ORDER NO. 14 321

ENTERED SEP 22 2014

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4290

In the Matter of CASCADE NATURAL GAS CORPORATION, Application for Authorization for the Issuance of Common Equity, Preferred Equity, and Debt Securities.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on September 22, 2014, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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ITEM NO. CA8

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: Matt Muldoon

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: CASCADE NATURAL GAS: (Docket No. UF 4290) Requests authority to issue up to $50 million of senior unsecured notes.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas Corporation's (Cascade Natural Gas or Company) application subject to the following nine conditions and reporting requirements:[1]

1. Authorization Limit

   Total debt securities issued under this authority shall not exceed $50 million (M) in aggregate principal including any original issue discount (OID).

2. Withdrawal of Prior Authorization

   Authorization to issue debt securities in previous OPUC orders is not valid for any additional issuances of Debt Securities after the date of the Order in this matter.

3. Maximum All-in Spreads Over Like-Maturity U.S. Treasuries (UST) Yields

   The Company will demonstrate that spreads reflect public and private indicative comparable rates. In no case will all-in spreads exceed the following:[2]

   - 10-year or shorter .... 150 basis points (bps)
   - 11- to 40-year .... 275 bps

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

[2] The "All-in Rate" or "All-in Cost" includes all expenses associated with issuance, the coupon rate, and any discount or premium from par value at issuance. Technically, it is the percentage internal rate of return when all costs, such as any original issue discount, floatation, and insurance costs, as well as the actual cash flows of the security, are included.

4. Financial Covenants

   The Company's maximum capitalization ratio will be 65 percent.

5. Hedging Limitations

   No financial or currency rate hedging or financial derivatives are authorized other than delayed start in private placement at de minimis incremental risk and cost.

6. Cost Competitive

   Agent and underwriting commissions for the issuance of debt securities will not exceed the usual and customary fees prevailing in the market for like maturity issuances, and will not in any case exceed one percent of gross proceeds.

7. Timely Reporting

   The Company will provide the Commission with the customary Report of Securities Issued and Disposition of Net Proceeds statements (reports) no later than 30 calendar days after any transaction has been closed and funded. Reporting will be denominated in U.S. dollars and will include, but not be limited to: total value of the issuance; total and per unit fees and expenses; interest costs; and copies of itemized invoices for all external legal costs.

8. Update on First Mortgage Bonds (FMB)

   Cascade Natural Gas will provide an updated status report to the Commission of its ability and cost to issue FMB by January 1, 2015. This analysis will: A) itemize and value the pool of assets against which the Company may issue FMB; B) identify applicable maximum capitalization ratio(s) (such as 65%) authorized by the Cascade Natural Gas board or its finance committee, as well as the current applicable market ratio(s); C) identify the Company's most current interest rate coverage; D) identify pertinent covenants; and E) clarify whether the asset pool, interest coverage and other relevant operating metrics are adequate to support issuance of FMBs from that point in time forward.

9. 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 expenses incurred for Debt Security issuance.

DISCUSSION:

The Company filed an application August 19, 2014, pursuant to ORS 757.405, ORS 757.410(1), and ORS 757.415; and OARs 860-027-0025 and 860-027-0030 for authority to issue and sell long-term debt securities not to exceed a total of $50M. Due to the extremely attractive all-in-rates available in the debt market for the issuance of private placement debt of 30- to 40-year maturities, the Company subsequently narrowed its request to authority to issue $50M of senior unsecured notes (Debt).[3Δ]

If Cascade Natural Gas's application is granted, the Company may issue Debt in any proportion and in any number of tranches in public or private placement provided that the combined total of these offerings does not exceed $50M, inclusive of any OID. After the date the Commission issues an Order pursuant to this application, the Company cannot rely on any previous OPUC orders, including the most recent Order No. 13-295 in Docket No. UF 4282, to issue additional new Debt.

Debt Securities:

Cascade Natural Gas intends proposed Debt to be pari passu (ranked equally) with the Company's other senior unsecured borrowings.[Δ] The Company represents in its application that Debt structured as requested represents least expensive unsecured long-term taxable debt financing available to Cascade Natural Gas. Based on Staff's review of SNL Financial LC (SNL), Bloomberg and Board of Governors of the Federal Reserve System (FED) resources, Staff concurs.

However, most utilities issue secured debt because: A) issuance costs are usually lower for secured debt than for unsecured debt, and B) the risk of default is typically very small. The traditional method of issuing secured debt is through FMB backed by the majority of a utility's assets. The Company will report to the Commission as provided in Condition 8 by January 1, 2015, on its ability to issue FMB going forward.

Fixed Rate Debt with Make Whole Provisions:

Cascade Natural Gas intends to issue fixed rate unsecured debt in a private placement with delayed start. Notes may be callable at any time, in whole or part, subject to a make-whole call discount of UST plus 50 basis points.[Δ]

Use of Proceeds:

In general, Cascade Natural Gas intends to issue Debt to A) update infrastructure, B) comply with safety standards, and C) help fund the Company's $70 million capital budget. However, the Company may use proceeds for any or all of the following lawful purposes:[Δ]

1. Construction, facility improvement, and maintenance programs;
2. Retire or exchange outstanding stock, bond, note or other debt issuances;

[3] The **Symbol** Δ is used to designate representations made by the Company in a phone discussion between Staff and Cascade Natural Gas held on August 28, 2014.

3. Reimburse Company treasury for funds previously expended; and
4. Other purposes, as may be permitted by law.

Credit Ratings:

Cascade Natural Gas's outstanding long-term debt ratings are currently:

Fitch	S&P
A-	BBB+

The Company has not relied on Moody's for rating public issuances. That is not of concern in the Company's proposed private placement. In general, debt issuances in private placement assume inferred Company ratings rather than direct determinations by credit rating agencies.

Limited Hedging Authority Requested:

Cascade Natural Gas requests only the authority to engage in delayed draw in private placements. No other currency rate or financial hedging is requested.

Technical Expenses:

Cascade Natural Gas further represents on pages 4 and 5 of its application that it expects issuance under a private placement agreement with Toronto Dominion (Texas), Inc. as placement agent, to eliminate various fees and commissions such as: printing and engraving expenses, trustee charges, and rating agency fees. At this time the Company expects two or fewer delayed draws on Debt funds.$^{\Delta}$

The Company anticipates placement fees of approximately 30 basis points or about $150,000.00. Cascade Natural Gas estimates underwriters and company legal counsel fees to negotiate and place this debt at approximately $85,000. Therefore, the cost to issue this debt should be about $250,000.$^{\Delta}$

Staff analysis: Provided the Company's expectations are realized, charges and fees will likely not exceed similar issuances Staff researched. Delayed draws of three months or less represent potential savings to ratepayers given a likely rise in interest rates over the next year. Further, this lock of interest rates is achieved without multi-million dollar incremental risk of financial hedging. The strategy of delayed start, without incurring additional cost or risk, is compatible with ratepayer interests.

Spreads over U.S. Treasuries' (UST) Yields:

Cascade Natural Gas expects to issue Debt within one year. The Company also expects that credit spread portions of coupon rates for the Debt Securities will conform with public and private comparable data that the Company provided to Staff.Δ Staff finds that the Company's imminent plans minimize uncertainties in coupon rates and control issuance costs compared to more distant future issuances.

The Company's preference is for 30- to 40-year incremental debt. Favoring longer term debt takes advantage of a decline in 30-year UST yields against 10-year UST yields over the past six months.Δ See Attachment B for a Wall Street Journal article summarizing this trend.

Acting to secure lower rates than forecasted six months ago is reasonably appropriate for long term utility purposes. Locking in rates that afford an 80 bps spread advantage is consistent with proper performance of Cascade Natural Gas as a public utility. This timely action will enhance the Company's ability to provide service at reasonable rates.

Cost Efficiencies:

Cascade Natural Gas has taken actions to control costs, including legal costs, for debt issuance in the requested private placement.

No Harm:

This requested authority will not heavily impact the Company's debt maturity profile or capital structure. Cascade Natural Gas represents that the Company generally maintains a two year gap between debt maturities.

Staff review of this application utilizing SNL and Bloomberg resources indicates that approval will do no harm and can be expected to benefit ratepayers through cost controls and lower cost Debt issued without acceptance of incremental risk. The Company's outstanding and requested long-term debt is shown in Attachment A.

Cascade Natural Gas has reviewed and agrees with the conditions set forth in this memo.

PROPOSED COMMISSION MOTION:

The Company's application for authority to issue up to $50 million of senior unsecured notes be approved subject to the nine conditions listed above.

Attachment A

Cascade Natural Gas Long Term Debt
Currently Outstanding and Planned

Bloomberg ID#	Coupon Rate	Registered with SEC	Rank	Secured	Type	Issued Date	Private Placement	Tenure Years	Date Due	Issued $M	Outstanding $M	S&P Rating	Fitch Rating
MM1315694	7.48%	Y	Senior	N	Fixed	9/15/1997	N/A	30	9/15/2027	20.000	20.000	BBB+	A
EC1131167	7.10%	Y	Senior	N	Fixed	3/11/1999	N/A	30	3/16/2029	15.000	15.000	BBB+	A
EF0759144	5.21%	N/A	Senior	N	Fixed	8/29/2005	N/A	15	9/1/2020	15.000	15.000	BBB+	A
ED7878272	5.25%	N/A	Senior	N	Fixed	1/20/2005	N/A	30	2/1/2035	30.000	24.700	AA-	A-
EI2335434	5.79%	N/A	Senior	N	Fixed	3/1/2007	Y	30	3/8/2037	40.000	40.000	N/A	N/A
N/A Private	4.11%	N	Senior	N	Fixed	8/23/2013	Y	12	8/23/2025	25.000	25.000	N/A	N/A
N/A Private	4.36%	N	Senior	N	Fixed	8/23/2013	Y	15	8/23/2028	25.000	25.000	N/A	N/A
Planned Issuances for which Authorization is Requested:													
N/A Private	5.50%	N	Senior	N	Fixed	TBD	Y	TBD	TBD	50.000	50.000	N/A	N/A

Note: The coupon rate for planned senior unsecured notes is a placeholder value.

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Attachment B

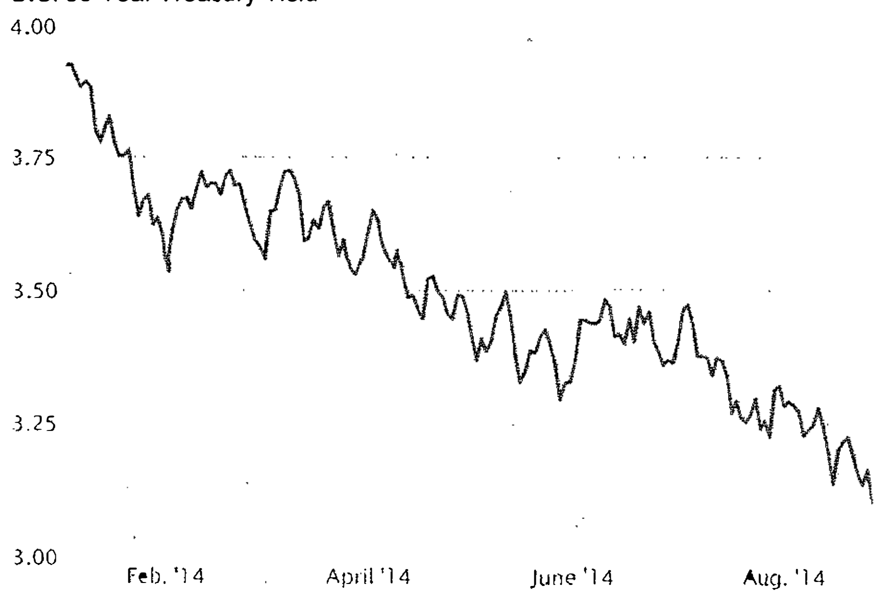
Yield on 30-Year U.S. Debt Tumbles

by Cynthia Lin – WSJ – Aug 28, 2014

U.S. Treasurys shadowed euro-zone government bonds higher Wednesday as global investors anticipate more easing measures from the European Central Bank.

Bond Watch

U.S. 30-Year Treasury Yield



Source: WSJ Market Data Group

In late afternoon trading, benchmark U.S. **10-year notes** gained 9/32 in price to yield **2.361%**. The **30-year bond** rallied 31/32 to yield **3.101%**, hitting its lowest level this year. **Two-year notes** rose 1/32 to yield **0.516%**. Bond yields fall when prices rise.

Rates on U.S. government bonds have become increasingly attractive relative to those offered on comparable bonds across the Atlantic, helping to support Treasurys despite worries about when the Federal Reserve might tighten monetary policy.

"There are greater expectations of quantitative easing from the ECB as it relates to asset-backed securities," said Wilmer Stith, portfolio manager of the Wilmington Trust Broad Market Fund. "The question is how effective it will be."

ECB President Mario Draghi spoke at the Jackson Hole, Wyo., central banking conference last weekend, emphasizing the lack of inflation in the euro zone and reiterating that the central bank is ready to act when necessary.

That raised investors' expectations that the ECB will soon, perhaps as early as September, deliver further easing measures to support growth and boost inflation in its region. The ECB announces its next policy statement on Sept. 4.

Germany's bonds rallied over the past week, sending its yields to historic lows. The 10-year bund yield fell as low as 0.90% Wednesday, while its two-year debt yielded below zero. The 1.46 percentage-point gap between U.S. and German 10-year debt yields is the highest since 1999.

Spain's 10-year bond yield fell to 2.153%, extending the unusual case where Spain bonds yield less than comparable U.S. Treasurys.

"European government bonds continue their Draghi-inspired rally," said Richard Gilhooly, interest-rate strategist at TD Securities, referring to Mr. Draghi.

"The rally in Europe continues to widen spreads versus U.S. Treasurys while imparting a mild bid to the U.S. market."

Considering U.S. Treasurys remain one of the safest and most-liquid investments in global financial markets, bond traders say there is a limit to how much more U.S. bonds can yield above other government bonds. With German yields plumbing historic lows, they say it will be difficult for the 10-year U.S. yield to trend back toward 3%.

Bond analysts say moves by the ECB could also have policy implications in the U.S. If the ECB were to loosen policy, whether it is through giving banks easier access to money or buying bonds outright itself, some analysts say that could compel the Fed to tighten policy sooner.

Most investors expect the **Fed** to make its first **interest-rate increase** around the middle of 2015. Any hint of an earlier rise would hurt **short-dated Treasurys**, which are **most vulnerable to higher rates**. Meanwhile, **longer-dated Treasurys would likely stay well-supported given the global search for yield**.

Wilmington's Mr. Stith says his fund is positioned to profit off a flatter yield curve, which means the yield gap between shorter- and longer-dated Treasurys narrow.

Indeed, the **gap between two- and 10-year** yields stood at **1.84 percentage** points Wednesday, **down from 2.65 percentage points** at the **start of the year**.