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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 224

In the Matter of)	
)	ORDER
NORTHWEST NATURAL GAS COMPANY)	
)	
Application for Approval of Northwest Natural)	
Gas Company's Guaranty of the Lines of Credit)	
of its Subsidiary, NNG Financial Corporation.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 21, 2004, Northwest Natural Gas Company (NW Natural) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495(5), OAR 860-027-0035 and OAR 860-027-0040, requesting an order approving its guaranty of the lines of credit of its affiliate, NNG Financial Corporation (NNGFC). The Application was also filed as a response to Finding No. 26 of Staff's Audit Report of NW Natural, dated March 18, 2003. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its public meeting on February 17, 2004, the Commission adopted Staff's recommendation. This written order memorializes the Commission's formal decision made at the February 17, 2004 public meeting.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility", and NW Natural is a public utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 757.015.

Applicable Law

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(5) provides that no public utility shall issue notes or loan its funds or give credit on its books to any affiliated interest without the approval of the Commission.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

1. The Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be approved, with certain conditions.

ORDER

IT IS ORDERED that the application of Northwest Natural Gas Company for the guaranty of the lines of credit to NNG Financial Corporation, subject to the conditions stated in the Staff Report attached as Appendix A, is approved.

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.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 17, 2004**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ N/A

DATE: February 2, 2004

TO: Lee Sparling through Marc Hellman and Rebecca Hathhorn

FROM: Michael Dougherty and Thomas D. Morgan

SUBJECT: NORTHWEST NATURAL: (Docket No. UI 224) Application for an Order Approving its Guaranty of the Lines of Credit of its Subsidiary, NNG Financial Corporation.

STAFF RECOMMENDATION:

The Commission should approve Northwest Natural's (NW Natural or Company) application for an order approving NW Natural's guaranty of the lines of credit to NNG Financial Corporation (NNGFC), subject to the following conditions:

1. NW Natural shall provide the Commission access to all books of account, as well as documents, data, and records that pertain to the guaranty of the lines of credit to NNGFC.
2. The Commission reserves the right to review, for just and reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. Annual renewals of the guaranty for the lines of credits, increases in the aggregate amount of the lines of credit or substantive changes in terms of the lines of credit shall be requested thirty days prior to the effective date of the guaranty in an application for a supplemental order to this docket approving such authority.
4. NW Natural shall hold customers harmless and remove the effects of any payments, advance charges, and all other costs associated with the guaranty of the lines of credit to NNGFC from rates or any regulatory reporting requirement including the guaranty's effect on the cost of debt if NW Natural is required to repay any indebtedness of NNGFC. Any payments associated with the guaranty of the lines of credits shall be recorded in nonutility accounts.

5. NW Natural shall place the estimated market value of the guaranty (\$50,000 as agreed in this docket) in a deferred account, with interest calculated at the company's authorized rate of return from the date of the guaranty until this amount is fully refunded to customers as part of the 2004 Purchased Gas Adjustment (PGA). Such amount shall continue on an annual basis, commensurate with any renewals approved by the Commission of a guaranty pursuant to Condition 3.
6. Within 60 days of approval of the Application, NW Natural shall provide to the Commission all journal record entries concerning condition No. 5 for the current period.

DISCUSSION:

Background

NW Natural filed an Application on January 21, 2004 for an order approving its guaranty of two \$5 million lines of credit for its wholly owned subsidiary affiliate, NNG Financial Corporation (NNGFC). Approval is requested pursuant to ORS 757.495(5), *Contracts involving utilities and persons with affiliated interests*, OAR 860-027-0035 and OAR 860-027-0040. The Application was also filed as a response to Finding No. 26 of Staff's Audit Report of NW Natural, dated March 18, 2003.

The lines of credit are issued in identical amounts from two banks, Bank of America, N.A. and Wells Fargo Bank National Association. The two agreements provide \$5 million each in unsecured short-term lines of credit. The banks' commitments to make advances under their respective lines of credit expire September 30, 2004. There are no outstanding balances under the lines of credits as of the date of the application.

NNFGC is a subsidiary of NW Natural that makes investments in non-utility activities. NNFGC currently has several financial investments, including investments as a limited partner in solar electric generating systems, wind power electric generating projects and low-income housing projects. Because NNGFC is a wholly owned subsidiary of NW Natural, NNFGC and NW Natural are affiliated interests under ORS 757.015.

Issues

Staff investigated the following issues:

1. Scope and Terms of the Guaranty Agreements
2. Public Interest Compliance
3. Records Availability, Audit Provisions and Reporting Requirements

Scope and Terms of Agreements – Staff reviewed the agreements, amendments to the agreements and revolving lines of credit notes. Under the agreements, NW Natural is required to pay the banks any and all indebtedness of NNGFC in connection with the lines of credits. Commitment fees to the banks are paid by NNGFC. There are no fees or other out-of-pocket expenses incurred by NW Natural.

Public Interest Compliance – NW Natural represents that if it was required to pay NNGFC's qualifying debt obligations, the economic effect would be equivalent to an equity investment in the subsidiary in an amount up to \$10 million. The \$10 million represents approximately 2% of the Company's total common stock equity (\$489 million), or approximately 6.4% of its retained earnings invested in the business (\$157 million) as of September 2003. Per NW Natural, the \$10 million amount would not impair NW Natural's ability to perform its service as a public utility and as such, is not contrary to the public interest.

Staff agrees that the current amount of \$10 million would not impair NW Natural's service as a public utility; however, customers should be held harmless from the effects of any payments, advance charges, and other costs associated with the guaranty of the lines of credit to NNGFC.

NW Natural represented that without the guaranty, NNGFC would not be able to secure short-term lines of credit to back up a commercial paper program at a reasonable cost. Because of the guaranty, NNGFC is able to avoid potentially high due diligence costs, ratings fees as well as higher commitment fees. Although NW Natural does not incur any direct cost in providing the guaranty of the lines of credit, NW Natural estimates that the cost of 364-day letters of credit would be approximately \$25,000 for each \$5 million line of credit. Staff performed calculations concerning the estimated impact on the cost of NW Natural's capital structure and concurs with the figure provided by the Company as a fair value to apply to the lines of credit guaranty.

Since transactions between an energy utility and an affiliate are required to be the higher of cost or market when the utility provides a service, Staff recommends that the \$50,000 estimated market value of the guaranty of the lines of credit be placed in a deferred account with interest calculated at the company's authorized rate of return from the date of the guaranty of the lines of credit (October 1, 2003) until this amount is fully refunded to customers as part of the 2004 Purchased Gas Adjustment (PGA).

Records Availability, Audit Provisions and Reporting Requirements - The proposed ordering conditions No. 1, 3 and 6 provide the necessary records access to NW Natural's relevant books and records.

After review of the filing, Staff concludes that the application is fair and reasonable and not contrary to the public interest, with the inclusion of the six recommended conditions. NW Natural, NWIGU and the Citizen's Utility Board agree with Staff's recommended conditions.

PROPOSED COMMISSION MOTION:

NW Natural's UI 224 application to guaranty the lines of credits of NNG Financial Corporation, subject to the six conditions stated in this memorandum, be approved.

UI 224 – NWN 's Guaranty of the Lines of Credit of NNG Financial Corporation