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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4203

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY)	ORDER
)	
Application for Authority to Issue and Sell)	
Common Stock.)	

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

On March 3, 2004, Northwest Natural Gas Company (NW Natural) filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.410 and 757.415 and OAR 860-027-0030, requesting authority to issue and sell up to 1,500,000 shares of its authorized but unissued common stock through a negotiated public offering. 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 March 16, 2004, the Commission adopted Staff's recommendation and approved NW Natural's current request.

ORDER

IT IS ORDERED THAT the application of Northwest Natural Gas Company for authorization to issue and sell common stock, is approved, subject to the following conditions and reporting requirements:

1. Northwest Natural Gas Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. This report shall include the total amount, per unit price, total expenses and net proceeds of the issuance.

2. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, Northwest Natural Gas Company will be required to show that its capital costs, including imbedded expenses, and capital structure are just and reasonable.

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: March 16, 2004**

REGULAR AGENDA X CONSENT AGENDA EFFECTIVE DATE

DATE: March 10, 2004

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng and Thomas Morgan

SUBJECT: NORTHWEST NATURAL: (Docket No. UF 4203) Application for Authority to Issue and Sell Up To 1,500,000 Shares of Its Common Stock.

STAFF RECOMMENDATION:

The 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 issuance. This report shall include the total amount, per unit price, total expenses and net proceeds of the issuance.
- 2) The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure and the 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 capital structure are just and reasonable.

DISCUSSION:

On March 3, 2004, Northwest Natural (NWN or Company) filed an application to issue and sell up to 1,500,000 shares of its common stock (Stock) under Oregon Revised Statutes (ORS) 757.410 and 757.415 and Oregon Administrative Rule (OAR) 860-27-030.

The Company requests authorization to issue up to 1,500,000 shares of common stock through a negotiated public offering¹. The Company expects to raise about \$40 million in its offering, with the total number of shares commensurate with that goal. The Company represents that the issuance will provide the Company with the flexibility to adapt to changes and opportunities in the securities market. If NWN were to sell a full 1,500,000 shares, that would represent 5.8 percent of the shares outstanding as of Dec. 31, 2003, and approximately a 9 percent increase in common equity, assuming a sale price of \$31.50 a share and commissions and costs totaling 4 percent of the gross proceeds.

The approximate effect on the Company's capital structure of the proposed issuance of Stock, and other forecasted securities issuances in 2004, would be to increase the common equity ratio from 46.4 percent at Dec. 31, 2003 to 50.0 percent on a pro forma basis. This detailed information is shown in Table 1. The sale of the Stock in the first half of 2004 will enable NW Natural to enter the second half of the year, when most of its capital costs will be incurred and when it plans to sell \$30 million of Medium Term Notes, with a good liquidity position.

Table 1. Capital Structure

	Balance at 12/31/2003 (\$000)	Actual Ratios (%)	Pro forma Changes in Amounts (\$000)	Pro forma Amounts (\$000)	Pro forma Ratios (%)
Long-Term Debt	\$500,319	45.8	\$30,000	\$530,319	48.6
Short-Term Debt	85,200	7.8	-70,000	15,200	1.4
Preferred&Preference Stock	0	0.0	0	0	0.0
Common Stock	<u>506,316</u>	<u>46.4</u>	<u>40,000</u>	<u>546,316</u>	50.0
Total	\$1,091,835	100.0	\$0	\$1,091,835	100.0

Use of Proceeds

NWN represents that it will use the proceeds for the following purposes: the acquisition of utility property or the construction, completion, extension or improvement of utility facilities; or the improvement or maintenance of service. Such purposes are consistent with ORS 757.415 (1). To the extent that proceeds from the sale of the common stock will be used to discharge or refund the Company's obligations, including the repayment of short-term debt incurred to provide interim financing, then the obligations discharged or refunded were incurred for purposes included within the scope of ORS 757.415(1).

APPENDIX A
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¹ Public Offering: An offering of new securities to the investing public at an offering price that has been agreed upon by the issuer and the underwriters. This can only be done after the issue has been registered with the SEC.

Expenses

NWN projects gross proceeds of \$40,000,000 and total issuance fees are estimated at about \$1.8 million or 4.5% of gross proceeds. The underwriters' fee for the issuance and sale of \$40 million of Common Stock is estimated at \$1.5 million or 3.75% of gross proceeds. Such fees are consistent with fees associated with transactions of this size and nature and with information available to the Company.

Based on Staff's review, approval of NWN's application with the proposed conditions will provide reasonable access to the capital markets. The application appears reasonable and meets the appropriate statutory requirements.

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to issue up to 1.5 million shares of its Common Stock be approved with Staff's Conditions.