

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 22, 2014**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: September 9, 2014

TO: Public Utility Commission

FROM: Matthew Muldoon *MM*

THROUGH: Jason Eisdorfer and Marc Hellman *JH* *MH*

SUBJECT: NORTHWEST NATURAL: (Docket No. UF 3279) Requests authority to issue and sell an additional 400,000 common shares in its DRIP plan.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural Gas Company's (Northwest Natural, or Company) application subject to five conditions and reporting requirements.

DISCUSSION:

Northwest Natural filed an application on August 19, 2014, pursuant to ORS 757.400-450, and OAR 860-027-0030, for authority to issue and sell or exchange up to an additional 400,000 shares of the Company's common stock pursuant to the terms of its amended Dividend Reinvestment and Direct Stock Purchase Plan (DRIP).

Northwest Natural's Board of Directors (Board) reserved an additional incremental 400,000 shares of the Company's authorized but unissued common stock for sale under the DRIP on September 26, 2013. Northwest Natural filed a Form S-3 Registration Statement with the U.S. Securities and Exchange Commission (SEC) on December 3, 2013, registering 498,379 shares for its DRIP.¹ The Company's application represents that as of August 29, 2014, approximately 38,163 shares already authorized by the Commission in this Docket remain, without factoring in August 15, 2014, plan activity.²

¹ Please see page 3 of Exhibit I for this SEC filing detail, alternately numbered page 3/53.

² See pages 1, 7 of the Company's application.

Summary of Current Common Stock Programs:

Northwest Natural Articles of Incorporation authorize 100 million shares of common capital stock.³ Of the approximately 27 million shares issued and outstanding, the following amounts of shares are reserved for Company programs as of December 31, 2013:

DRIP	96,991
With Board September 26, 2013 authorization	496,991
Employee Stock Purchase	122,184
Long Term Incentive Plan (LTIP)	491,169
Stock Option Plan (Restated)	492,150 ⁴

DRIP Overview:

In general, the DRIP allows the Company's common stock holders and others willing to invest \$250 or more to automatically reinvest dividends to purchase more shares. Such investors may also make optional cash payments of up to \$250,000 per year in the plan.

DRIP participants benefit by avoiding some commissions, fees and service charges. The Company has appointed American Stock Transfer & Trust Company as the Agent to administer the DRIP and to act as custodian of shares issued and held for participants.

Northwest Natural benefits by avoiding the full flotation costs associated with issuing large blocks of common stock. The Company gains some flexible control over capital infusions. Though limited by the volume of shares it can process, Northwest Natural's DRIP is consistent with effective management of financing costs.

Use of Proceeds:

The Company states that it will add proceeds to its general fund to be used for:

1. Construction, facility improvement, and maintenance programs;
2. Retire or exchange outstanding stock, bonds, notes, or other debt issuances;
3. Reimburse Company treasury for funds previously expended; or
4. Other purposes, as may be permitted by law.

³ See page 1 of Northwest Natural's Amended and Restated Articles of Incorporation on Page 1 of Exhibit A, also numbered as page 1 of Exhibit 3.1.

⁴ The Stock Option Plan (Restated) has been terminated with respect to new grants. This number reflects the quantity of shares underlying outstanding stock options.

Proceeds would support usual utility purposes, consistent with statutory requirements.⁵ In general, ratepayers benefit from automation, structured timing and lower cost of financing cash flows to meet utility needs described above.

Proceeds and Expenses:

Prices to acquire common stock from the market over several days will vary. Stock purchased from the Company will be valued at the average of the high and low New York Stock Exchange prices one trading day before each relevant investment date. Stock may also be acquired in privately negotiated transactions. Assuming the closing price of August 13, 2013, per share and a four year execution period, the following table provides the Company's ballpark estimate that fees and expenses will not exceed 0.54 percent of gross proceeds:

Estimated Fees and Expenses

Incremental Common Shares	400,000
Estimated Value per Share	\$ 43.77
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Estimated Gross Proceeds	<u>\$ 17,508,000</u>
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SEC Registration Fee	\$ 2,172
Printing & Engraving	\$ 8,350
Postage	\$ 53,051
Listing Preparation	\$ 6,920
Attorney Fees	\$ 19,977
Miscellaneous Fees	\$ 1,354
	<hr/>
	\$ 91,825
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Estimated Net Proceeds	\$ 17,416,175

Postage is a large component cost of the DRIP. However, investors are encouraged to authorize automatic payments between accounts.⁶

⁵ The Company's intended uses on page 11 of its application mirror those in ORS 757.415(1).

⁶ The Automatic Monthly Deductions Program is discussed on page 14 of Exhibit I, alternately numbered 36/53.

No Affiliated Interests:

The Company represents that there are no affiliated interests associated with this application. Therefore this application is not filed under ORS 757.495.⁷

History:

The Commission first granted Northwest Natural authority to issue and sell common stock in connection with its DRIP in Commission Order No. 76-780, on October 1, 1976. Since then, the Commission has supplemented the Company's authority ten times, in Commission Order Nos. 80-289, 83-036, 84-868, 86-518, 89-176, 92-181, 94-002, 97-286, 01-840, and 05-825.

Staff detects no irregularities or compliance failures, other than a late annual filing. But sufficient time has elapsed since the initial authorization, that it would be prudent to fully review and reauthorize the DRIP program in the next three to five years as part of the next like application. This will also refresh the Commission's documentation and allow for timely record management.

Compliance to Date:

The Company has been required to file usual Report of Securities Issued and Disposition of Net Proceeds statements annually, within 60 days of the end of each calendar year. In practice, it appears that this timing does not coincide with annual filings to the SEC. Staff recommends changing the deadline to "within 100 days of the end of each calendar year."

Capital Structure:

Northwest Natural roughly targets a long-term 50/50 Debt/Equity capital structure. Approval of the Company's request subject to Staff's conditions enhances flexibility in Northwest Natural's management of its capital structure.

No Harm:

Staff review of this application indicates that the stock issuance and sale requested will do no harm and can be expected to benefit ratepayers. Staff recommends approval of Northwest Natural's application as modified herein.

The Company has reviewed this memo and does not oppose any of its terms.

⁷ See Application page 12.

PROPOSED COMMISSION MOTION:

The Company's application for authority to issue and sell up to an additional 400,000 common shares in its DRIP plan be approved subject to the following five conditions and reporting requirements.⁸

1. Initial Authorization Limit

Common shares issued and sold under the DRIP must not exceed 400,000 incremental shares newly authorized for the DRIP.

2. Withdrawal of and Exceptions to Prior Authorizations

When it is practical to again request incremental shares to populate its DRIP, the Company will submit a complete application to reauthorize its DRIP program.

3. Cost Requirements

Aggregate issuance costs and fees will not exceed one percent of gross proceeds, assuming the issuance of all of the shares authorized in the docket.

4. Timely Reporting

The Company will provide the Commission with the customary Report of Securities Issued and Disposition of Net Proceeds statements (Reports) annually, within 100 calendar days of the end of each calendar year.

5. Reservation of Judgment Regarding Reasonableness

The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and the commissions and expenses incurred for securities issuance and related activities.

⁸ The Company has told Staff that it agrees to Staff's proposed conditions and reporting requirements.