

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4210

In the Matter of)	
)	
NORTHWEST NATURAL GAS)	ORDER
COMPANY)	
)	
Application for Authorization of)	
\$75,000,000 of Three-Year Notes in its)	
Backup Line of Credit.)	

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

On October 7, 2004, Northwest Natural Gas Company (NWN) submitted an application with the Public Utility Commission of Oregon (Commission), requesting authorization for \$75,000,000 of Three-Year Notes in the Lines of Credit with four commercial banks that back up the Company's commercial paper program. The Commission previously authorized \$75,000,000 in Order No. 04-231. 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 November 9, 2004, the Commission adopted Staff's recommendation and approved NWN's current request.

ORDER

IT IS ORDERED THAT the application of Northwest Natural Gas Company for authorization to borrow \$75,000,000, 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 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 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 9, 2004**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: October 8, 2004

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: NORTHWEST NATURAL GAS COMPANY: (Docket No. UF 4210)
Application for Authorizing \$75,000,000 of Three-Year Notes in its
Back-up Line of Credit.

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 borrowing under the Three-year Line of Credit. This report also shall be used to notify the Commission as to any replacement, renewal, or extension of such Three-year Notes. The fees, interest rates, and expenses shall be consistent with competitive market prices for such Notes when entered into, and shall remain within, the limits specified in this Memo.
- 2) Under a Commission Order pursuant to this application, the Company may enter into replacements, renewals or extensions of such Three-year Notes for a three-year period following the date of such Order. The Company must file for approval of renewal/extension within 30 days of maturity.
- 3) 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 October 7, 2004, NWN filed an application under Oregon Revised Statutes (ORS) 757.410 and 757.415, and Oregon Administrative Rules (OAR) 860-027-0030, for an order authorizing \$75,000,000 of Three-Year Notes in the Lines of Credit with four commercial banks that back up the Company's commercial paper program. The securities covered by this Application are unsecured notes with a term of three years with each of four banks, in an aggregate amount of \$75,000,000. The Three-Year Notes will be issued as of October 1, 2004, and mature on September 30, 2007.

The agreements are with Bank of America N.A., JP Morgan Chase Bank (successor to Bank One, NA), U.S. Bank National Association and Wells Fargo Bank. The aggregate amount of the credit lines is \$150,000,000, the same as the maximum amount of commercial paper the Company may have outstanding at any time under its commercial paper program. The Commission previously authorized \$75,000,000 in Order No. 04-231, and with approval of this current application, the total outstanding is \$150,000,000, as referenced above.

Use of Proceeds

NWN represents that the purpose of the Three-Year Notes is to provide a committed source of short-term liquidity in case NW Natural is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the Three-Year Notes are proposed to be used, if and as required, are to arrange for the construction, completion, extension, or improvement of the Company's facilities; the potential repayment of maturing long term obligations; the reimbursement of the treasury for expenditures against which long-term securities have not yet been issued; the discharging of current obligations; and to provide working capital for the maintenance of utility service. The Three-Year Notes are not issued directly for property. These purposes are permitted by ORS 757.415(1).

Expenses

NWN represents that the total fees for NW Natural's lines of credit for the annual period ending Sept. 30, 2005, are \$210,000, including \$75,000 for the 364-day lines and \$135,000 for the three-year lines. Fees for the three-year commitments total \$315,000, including \$270,000 in commitment fees¹ (paid quarterly) and \$45,000 in upfront fees (paid at the outset of the three-year period). The total average cost of the line for the annual period ending September 30, 2005, is 12 basis points² (0.12%), comprising of 10 basis points for the 364-day lines and 14 basis points for the three-year lines.

¹ Commitment Fee: Any fee paid by a potential borrower to a lender for the lender's promise to lend money at a specified rate and within a given time period.

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

The interest rates that would be applicable to any loans under the Three-Year Notes may vary slightly from bank to bank, but in general, they are specified as a spread over benchmark interest rates in effect from time to time, such as the prime rate or the Adjusted London Interbank Overnight Rate (LIBOR). The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies. Maturities for loans would be no shorter than one day, but no longer than the date of maturity of the Three-Year Notes (September 30, 2007).

The fees, expenses, and interest rate options appear reasonable.

Based on Staff's review, approval of NWN's application with the proposed conditions will provide a committed source of liquidity. The application appears reasonable and meets the appropriate statutory requirements.

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to borrow up to \$75,000,000 under Three-year Notes in its Line of credit be approved with Staff's Conditions.