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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4208

In the Matter of)	
)	
NORTHWEST NATURAL)	ORDER
)	
Application for Authority to Issue and Sell)	
Securities.)	

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

On April 15, 2004, NORTHWEST NATURAL (NWN) submitted an application to the Public Utility Commission of Oregon (Commission), requesting authority to offer, issue and sell up to \$160 million of Medium-Term Notes (MTNs). 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 May 4, 2004, the Commission adopted Staff's recommendation and approved NWN's current request.

ORDER

IT IS ORDERED THAT the application of NORTHWEST NATURAL for authorization to issue and sell up to \$160 million of Medium-Term Notes is approved, subject to the conditions further specified in Appendix A.

Made, entered and effective _____.

BY THE COMMISSION:

Becky 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: May 4, 2004**

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

DATE: April 27, 2004

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: NORTHWEST NATURAL GAS COMPANY: (Docket No. UF 4208)
Application for Authority to Issue and Sell Securities.

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 each issuance and sale. This report also shall be used to notify the Commission as to any replacement, renewal, or extension of sale of each Note. The fees, interest rates, and expenses shall be cost effective and consistent with competitive market prices.
- 2) Under a Commission Order pursuant to this application, NWN may issue the Medium-Term Notes (MTNs or Notes) without further Commission approval as long as the interest rate spreads and agents' commissions do not exceed limits imposed by Tables 1 and 2 identified on page 3 of this memo, respectively, following the date of such Order.
- 3) A Commission approval in this docket shall remove any remaining authority from the approval granted in Docket UF 4191, of which the Company has represented that \$60 million authority remains.
- 4) The authorization shall remain in effect as long as the Company maintains debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, respectively on any debt security type it intends to market (i.e., senior secured versus unsecured).
- 5) 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

APPENDIX A
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Company will be required to show that its capital costs, including embedded expenses, and capital structure are just and reasonable.

DISCUSSION:

On April 15, 2004, NWN filed an application under Oregon Revised Statutes (ORS) 757.410, 757.415, 757.480 and OAR 860-027-0030 for an order authorizing the Company to offer, issue and sell up to \$160 million of MTNs. The MTNs will be either secured or unsecured and their maturities will range from nine months to thirty years.

NWN proposes issuing the MTNs without further Commission approval as long as the interest rate spreads and agents' commissions do not exceed limits imposed by Tables 1 and 2 in this memo, respectively. The proposed interest rate spreads and fees are consistent with previous Commission authorizations and they continue to be appropriate. NWN also proposes that such authorization remain in effect as long as the Company maintains investment-grade bond ratings from at least two nationally recognized bond rating organizations.

Use of Proceeds

NWN represents that the proceeds to be received by the Company from the sale of the Notes will be used for corporate purposes allowable under ORS 757.415 (1)(a) through (1)(d).

Expenses

NWN projects gross proceeds of \$160 million and total issuance fees are not expected to exceed \$1,469,050 or 0.92% of gross proceeds. The expenses include fees and commissions for agents and underwriters, SEC, accounting, stock exchange listing, bond rating agencies, and printing and engraving. The expenses appear reasonable.

Based on Staff's review, the application appears reasonable and meets the appropriate statutory requirements.

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to borrow up to \$160,000,000 of Medium-Term Notes be approved with Staff's Conditions.

UF 4208 – NW Natural's Application for Authority to Issue and Sell Securities.

NWN's Series B MTNs

Table 1. Maximum Spreads

Maximum Spread Over Benchmark
U.S. Treasury Yield¹

Equal to or
Greater Than

¹ 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.

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

9 months	2 years	+ 170 basis points ²	+ 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 Commission Fees

<u>Range of Maturities</u>	<u>Commission (Percentage of Aggregate Principal Amount of Medium-Term Notes Sold)</u>
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%