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**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UF 4191

|   |   |       |
|---|---|-------|
| In the Matter of                              | ) |       |
|   | ) |       |
| NORTHWEST NATURAL GAS COMPANY                 | ) |       |
|   | ) | ORDER |
| Application for an Order authorizing the      | ) |       |
| Company to issue and sell an additional       | ) |       |
| \$150,000,000 principal amount of its Medium- | ) |       |
| Term Notes, Series B                          | ) |       |

**DISPOSITION: APPLICATION APPROVED; WITH  
CONDITIONS AND REPORTING REQUIREMENTS**

On July 31, 2002, Northwest Natural Gas Company (Northwest) filed an application with the Public Utility Commission (Commission) under ORS 757.415 and ORS 757.480, seeking authority to issue up to \$150 million in Medium Term Notes (Notes or Debt). Northwest seeks authority to issue secured (as First Mortgage Bonds) or unsecured Debt on an ongoing basis without further Commission approval. Northwest's proposal extends its existing Medium Term Note program, and its application references the fact that it has outstanding authority from previous Commission orders for \$30 million in borrowing capacity. 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 August 20, 2002, the Commission adopted Staff's recommendation and approved Northwest's current request.

**ORDER**

IT IS ORDERED THAT the application of Northwest Natural Gas Company for authorization to issue and sell securities, is granted, subject to the conditions and reporting requirements, as further specified in Appendix A.

Made, entered and effective \_\_\_\_\_.

BY THE COMMISSION:

\_\_\_\_\_  
**Becky L. Beier**  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA3

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: August 20, 2002**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE \_\_\_\_\_

**DATE:** August 13, 2002

**TO:** John Savage through Marc Hellman and Bryan Conway

**FROM:** Thomas D. Morgan

**SUBJECT:** NORTHWEST NATURAL: (Docket No. UF 4191) Application for Authority to Issue up to \$150 Million of Medium Term Notes.

**STAFF RECOMMENDATION:**

I recommend that Northwest Natural's (Company or Northwest) application be approved subject to the following conditions:

1. The Company will demonstrate that the rate(s) it achieves on new debt securities is consistent with market rates or otherwise demonstrate that the rate(s) it achieves is competitive. The demonstrations should be filed as soon as possible after each issuance and sale.
2. The interest rate spreads and agents' commissions should be limited as provided in the attachment included with this Memo.
3. The Company should demonstrate that early refunding, call provisions or sinking fund requirement placed on the issuance is cost-effective.
4. The Company should file the usual Report of Securities Issued and Disposition of Net Proceeds promptly after each sale.
5. The authorization should remain in effect as long as the Company maintains senior secured debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively. Any remaining capacity to issue debt under this authority is rescinded upon downgrading below those levels.

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**DISCUSSION:**

On July 31, 2002, Northwest filed an application, under ORS 757.415 and ORS 757.480, seeking authority to issue up to \$150 million in Medium Term Notes (Notes or Debt). The Company indicated that uses would be consistent with ORS 757.415 (1) [Sections a through e].<sup>1</sup>

Northwest seeks authority to issue secured (as First Mortgage Bonds) or unsecured Debt on an on-going basis without further Commission approval. The Company's proposal extends its existing Medium Term Note program. Northwest's application references the fact that it has outstanding authority from previous Commission orders for \$30 million in borrowing capacity.

Northwest indicated that it intends to use the proceeds from the issuances of the MTNs for the repayment of short-term debt which was incurred in connection with the construction, completion, extension, or improvement of the company's facilities; the refunding of three series of MTNs maturing in the 2002 to 2003 period (totaling \$50 million); and the reimbursement of the treasury for monies expended as provided by ORS 757.415 (d). The Company expects its 2002 construction expenditures to aggregate \$84 million and expects such expenditures for the period 2002-2003 to aggregate between \$190 million and \$200 million.

Secured Notes will be issued under the Company's Mortgage Deed of Trust, dated July 1, 1946 to Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) and R.R. Page (Stanley Burg, successor), Trustee. Unsecured Notes will be issued under an indenture that has been entered into with Deutsche Bank Trust Company Americas, as trustee.

The Notes may be issued and sold through Merrill Lynch, Pierce, Fenner & Smith Incorporated, UBS Warburg LLC, Bank One Capital Markets, Inc., and U.S. Bancorp Piper Jaffray Inc., as agents or through such other agents as may be engaged by the Company. Additionally, the Notes may be sold to an agent as principal (see below) or directly to purchasers.

Northwest might elect to sell the MTNs through agents to the public or directly to agents as principal investors. If the MTNs are sold directly to agents as principals, then the notes will be sold at 100% of the principal amount of the notes less a percentage not to exceed the equivalent

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<sup>1</sup> Purposes allowed by law include the acquisition of utility property, the construction, extension or improvement of utility facilities, the improvement or maintenance of service, the discharge or lawful refunding of obligations that were incurred for utility purposes (such as higher cost debt or preferred stock) or the reimbursement of the Company's treasury for funds used for the foregoing purposes, as permitted under ORS 757.415(1).

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agent's fee for a security of similar maturity (see Table 2 in Attachment). If the Notes are sold directly to non-agent purchasers, no commissions will be paid.

Maturities will range from nine months to 30 years and the interest rate(s) will be fixed and will be limited to spreads over yields on U.S. Treasury securities. The spreads are not reflective of the "all-in" costs and do not include agents' commissions or other expenses related with each issuance.<sup>2</sup>

The Company indicates that the fees for underwriters, banks or agents have not been determined and will not be known until issuance. Staff expects that any and all fees will be usual and customary. As estimated by the Company, the total fees are expected to approximate \$1,410,000, inclusive of \$1,125,000 in commissions. These anticipated fees appear reasonable. A proposed condition will be for the Company to provide support that any eventual fees and issuance expenses are reasonable.

Notes may be issued with sinking fund provisions,<sup>3</sup> redemption (call) provisions or other terms in accordance with procedures set forth in the appropriate Indenture(s).

**PROPOSED COMMISSION MOTION:**

Northwest Natural's application, UF 4191, be approved subject to Staff's proposed conditions and reporting requirements.

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<sup>2</sup> An attachment is provided that includes tables illustrating the interest rate spreads and agents' commissions.

<sup>3</sup> A sinking fund provision requires the issuer to redeem or set aside funds for a portion of the debt issued based on a mandatory schedule, prior to the final maturity, usually at par value. The provisions of the sinking fund enhance the safety of the investment and are reflected in a lower face interest rate.

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## ATTACHMENT

**Table 1 -- Maximum Spreads**

| Maturity                 |                 | Maximum Spread Over Benchmark Treasury Yield <sup>4</sup> |                       |
|--------------------------|-----------------|---|-----------------------|
| Equal to or Greater Than | Less Than       | If Yield is 6.5% or Lower                                 | If Yield Exceeds 6.5% |
| 9 months                 | 2 years         | + 170 basis points <sup>5</sup>                           | + 85 basis points     |
| 2 years                  | 3 years         | + 180 basis points  | + 95 basis points     |
| 3 years                  | 4 years         | + 190 basis points  | + 100 basis points    |
| 4 years                  | 6 years         | + 200 basis points  | + 105 basis points    |
| 6 years                  | 9 years         | + 205 basis points  | + 110 basis points    |
| 9 years                  | 10 years        | + 215 basis points  | + 110 basis points    |
| 10 years                 | 11 years        | + 220 basis points  | + 115 basis points    |
| 11 years                 | 15 years        | + 230 basis points  | + 120 basis points    |
| 15 years                 | 20 years        | + 240 basis points  | + 125 basis points    |
| 20 years                 | 30 years +1 day | + 265 basis points  | + 130 basis points    |

**Table 2 -- Maximum Agent Commissions**

| Range of Maturities                 | Commission (Percentage of Aggregate Principal Sold) |
|-------------------------------------|---|
| From 9 months to less than 1 year   | .125%   |
| From 1 year to less than 18 months  | .150%   |
| From 18 months to less than 2 years | .200%   |
| From 2 years to less than 3 years   | .250%   |
| From 3 years to less than 4 years   | .350%   |
| From 4 years to less than 5 years   | .450%   |
| From 5 years to less than 6 years   | .500%   |
| From 6 years to less than 7 years   | .550%   |
| From 7 years to less than 10 years  | .600%   |
| From 10 years to less than 15 years | .625%   |
| From 15 years to less than 20 years | .675%   |
| From 20 years to 30 years           | .750%   |

<sup>4</sup> The Benchmark Treasury Yield, with respect to any of the Medium-Term Notes' maturity range, means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such Medium-Term Notes' maturity range, is generally considered by dealers in such obligations to be the standard for such obligations. With respect to the issuance of any of the Medium-Term Notes, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such Medium-Term Notes is received by the Company or its agents.

<sup>5</sup> Basis point is defined as one one-hundredth of a percentage point; i.e., 100 basis points is 1 percent.