

NORTHWEST NATURAL GAS CO

Form 11-K

June 26, 2006

Table of Contents

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

**FORM 11-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-15973

**NORTHWEST NATURAL GAS COMPANY**

**RETIREMENT K SAVINGS PLAN**

(Full Title of Plan)

**NORTHWEST NATURAL GAS COMPANY**

**220 N. W. Second Avenue**

**Portland, Oregon 97209**

(Name of issuer of the securities held pursuant to the  
plan and the address of its principal executive office)

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**Table of Contents**

**NORTHWEST NATURAL GAS COMPANY**

Retirement K Savings Plan

Annual Report to Securities and Exchange Commission

on Form 11-K

For the Fiscal Year Ended December 31, 2005

**Table of Contents**

**ITEM 4. FINANCIAL STATEMENTS**

|   | <b>Page</b> |
|---|-------------|
| <b><u>Report of Independent Registered Public Accounting Firm</u></b>   | 1           |
| <b>Financial Statements</b>   |             |
| <u>Statement of Net Assets Available for Benefits</u>   | 2           |
| <u>Statement of Changes in Net Assets Available for Benefits</u>  | 3           |
| <u>Notes to Financial Statements</u>  | 4-8         |
| <b>Supplemental Schedule Required by ERISA*</b>   |             |
| <u>Schedule H, line 4i - Schedule of Assets (Held at End of Year)</u>   | 9           |
| <p>* Other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ( ERISA ) have been omitted because they are not applicable.</p> |             |
| <u>SIGNATURE</u>  | 10          |
| EXHIBITS  |             |

23 Consent of Independent Registered Public Accounting Firm

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Participants and Administrator of the

Northwest Natural Gas Company

Retirement K Savings Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Northwest Natural Gas Company Retirement K Savings Plan (the Plan ) at December 31, 2005 and 2004, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, Schedule H, Line 4i Schedule of Assets (Held at End of Year) at December 31, 2005 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon

June 22, 2006

**Table of Contents**

**Northwest Natural Gas Company**

**Retirement K Savings Plan**

**Statements of Net Assets Available for Benefits**

**December 31, 2005 and 2004**

|                                   | <b>2005</b>    | <b>2004</b>    |
|-----------------------------------|----------------|----------------|
| <b>Assets</b>                     |                |                |
| Investments, at fair value        | \$ 113,568,063 | \$ 105,266,323 |
| <b>Contributions receivable</b>   |                |                |
| Participant                       | 127,630        |                |
| Employer                          | 45,202         |                |
| Total contributions receivable    | 172,832        |                |
| Cash                              |                | 2,832          |
| Total assets                      | 113,740,895    | 105,269,155    |
| <b>Liabilities</b>                |                |                |
| Excess contributions payable      |                | (3,380)        |
| Total liabilities                 |                | (3,380)        |
| Net assets available for benefits | \$ 113,740,895 | \$ 105,265,775 |

The accompanying notes are an integral part of these financial statements.

**Table of Contents****Northwest Natural Gas Company****Retirement K Savings Plan****Statements of Changes in Net Assets Available for Benefits****Years Ended December 31, 2005 and 2004**

|  | <b>2005</b>    | <b>2004</b>    |
|--|----------------|----------------|
| <b>Additions</b>                                       |                |                |
| Investment income                                      | \$ 3,688,550   | \$ 2,224,815   |
| Net appreciation in fair value of investments          | 3,522,620      | 8,086,763      |
| Net investment income                                  | 7,211,170      | 10,311,578     |
| <b>Contributions</b>                                   |                |                |
| Participant elective and rollover                      | 6,519,707      | 6,664,634      |
| Employer   | 1,688,053      | 1,692,074      |
| Total contributions                                    | 8,207,760      | 8,356,708      |
| Total additions  | 15,418,930     | 18,668,286     |
| <b>Deductions</b>                                      |                |                |
| Withdrawals and benefit payments                       | (6,939,345)    | (5,407,929)    |
| Administrative fees and expenses                       | (4,465)        | (5,050)        |
| Total deductions                                       | (6,943,810)    | (5,412,979)    |
| Net increase in net assets available for benefits      | 8,475,120      | 13,255,307     |
| Net assets available for benefits at beginning of year | 105,265,775    | 92,010,468     |
| Net assets available for benefits at end of year       | \$ 113,740,895 | \$ 105,265,775 |

The accompanying notes are an integral part of these financial statements.

## **Table of Contents**

### **Northwest Natural Gas Company**

### **Retirement K Savings Plan**

### **Notes to Financial Statements**

### **December 31, 2005 and 2004**

#### **1. Description of Plan**

The following description of the Northwest Natural Gas Company Retirement K Savings Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more comprehensive description of the Plan's provisions.

#### **General**

The Plan is a defined contribution plan covering substantially all employees of Northwest Natural Gas Company (the Company) who have completed 90 days of service with at least 250 hours credited or have 1,000 hours of service credited in their initial employment year or any plan year of service. At December 31, 2005, 1,262 participants had account balances in the Plan, of which 1,025 were active.

T. Rowe Price is the Plan's trustee and performs the recordkeeping duties of the Plan.

#### **Contributions**

Under the Plan, participants may elect to contribute, subject to Internal Revenue Code (Code) limitations, up to 50% of gross pay to the Plan through salary deferral. For Non-Bargaining Unit employees, the Company contributes 60% of the first 6% contributed by each employee, with a maximum match of 3.6% of gross pay. For Bargaining Unit employees, the Company match is 50% of the first 4% contributed by each employee, with a maximum match of 2% of gross pay.

#### **Participant Accounts**

Where applicable, each participant's account is credited with Pre-Tax Contributions, Matching Contributions, Supplemental Contributions, Rollover Contributions and net earnings or losses. Pre-Tax Contributions are based on the participant's deferral election. Matching Contributions are credited to the participant's account according to the formula defined in the Plan document. Rollover contributions are credited upon receipt from the tax-qualified plan of another employer or from an IRA. Plan earnings are allocated based on account balances in the investment options selected by the participant.

#### **Investment Options**

Participants may direct contributions in any of the 23 investment options (19 options are funds managed by T. Rowe Price) offered by the Plan.

#### **Vesting**

All contributions and actual earnings credited to participant accounts are fully vested and nonforfeitable at all times subject to the limitations imposed by the Code.

#### **Participant Loans**

The Plan provides for participant loans under certain guidelines. Participant loans are repaid through payroll deductions and participants remaining account balances are used as collateral for the loans. The loans bear interest at a rate commensurate with local prevailing rates. The rate used equals the prime rate plus 1%, based on rates quoted in *The Wall Street Journal* on the last business day of the month prior to the loan's inception.



**Table of Contents**

**Northwest Natural Gas Company**

**Retirement K Savings Plan**

**Notes to Financial Statements**

**December 31, 2005 and 2004**

**Withdrawals and Payment of Benefits**

On termination of service due to death, disability, retirement or for other reasons, a participant may receive the value of his or her account as a single lump-sum distribution or as two partial lump sum distributions. Under the hardship withdrawal provisions of the Plan, participants may withdraw salary deferral amounts while still employed by the Company.

**Administrative Fees and Expenses**

Certain expenses of administration and servicing of the Plan, including equipment, supplies and payroll expenses of administrative and clerical personnel, and audit and trustee fees are provided by the Company without charge to the Plan. Loan disbursement fees are paid by the Plan allocated to participants withdrawing amounts as loans during the year and are classified as administrative fees and expenses. Investment manager fees are calculated as a percentage of the fair market value of the assets and are paid by the Plan. Investment income is presented net of these fees.

**Plan Amendments**

Effective August 2, 2004, when a participant does not make an election for the allocation of contributions among the investment funds offered, participant contributions will be invested in the retirement date based investment fund available on the date of the contribution that has a projected year of retirement nearest to or which includes the year in which the participant will attain age 65.

Also effective August 2, 2004, any participant entitled to benefits under the Plan whose benefit exceeds \$5,000 shall be paid in a total or partial lump-sum payment. The participant may elect a partial lump sum distribution only if the amount remaining in the account balance after the payment exceeds \$5,000. The second, later distribution must be the full balance in the account in a single sum.

Effective January 16, 2005, the Plan was amended to provide that a participant may designate whether loan proceeds shall be withdrawn pro rata from all investment funds or pro rata from all funds other than the ESOP fund in which Qualifying Securities are held.

Effective March 28, 2005, the Plan was amended to provide that in the event of a mandatory distribution greater than \$1,000, if the participant does not elect to have such distribution paid directly to an eligible retirement plan or to receive the distribution directly then the distribution will be paid in a direct rollover to an individual retirement plan designated by the Retirement K Savings Plan Administrative Committee.

Effective December 16, 2005, the Plan was amended to provide that a Qualified Employee initially hired as either a Term or Temporary Employee must complete one year of service before becoming eligible to participate in the Plan.

**2. Significant Accounting Policies**

**Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting.



**Table of Contents**

**Northwest Natural Gas Company**

**Retirement K Savings Plan**

**Notes to Financial Statements**

**December 31, 2005 and 2004**

**Valuation of Investments**

Investments in mutual funds are valued at the net asset value of shares held by the Plan at year-end. Investments in the Company's common stock are valued at the closing price on the last day of the year as quoted on the New York Stock Exchange. Investments in common and commingled trust funds are valued based on financial statements provided by the Plan's investment custodians, which are audited annually by independent accountants. Values for such funds are stated at estimated fair values, which have been determined based on the unit values of the funds. Unit values are determined by the bank sponsoring such funds by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Participant loans are valued at their outstanding balances, which approximate fair value.

**Investment Transactions and Net Investment Income Recognition**

Securities transactions are recorded on the date the securities are purchased or sold. Interest income is recorded as earned. Dividend income is recorded on the payment date. The cost of securities sold is determined by the average cost method.

The net appreciation in the fair value of investments presented in the statements of changes in net assets available for benefits consists of the realized gains (losses) and the unrealized appreciation (depreciation) on those investments.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Payment of Benefits**

Benefits are recorded when paid.

**3. Termination Provisions**

In the event of any total or partial termination or discontinuance of the Plan, the accounts of all participants shall remain fully vested and nonforfeitable. The Company may continue the trust to pay benefits as they mature, or liquidate and distribute the net assets of the trust among participants and beneficiaries in proportion to their interests. The Company has no current plans to terminate the Plan.

**Table of Contents****Northwest Natural Gas Company****Retirement K Savings Plan****Notes to Financial Statements****December 31, 2005 and 2004****4. Related-Party Transactions**

Since the Company's common stock is an investment held by the Plan, investments in this common stock represent transactions with parties in interest. Certain other Plan investments are short-term deposits and investments and shares of mutual funds managed by T. Rowe Price, the trustee, as defined by the Plan. These Plan investments qualify as parties in interest transactions for which a statutory exemption exists. The following are related party investments:

|                               | 2005           | 2004           |
|-------------------------------|----------------|----------------|
| Northwest Natural Gas Company | \$ 18,935,098  | \$ 17,932,552  |
| T. Rowe Price                 | 88,813,605     | 82,745,654     |
|                               | \$ 107,748,703 | \$ 100,678,206 |

Purchases of Northwest Natural Gas Company stock during the years ended December 31, 2005 and 2004 totaled 81,326 shares for \$3,037,172 and 79,694 shares for \$2,456,587, respectively. Sales of Northwest Natural Gas Company stock during the years ended December 31, 2005 and 2004 totaled 58,837 shares for \$2,098,741 and 49,172 shares for \$1,516,316, respectively.

**5. Federal Income Tax Status**

The Internal Revenue Service has determined and informed the Plan sponsor by a letter dated September 16, 2002, that the Plan is qualified and the trust established under the Plan at the time was tax-exempt, under the applicable sections of the Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, the Plan administrator believes that the Plan is qualified and the related trust is tax-exempt.

**6. Investments**

Investments at fair value representing 5% or more of the Plan's net assets at December 31, 2005 and 2004 are as follows:

|  | 2005          | 2004          |
|--|---------------|---------------|
| T. Rowe Price Balanced Fund<br>845,974 and 827,523 shares, respectively            | \$ 16,724,903 | \$ 16,302,207 |
| T. Rowe Price Blue Chip Growth Fund<br>788,644 and 863,111 shares, respectively    | 25,772,886    | 26,687,391    |
| T. Rowe Price Mid-Cap Growth Fund<br>365,992 and 359,833 shares, respectively      | 19,814,793    | 17,948,477    |
| T. Rowe Price Summit Cash Reserves<br>5,984,994 and 6,641,428 shares, respectively | 5,984,994     | 6,641,428     |

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|  |            |            |
|--|------------|------------|
| Northwest Natural Gas Company Common Stock<br>553,982 and 531,492 shares, respectively | 18,935,098 | 17,932,552 |
|--|------------|------------|

**Table of Contents****Northwest Natural Gas Company****Retirement K Savings Plan****Notes to Financial Statements****December 31, 2005 and 2004**

During 2005 and 2004 the Plan's investments (including gains and losses on investments bought or sold, as well as held, during the year) appreciated in value as follows:

|  | 2005         | 2004         |
|--|--------------|--------------|
| Mutual Funds   | \$ 3,362,005 | \$ 6,307,266 |
| Common and Commingled Trust Funds                            | 96,500       | 192,057      |
| Northwest Natural Gas Company Common Stock                   | 64,115       | 1,587,440    |
| Net appreciation (depreciation) in fair value of investments | \$ 3,522,620 | \$ 8,086,763 |

**7. Risks and Uncertainties**

The Plan's assets are invested in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

**Table of Contents****Northwest Natural Gas Company****Retirement K Savings Plan****Schedule H, Line 4i; Schedule of Assets (Held at End of Year)****December 31, 2005****Schedule I**

| (a) | (b)<br>Identity of Issuer, Borrower,<br>Lessor or Similar Party | (c)<br>Description of<br>Investment Including<br>Maturity Date, Rate of<br>Interest, Collateral, Par<br>or Maturity Value | (d)<br>Cost <sup>(1)</sup> | (e)<br>Value   |
|-----|---|---|----------------------------|----------------|
| *   | T. Rowe Price Spectrum Income Fund                              | Mutual fund   |                            | \$ 3,764,551   |
| *   | T. Rowe Price Balanced Fund                                     | Mutual fund   |                            | 16,724,903     |
| *   | T. Rowe Price Blue Chip Growth Fund                             | Mutual fund   |                            | 25,772,886     |
| *   | T. Rowe Price Mid-Cap Growth Fund                               | Mutual fund   |                            | 19,814,793     |
| *   | T. Rowe Price Small-Cap Stock Fund                              | Mutual fund   |                            | 3,915,646      |
| *   | T. Rowe Price Short-Term Bond Fund                              | Mutual fund   |                            | 789,376        |
| *   | T. Rowe Price Summit Cash Reserves                              | Mutual fund   |                            | 5,984,994      |
| *   | T. Rowe Price Science and Technology Fund                       | Mutual fund   |                            | 3,208,562      |
| *   | T. Rowe Price Equity Index Trust                                | Common and Commingled Trust Fund  |                            | 2,126,947      |
| *   | T. Rowe Price Retirement Income Fund                            | Mutual fund   |                            | 232,814        |
| *   | T. Rowe Price Retirement 2005 Fund                              | Mutual fund   |                            | 407            |
| *   | T. Rowe Price Retirement 2010 Fund                              | Mutual fund   |                            | 2,214,854      |
| *   | T. Rowe Price Retirement 2015 Fund                              | Mutual fund   |                            | 1,875,197      |
| *   | T. Rowe Price Retirement 2020 Fund                              | Mutual fund   |                            | 1,197,879      |
| *   | T. Rowe Price Retirement 2025 Fund                              | Mutual fund   |                            | 341,433        |
| *   | T. Rowe Price Retirement 2030 Fund                              | Mutual fund   |                            | 480,752        |
| *   | T. Rowe Price Retirement 2035 Fund                              | Mutual fund   |                            | 179,058        |
| *   | T. Rowe Price Retirement 2040 Fund                              | Mutual fund   |                            | 181,216        |
| *   | T. Rowe Price Retirement 2045 Fund                              | Mutual fund   |                            | 7,337          |
|     | PIMCO Total Return Admin.                                       | Mutual fund   |                            | 1,131,369      |
|     | Artisan International Fund                                      | Mutual fund   |                            | 2,472,509      |
|     | Dodge & Cox International Stock Fund                            | Mutual fund   |                            | 187,290        |
| *   | Northwest Natural Gas Company Common Stock                      | Common stock  |                            | 18,935,098     |
| *   | Participant loans   | 5.0% to 10.5%,<br>1/05/06 to 10/15/10   |                            | 2,028,192      |
|     | Total investments   |   |                            | \$ 113,568,063 |

\* Represents identification of known party-in-interest in the Plan.

<sup>(1)</sup> Cost information has been omitted for participant directed assets.

**Table of Contents**

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Northwest Natural Gas Company Retirement K Savings Plan Administrative Committee has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHWEST NATURAL GAS COMPANY

RETIREMENT K SAVINGS PLAN

By: /s/ C. J. Rue  
C. J. Rue, Chairman,  
Retirement K Savings Plan  
Administrative Committee

Date: June 26, 2006

**Table of Contents**

NORTHWEST NATURAL GAS COMPANY

EXHIBIT INDEX

to

Annual Report on Form 11-K

For Year Ended

December 31, 2005

| <b>Document</b>  | <b>Exhibit<br/>Number</b> |
|--|---------------------------|
| Consent of Independent Registered Public Accounting Firm | 23                        |