BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4220

In the Matter of)	
NORTHWEST NATURAL GAS)	ORDER
COMPANY)	
Annii adian fan Andharita ta Isaac and Call)	
Application for Authority to Issue and Sell)	
not more than \$200 Million of Five-Year)	
Notes in its Back-up Line of Credit.)	

DISPOSITION: APPLICATION APPROVED; WITH CONDITIONS AND REPORTING REQUIREMENTS

On September 16, 2005, Northwest Natural Gas Company (NWN or Company) submitted an application to the Public Utility Commission of Oregon (Commission), requesting authorization for \$200 million of five-year notes in the lines of credit with five commercial banks that back up the Company's commercial paper program. The Commission previously authorized \$75 million in two-year notes in Order No. 04-231, and \$75 million in three-year notes in Order 04-666. The \$200 million in five-year notes for which NWN is currently seeking regulatory approval will replace the existing three-year notes due to expire September 30, 2007, and the two-year notes that expired September 30, 2005. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on October 11, 2005, the Commission adopted Staff's recommendation and approved NWN's current request.

ORDER

IT IS ORDERED THAT the application of Northwest Natural Gas Company for the authority to issue and sell not more than \$200 million of five-year notes in its back-up line of credit, is granted, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective ______ OCT 1 1 2005

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON STAFF REPORT PUBLIC MEETING DATE: October 11, 2005

REGULAR	CONSENT X EFFECTIVE DATE N/A
DATE:	September 29, 2005
то:	Public Utility Commission
FROM:	Ming Peng MP. AD AD AD AD AD AD AD AD AD A
THROUGH:	Lee Sparling, Marc Hellman, and Bryan Conway
SUBJECT:	NORTHWEST NATURAL: (Docket No. UF 4220) Application for Authority to Issue and Sell not more than \$200 Million of Five-Year Notes in its

STAFF RECOMMENDATION:

Back-up Line of Credit.

The Public Utility Commission of Oregon (Commission) should approve NW Natural's (NWN or Company) application, subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any borrowing under the 5year Line of Credit. This report also shall be used to notify the Commission as to any replacement, renewal, or extension of such 5-year Notes. The fees, interest rates, and expenses shall be consistent with competitive market prices for such Notes when entered into, and shall remain within, the limits specified in this Memo.
- 2) Under a Commission Order pursuant to this application, the Company may enter into replacements, renewals or extensions of such 5-year Notes for a 5-year period following the date of such Order. The Company must provide notice to the Commission of renewal/extension no later than 45 days from maturity.
- 3) For ratemaking purposes, the Commission shall reserve judgment on the reasonableness of the Company's capital costs, capital structure and any associated commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs, including imbedded expenses and structure, are just and reasonable.

Docket UF 4220 September 29, 2005 Page 2

DISCUSSION:

On September 16, 2005, NWN filed an application under Oregon Revised Statutes (ORS) 757.410 and 757.415, and Oregon Administrative Rules (OAR) 860-027-0030, for an order authorizing \$200 million of 5-year Notes in the Lines of Credit with five commercial banks that back up the Company's commercial paper program. The five banks are: Bank of America N.A., JPMorgan Chase Bank, U.S. Bank National Association, Wells Fargo Bank and Wachovia Bank. Each bank will provide a \$40,000,000 credit line. Under the terms of the Credit Agreements, NW Natural pays upfront fees and annual commitment fees.

The debt securities covered by this Application are unsecured notes. The 5-year Notes are not convertible and have no voting privileges. NWN requests a 5-year authorization period from October 1, 2005 through September 30, 2010. The Commission previously authorized \$75 million in 2-year notes in Order No. 04-231, and \$75 million in 3-year notes in Order 04-666. The \$200 million in 5-year notes for which NWN is currently seeking regulatory approval will replace the existing 3-year notes due to expire September 30, 2007, and the 2-year notes that would have expired September 30, 2005. This Application also increases the lines of credit by \$50 million.

Use of Proceeds

NWN represents that the purpose of the 5-year Facility is to provide a committed source of short-term liquidity in case NW Natural is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the 5-year Notes are proposed to be used, if and as required, are to arrange for the construction, completion, extension, or improvement of the Company's facilities; the potential repayment of maturing long-term obligations; the reimbursement of the treasury for expenditures against which long-term securities have not yet been issued; the discharging of current obligations; and to provide working capital for the improvement or maintenance of utility service. These purposes are permitted by ORS 757.415(1).

Expenses

NWN represents that fees for 5-year Facility total \$800,000, including \$700,000 in commitment fees (paid quarterly) and \$100,000 in upfront fees. The average annual cost of the credit line is 8 basis points (0.08%), or \$160,000.

The interest rates that would be applicable to any loans under the 5-year Notes may vary slightly from bank to bank, but in general, they are specified as a spread over benchmark interest rates in effect from time to time, such as the prime rate or the

² Basis point is defined as one-hundredth of a percentage point; i.e., 100 basis points equal 1%.

¹ Commitment Fee: Any fee paid by a potential borrower to a lender for the lender's promise to lend money at a specified rate and within a given time period.

Docket UF 4220 September 29, 2005 Page 3

Adjusted London Interbank Overnight Rate (LIBOR). The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies. Under the proposed Credit Agreements, the Company has selected LIBOR and Prime Rates as required interest rate options (see Attachment A).

The fees, expenses, and interest rate options appear reasonable.

Based on Staff's review, approval of NWN's application with the proposed conditions appears reasonable, meets the appropriate statutory requirements, and provides an additional source of liquidity for the Company.

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to Issue and Sell not more than \$200 Million of Five-Year Notes in its Back-up Line of Credit be approved with Staff's Conditions.

UF 4220 – NW Natural's Application for Authority to Issue and Sell not more than \$200 Million of Five Year Notes in its Back-up Line of Credit.

Docket UF 4220 September 29, 2005 Page 4

Attachment A

The proposed maximum line of credit fee will be based on the Company's unsecured ratings as listed below. NWN represents that Level I exists on any date if, on such date, the Company's senior unsecured debt is rated A or higher by S&P and A2 or higher by Moody's; or is rated at this level by one of the rating agencies and no lower than A- or A3 by the other rating agency. NWN is at Level I.

Rating Level Spread (basis points)

Interest Rate	Level I Status	Level II Status	Level III Status	Level IV Status	Level V Status
Options	A/A2, A/A3 or A- A2	A-/A3, A-/Baa1 or BBB+/A3	BBB+/Baa1, BBB+/Baa2 or BBB/Baa1	BBB/Baa2, BBB/Baa3 or BBB- /Baa2	BBB- or lower and Baa3 or lower
Spread over Prime Rate	0.0	0.0	0.0	0.0	0.0
Spread over LIBOR Rate	32.5	45.0	57.5	75.0	100.0

APPENDIX A
PAGE 4 OF 4