Buyer is purchasing one hundred percent (100%) of the limited liability company interests in the Company;

WHEREAS, in connection with the Purchase Agreement, and pursuant to the terms and subject to the conditions of this Agreement, Buyer desires for Seller to provide (or cause to be provided), and Seller is willing to provide (or cause to be provided) to the Company, certain transition services as described herein; and

WHEREAS, capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements in this Agreement and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE 1
TRANSITION SERVICES

1.1 Provision of Services . Pursuant to the terms and subject to the conditions of this Agreement, Seller shall provide, or cause to be provided, to the Company, the transition services described in attached Schedule A (collectively, the " **Transition Services** ").

1.2 Adjustments to Services . From time to time during the term of this Agreement, Buyer and the Company may request in writing that Seller terminate, no sooner than thirty (30) days after receipt of such notice (unless sooner as agreed to by Seller), any portion of the Transition Services, in which event the Fees payable under **Section 2.1** shall be reduced accordingly to account for such terminated portion of the Transition Services. Seller shall not subsequently be required to increase or reinstate Transition Services that have been so terminated.

1.3 Third Party Service Providers . Buyer and the Company understand that some of the Transition Services may be provided to the Company by third party service providers and licensors (collectively, " **Third Party Service Providers** ") under contracts between such Third Party Service Providers, on the one hand, and Seller, on the other hand, or consist of Third Party Services Providers

permitting Seller to continue to use software licensed from such Third Party Service Providers that Seller used prior to the Effective Date; *provided* , *however* , that Seller shall obtain the prior written consent of Buyer to hire any Third Party Service Providers (but excluding software from Third Party Service Providers in use by Seller on the Effective Date). The Parties shall each cooperate in good faith to obtain on favorable terms any consents, licenses or approvals of Third Party Service Providers that are necessary for Seller to provide the Transition Services, or for the Company to receive such services. In the event any fees or other costs are required by a Third Party Service Provider to be paid in connection with such consents, licenses or approvals, Buyer shall either (x) pay, or cause the Company after the Closing to pay, the fee or (y) terminate the affected service in lieu of paying the fee.

1.4 Performance Standards . Seller shall provide the Transition Services, with no less than the degree of care, skill, quality and timeliness, in all material respects, as Seller has historically provided to the Business during the twelve (12) months prior to the Closing. Except as specified in this Agreement, Seller makes no warranties, representations or conditions of any kind, express or implied, with respect to any Transition Services provided under this Agreement and Seller hereby disclaims all such warranties. Seller Indemnified Parties shall not be liable to Buyer or the Company for any error of judgment or mistake of fact or for any losses incurred by Buyer or the Company in connection with matters to which this Agreement relates, except that, as provided in **Section 3.1** , Seller shall be liable for losses resulting from its breach of this Agreement, gross negligence, intentional misconduct or fraud in the provision of Transition Services under this Agreement.

1.5 Buyer Obligations . In addition to Buyer's and the Company's responsibilities contained elsewhere in this Agreement, Buyer and the Company shall (i) reasonably cooperate with Seller, (ii) provide such reasonable assistance, access to systems and facilities, and information, as well as timely approvals, as Seller may reasonably request in connection with the performance of Seller's obligations hereunder, and (iii) use commercially reasonable efforts to cause other service providers or contractors retained by Buyer or the Company to cooperate with Seller in connection with the performance of Seller's obligations hereunder.

1.6 Status of Parties . Nothing contained herein shall be deemed to create a partnership or agency relationship between (i) Seller and (ii) Buyer and/or the Company. Seller (and any Third Party Service Providers) shall act as independent contractors in the performance of the Transition Services. Buyer and the Company shall not be considered an employer or joint employer of any of Seller's or its Affiliates' personnel performing any of the Transition Services, and neither Seller nor its service providers shall be considered an employer or joint employer of any of Buyer's or the Company's personnel performing or otherwise involved in the Transition Services. Each of (i) Buyer and the Company and (ii) Seller (and their respective service providers) shall be solely responsible for and assume all liability for the safety and supervision of their respective employees, agents, representatives and subcontractors in connection with the provision of the Transition Services; *provided* , *however* , that Buyer and the Company shall be responsible for ensuring the that Facility is maintained in accordance in all material respects with all applicable safety Laws. Neither Party shall have the authority or power to bind the other or to contract in the name of, or create a liability against, the other Party in any way or for any purpose. Neither Party shall have any obligation to

provide workers compensation insurance, unemployment insurance, or any employee benefits of any nature for the other Party or any of the other Party's employees or contractors.

1.7 Relationship Managers .

(a) Seller shall appoint one or more relationship managers reasonably acceptable to Buyer to manage the relationship established by this Agreement (the " **Seller Relationship Manager(s)** ") who will (i) have overall managerial responsibility for acting, coordinating and facilitating the performance of the Transition Services in accordance with the terms of this Agreement; and (ii) serve as Seller's primary liaison with the Buyer Relationship Manager. The Seller Relationship Manager(s) shall initially be the individual(s) set forth on attached Schedule B .

(b) Buyer shall appoint a relationship manager reasonably acceptable to Seller to manage the relationship established by this Agreement (the " **Buyer Relationship Manager** " and together with the Seller Relationship Manager(s), the " **Relationship Managers** " and each a " **Relationship Manager** ") who will (i) have overall managerial responsibility for acting, coordinating and facilitating Buyer's receipt of the Transition Services and the performance of Buyer's obligations under this Agreement in accordance with the terms of this Agreement; and (ii) serve as Buyer's primary liaison with the Seller Relationship Manager(s) (but, for purposes of clarification, not the sole liaison of Buyer, the Company or their respective employees with Seller or its employees or subcontractors). The Buyer Relationship Manager shall initially be as set forth on attached Schedule C .

(c) The Relationship Managers shall generally be available as reasonably necessary to coordinate the provision of Transition Services. The Relationship Managers will make themselves available to meet at such times as determined by the Relationship Managers to discuss the Transition Services being provided, any problems with the Transition Services or charges and any proposed modifications or of this Agreement, but in no event less often than once per month (unless otherwise agreed by the Relationship Managers). Each Party may from time to time replace its Relationship Manager with another Relationship Manager reasonably acceptable to the other Party.

1.8 Force Majeure . In the event Seller is wholly or partially prevented from providing all or any portion of the Transition Services, or if the provision of Transition Services is interrupted, restricted or suspended, in each case by reason of any cause beyond its reasonable control, including (to the extent meeting the foregoing requirements) riots, epidemics, severe weather, fire, flood, war, acts of terrorism, acts of God, embargoes, work stoppages, labor disputes, strikes, boycott, shortage or unavailability of supplies, or Law (each a " **Force Majeure Event** "), Seller shall not be in default for any delay in performance or non-performance caused by such Force Majeure Event, and Seller's obligation with respect to such performance shall be postponed or cancelled, as the case may be, for such time as its performance is prevented, restricted, interrupted or suspended as a result of such Force Majeure Event; *provided* that, in the event the Transition Services are not wholly and permanently prevented, Seller shall use commercially reasonable efforts to avoid or remove such causes of non-performance and shall resume performance hereunder promptly following the removal of such causes. As soon as reasonably practicable, Seller will give notice to Buyer upon learning of any Force Majeure Event affecting its obligations under this Agreement and its reasonable

estimate of the expected duration of the associated delay. Buyer and the Company shall not be required to pay Fees for Transition Services that are not provided by Seller during the pendency of any Force Majeure Event; *provided* , *however* , that Buyer and the Company shall be required to pay Fees for Seller's commercially reasonable efforts to avoid or remove such causes of non-performance.

ARTICLE 2
COMPENSATION; POST-CLOSING TRUE-UP PAYMENTS

2.1 Fees; Billing . Buyer and the Company shall pay to Seller the applicable fees for the Transition Services set forth in attached Schedule A (the " **Fees** ") *plus* any applicable sales and use Taxes thereon. In addition, Buyer or the Company shall reimburse Seller for all reasonable out-of-pocket costs and expenses incurred by Seller's employees, including travel or lodging expenses, required in connection with the performance of the Transition Services (" **Seller Expenses** "), so long as Seller delivers to Buyer and the Company reasonable documentation (i.e., receipts) in support of such Seller Expenses. Except as otherwise set forth in attached Schedule A , the Fees and Seller Expenses shall be invoiced by Seller in arrears on a monthly basis, which invoices shall include reasonable documentation of Seller Expenses. Fees are due within thirty (30) days of the date of receipt of such invoice. Subject to the terms of this **ARTICLE 2** , any portion of an undisputed invoice not paid within such thirty (30) day period shall accrue interest at the rate of one percent (1%) per month or, with respect to Third Party Service Providers, such interest rate as provided in Seller's agreement with the applicable Third Party Service Provider (the " **Applicable Rate** ").

2.2 Billing Disputes . If (a) Buyer and the Company believe that all or any portion of an invoice is not payable under this Agreement, or (b) Buyer and the Company otherwise determine that Buyer and the Company have been charged Fees or Seller Expenses not due under or otherwise in breach of the terms of this Agreement, Buyer and the Company shall, within thirty (30) days following receipt of such invoice or discovery of such failure or breach, as applicable, pay the portion of such invoice that Buyer and the Company do not dispute and give written notice to Seller of the disputed amount (a " **Disputed Amount** ") and the basis on which Buyer disputes such Disputed Amount. If all or any portion of the Disputed Amount is determined to have been due to Seller, then Buyer and the Company shall pay to Seller the amount so due together with interest thereon at the Applicable Rate. If all or any portion of amounts paid by Seller are determined to have been overpaid by Buyer, then Seller shall refund to Buyer and the Company the amount overpaid by Buyer and the Company, together with interest on such amount at the Applicable Rate. Each Party shall bear its own costs and expenses associated with the resolution of any dispute.

ARTICLE 3
INDEMNIFICATION

3.1 Indemnification .

(a) Buyer and the Company shall indemnify, defend and hold Seller Indemnified Parties harmless from and against any and all Damages incurred or suffered by any of them relating to or arising out of any Action or other legal proceeding made or brought by any Person who is not a Party to this Agreement or an Affiliate of a Party to this Agreement or a Representative of the

foregoing (each, a " **Third Party Claim** ") in connection with or relating to (i) Buyer's or the Company's breach of any of its obligations under this Agreement, (ii) Buyer's or the Company's gross negligence, intentional misconduct or fraud, or (iii) arising from or in connection with the Transition Services, except in each case to the extent such Damages arise out of a Third Party Claim for which Buyer Indemnified Parties are entitled to indemnity under **Section 3.1(b)** .

(b) Seller shall indemnify, defend and hold Buyer Indemnified Parties harmless from and against any and all Damages incurred or suffered by any of them relating to or arising out of any Third Party Claim in connection with or relating to (i) Seller's breach of any of its obligations under this Agreement or (ii) Seller's gross negligence, intentional misconduct or fraud, except in each case to the extent such Damages arise out of a Third Party Claim for which Seller Indemnified Parties is entitled to indemnity under **Section 3.1(a)** .

(c) Indemnification hereunder for any Third Party Claim shall be governed by the procedures described in Section 9.2(e) and (f), Section 9.3(e) and (f), and Section 9.4(a) of the Purchase Agreement, which are incorporated herein by reference *mutatis mutandis* .

(d) The Parties acknowledge and agree that their sole and exclusive remedy with respect to any and all Third Party Claims shall be pursuant to the indemnification provisions set forth in this **Section 3.1** .

3.2 Limitation of Liability and Warranties . Notwithstanding anything to the contrary contained in this Agreement or the Purchase Agreement, Seller's maximum cumulative liability to Buyer and the Company for breach of this Agreement or otherwise with respect to the Transition Services (including **Section 3.1**) shall be an amount equal to the amount of Fees paid during the Service Period, except to the extent liability arises out of Seller's gross negligence, intentional fraud or willful misconduct. Moreover, neither Party shall be liable to the other Party for punitive, consequential, special, indirect or incidental damages (including damages for loss of business reputation or opportunity or business interruption) arising from or relating to any claim made under this Agreement or regarding the provision of or the failure to provide the Transition Services, other than to the extent the liability arises out of a Party's gross negligence, intentional fraud or willful misconduct.

ARTICLE 4
TERM

4.1 Term . Unless this Agreement is earlier terminated pursuant to **Section 4.2** , Seller shall cause the Transition Services to be provided commencing on the Closing Date and continuing for a period of eighteen (18) months, subject to earlier termination pursuant to **Section 1.2** (the " **Service Period** "). This Agreement shall expire at the end of the Service Period or such earlier date upon which all Transition Services are terminated pursuant to **Section 1.2** or this Agreement is terminated pursuant to **Section 4.2** (the " **Expiration Date** "). Buyer and the Company shall use commercially reasonable efforts to end its need for Transition Services, in whole and in part, as soon as reasonably practicable.

4.2 Early Termination .

(a) Buyer Right of Termination . Buyer may terminate this Agreement for any reason and at any time prior to the Expiration Date on not less than thirty (30) days' prior written notice to Seller (or such longer period as required under any applicable Third Party Service Provider Contract). Buyer and the Company shall be solely responsible for any termination fee payable by Seller or its Affiliates under any Third Party Service Provider Contract due to such early termination and shall promptly pay or reimburse Seller, as applicable, for any such fee following receipt of written notice thereof.

(b) Seller Right of Termination . Seller may terminate this Agreement prior to the Expiration Date upon Buyer's or the Company's breach in any material respect of any of its obligations under this Agreement, which (i) breach of a payment obligation is not cured within ten (10) days after Buyer's and the Company's receipt of written notice of non-payment by Seller and (ii) breach of a non-payment obligation (if curable) is not cured within thirty (30) days of Buyer's and the Company's receipt of written notice by Seller, setting forth in reasonable detail the breach in question; *provided* , *however* , that for the avoidance of doubt, Buyer's and the Company's failure to pay any amount due hereunder that is subject to a good faith dispute by Buyer and the Company pursuant to **Section 2.2** shall not be deemed to be a breach of Buyer's and the Company's obligations hereunder.

(c) Termination Notices . Any termination notice delivered hereunder shall specify the effective date of such termination.

(d) Effect of Termination . Upon termination or expiration of this Agreement: (i) Seller shall have no further obligation to provide the Transition Services; and (ii) Buyer and the Company shall have no further obligation to make payments in respect of any period following such expiration or termination except for amounts due and owing for Fees and Seller Expenses relating to any Transition Services rendered prior to such expiration or termination; *provided* that, for the avoidance of doubt, the provisions of **ARTICLE 3** and **ARTICLE 5** shall survive the expiration or termination of this Agreement.

ARTICLE 5
MISCELLANEOUS

5.1 Notices . Formal legal notices under this Agreement between the Parties shall be in writing and shall be given in accordance with Section 11.1 of the Purchase Agreement with notices to the Company being sent to the Buyer's address under Section 11.1 of the Purchase Agreement.

5.2 Assignment . No Party shall assign this Agreement, or any rights, interests or obligations hereunder, without the prior written consent of the other Party, in its sole discretion, and any attempted assignment without such consent shall be null and void. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

5.3 Rights of Third Parties . Except for the provisions of **ARTICLE 3** , which are intended to be enforceable by the Persons respectively referred to therein, nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or give any Person, other than the Parties, any right or remedies under or by reason of this Agreement.

5.4 Counterparts . This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any facsimile or electronic copies hereof or signature hereon shall, for all purposes, be deemed originals.

5.5 Entire Agreement . This Agreement (together with all schedules attached hereto) and the Purchase Agreement constitute the entire agreement among the Parties and supersede any other agreements, whether written or oral, that may have been made or entered into by or among any of the Parties or any of their respective Affiliates relating to the provision of Transition Services. This Agreement shall be interpreted in accordance with Section 1.2 of the Purchase Agreement, which is incorporated herein by reference *mutatis mutandis* .

5.6 Amendments . This Agreement may be amended or modified in whole or in part, and terms and conditions may be waived, and actions consented to, only by a duly authorized agreement in writing which makes reference to this Agreement and is executed by each Party.

5.7 Severability . If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect so long as the economic and legal substance of the transactions contemplated hereby is not affected in any adverse manner to either Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

5.8 Governing Law . This Agreement and the rights and duties of the Parties hereunder shall be governed by, and construed in accordance with, the laws of the State of California without giving effect to any conflict of law provision.

5.9 Consent to Jurisdiction . Each of the Parties irrevocably submits to the exclusive jurisdiction of the United States District Court for the District of Oregon, the courts of the State of Oregon sitting in Multnomah County, Oregon, the United States District Court for the Southern District of Texas, and the courts of the State of Texas sitting in Harris County, Texas, and the appropriate appeals courts therefrom (collectively the " **Approved Courts** "), for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby; *provided* , *however* , that (i) if Seller desires to file any such suit, action or other proceeding against Buyer or the Company, then Seller shall only do so in the United States District Court for the Southern District of Texas or the courts of the State of Texas sitting in Harris County, Texas, and (ii) if Buyer or the Company desires to file any such suit, action or other proceeding against Seller, then Buyer and the Company shall only do so in the United States District Court for the District of Oregon or the courts of the State of Oregon sitting in Multnomah County, Oregon. Subject to the preceding sentence, each of the Parties irrevocably and unconditionally waives any objection

to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the Approved Courts and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each of the Parties further agrees that service of any process, summons, notice or document by United States registered mail to such Party's respective address pursuant to **Section 5.1 s** hall be effective service of process for any action, suit or proceeding with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence.

5.10 Jury Trial Waiver . THE PARTIES HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT BETWEEN THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY AND THAT ANY ACTION OR PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

[*Signature pages follow*]

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date first set forth above.

BUYER :

SENSA HOLDINGS LLC

By: _____

Name: John F. Thrash
Title: Director

By: _____

Name: John P. Rigas
Title: Director

COMPANY :

GILL RANCH STORAGE, LLC

By: _____

Name:
Title:

SELLER:

NW NATURAL GAS STORAGE, LLC

By: _____

Name: David Weber
Title: President

Schedule A

DESCRIPTION OF TRANSITION SERVICES

During the Service Period, and in addition to the services to be provided by Seller Relationship Manager(s) in accordance with **Section 1.7** , Buyer will require all services presently provided to the Company by the following employees of Seller or its Affiliates (each a " **Listed Employee** "):

[*At Closing, the aforementioned list of employees shall be modified to reflect those employees of Seller and its Affiliates then providing the services to the Company that are being provided by the aforementioned employees as of the date of the Purchase Agreement.*]

Upon the end of any Listed Employee's employment by Seller or its Affiliates, the Transition Services provided to the Company under this Agreement by such Listed Employee (excluding the services to be provided by Seller Relationship Manager(s) in accordance with **Section 1.7**) shall automatically terminate and Seller and its Affiliates shall have no further obligation to provide such services to the Company; *provided* , *however* , that Seller and its Affiliates (i) shall not terminate a Listed Employee during the Service Period except for cause prior to Buyer terminating the services provided by such Listed Employee pursuant to **Section 1.2** or the expiration of the Service Period, whichever occurs first, (ii) shall give Buyer reasonable advance notice of any termination of a Listed Employee's employment by Seller or its Affiliates, and (iii) shall give Buyer prompt notice if a Listed Employee elects to terminate its employment. If Seller terminates a Listed Employee prior to Buyer terminating the Transition Services provided by such employee, and Seller hires a new employee to assume substantially the same duties as the terminated employee, then the new employee shall be added as a Listed Employee under this Agreement. For the avoidance of doubt, Transition Services shall not include any services provided by Site Employees.

FEES

Fees for Transition Services rendered by employees of Seller or its Affiliates shall be billed for the hours that each Listed Employee provides services to the Company at an hourly rate based on their pro rata respective fully loaded cost (*e.g.* , including benefits, incentives, taxes, administrative and overhead, etc.) or as otherwise required by the Oregon Public Utility Commission. The hourly rate based on the respective fully loaded cost for each Listed Employee as of the date of the Purchase Agreement is set forth below:

Name	Title	Hourly Rate

Fees for Transition Services rendered by Third Party Service Providers shall be equivalent to the amount Seller pays such Third Party Service Providers for rendering such services.

Schedule B

SELLER RELATIONSHIP MANAGER(S)

David Weber

Schedule C

BUYER RELATIONSHIP MANAGERS

[To be provided by Buyer.]

EXHIBIT 12

NORTHWEST NATURAL GAS COMPANY

Ratios of Earnings to Fixed Charges

(unaudited)

In thousands, except share data	Year Ended December 31, 2017	2016	2015	2014	2013	Twelve Months Ended June 30, 2018	Six Months Ended June 30, 2018
Fixed Charges, as defined:							
Interest on Long-Term Debt	$ 36,809	$ 34,508	$ 37,918	$ 40,066	$ 40,825	36,720	$ 18,378
Other Interest	2,274	3,404	3,173	2,718	2,709	2,604	1,379
Amortization of Debt Discount and Expense	2,017	1,671	1,760	1,963	1,877	2,032	1,017
Capitalized Interest	2,598	—	—	—	—	4,846	2,248
Interest Portion of Rentals	2,574	2,048	1,976	2,302	1,910	2,291	1,006
Total Fixed Charges, as defined	$ 46,272	$ 41,631	$ 44,827	$ 47,049	$ 47,321	48,493	$ 24,028
Earnings, as defined:							
Net Income from continuing operations [1]	$ 72,073	$ 62,419	$ 60,026	$ 66,006	$ 61,970	$ 68,273	$ 41,672
Taxes on Income from continuing operations [1]	41,008	43,011	39,907	46,268	42,787	26,306	15,476
Fixed Charges, as above	46,272	41,631	44,827	47,049	47,321	48,493	24,028
Total Earnings, as defined	$ 159,353	$ 147,061	$ 144,760	$ 159,323	$ 152,078	$ 143,072	$ 81,176
Ratios of Earnings to Fixed Charges	3.44	3.53	3.23	3.39	3.21	2.95	3.38

(1) Net income from continuing operations and taxes on income from continuing operations exclude income and taxes related to discontinued operations, respectively.

EXHIBIT 31.1

CERTIFICATION

I, David H. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2018 of Northwest Natural Gas Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ David H. Anderson
David H. Anderson
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Frank H. Burkhartsmeyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2018 of Northwest Natural Gas Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Frank H. Burkhartsmeyer
Frank H. Burkhartsmeyer
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

NORTHWEST NATURAL GAS COMPANY

Certificate Pursuant to Section 906
of Sarbanes – Oxley Act of 2002

Each of the undersigned, DAVID H. ANDERSON, Chief Executive Officer, and FRANK H. BURKHARTSMEYER, the Chief Financial Officer, of NORTHWEST NATURAL GAS COMPANY (the Company), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the Report) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, each of the undersigned has caused this instrument to be executed this 7th day of August 2018 .

/s/ David H. Anderson
David H. Anderson
President and Chief Executive Officer

/s/ Frank H. Burkhartsmeyer
Frank H. Burkhartsmeyer
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Northwest Natural Gas Company and will be retained by Northwest Natural Gas Company and furnished to the Securities and Exchange Commission or its staff upon request.