

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4236

In the Matter of)	
)	
CASCADE NATURAL GAS)	ORDER
CORPORATION)	
)	
Application for Authorization to Issue and)	
Sell Debt Securities.)	

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

On January 8, 2007, Cascade Natural Gas Corporation (Cascade or company) submitted an application to the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.410, ORS 757.415, and OAR 860-027-0030, requesting authorization to issue up to \$40 million in debt securities in the form of Senior Unsecured Notes. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

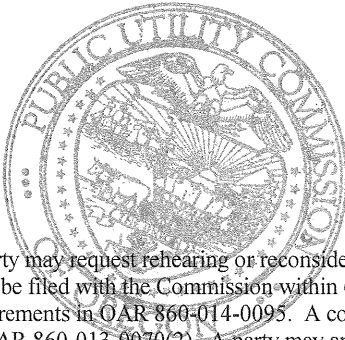
Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on February 6, 2007, the Commission adopted Staff's recommendation and approved Cascade's current request.

ORDER

IT IS ORDERED that the application of Cascade Natural Gas Corporation is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective FEB 14 2007

BY THE COMMISSION:



Becky L. Beier

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA2

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 6, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: January 30, 2007

TO: Public Utility Commission

FROM: Thomas D. Morgan *MDM*

THROUGH: *in* Lee Sparling, *AH* Marc Hellman, and *MHE/BC* Bryan Conway

SUBJECT: CASCADE NATURAL GAS: (Docket No. UF 4236) Application for Authority to Issue and Sell Debt Securities.

STAFF RECOMMENDATION:

I recommend that the Public Utility Commission of Oregon (Commission) approve Cascade Natural Gas Company's (Cascade or Company) request to issue debt securities, subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statement as soon as possible after any issuance. Upon each issuance of Securities, the Company shall file documentation with the Commission providing a specific description of the terms and conditions of each issuance of the Securities.
- 2) The Company shall demonstrate that the rate(s) it achieves on new securities is consistent with market rates, or otherwise demonstrate that the rate(s) it achieves is competitive. If the rates are negotiated rather than competitively bid, the Company shall demonstrate that the rates are consistent with those it would have achieved under a competitive bid. The demonstrations should be filed as soon as possible after each issuance and sale, and should include a demonstration that fees for partial issuances are reasonable. If the Company insures the securities, it will show an economic analysis that indicates the cost-competitiveness of the insurance.
- 3) The Company shall demonstrate that any early refunding or the exercise of any call provision or required sinking fund placed on the issuance is cost-effective.

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- 4) The authorization to issue debt under this order remains in force 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, Inc., respectively on any debt security type it intends to market, on the date the security is initially issued.
- 5) If any agents or underwriters are involved in the sale of the Bonds, the names of such, the initial price to the public, any applicable commissions or discounts, and the net proceeds to the Company shall be filed with the Commission. If the Debt is sold to an agent or agents as principal, the agent name(s), the price paid by the agents, net proceeds, and any applicable commission or discount paid by the Company to the agent(s) shall be included. The Company shall indicate that any fees are reasonable, usual, and customary for such sales.
- 6) For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company's capitalization structure and all expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capitalization structure and capital costs, including imbedded expenses, are just and reasonable.

DISCUSSION:

On January 8, 2007, Cascade filed an application pursuant to Oregon Revised Statutes (ORS) 757.410 & 757.415, and Oregon Administrative Rule (OAR) 860-027-0030 for authority to issue up to \$40 million in debt securities in the form of Senior Unsecured Notes (Notes).

The Securities would be issued in one or more transactions, as conditions permit. The Securities would have a maturity of between 15 and 30 years. The Notes may have a provision that allows for early redemption.

The Company expects to issue the Notes within the first quarter of calendar 2007.

Underwriting:

The Company will use an international investment banking firm or a major bank as underwriter. The firms that will assist the Company may be one of the following: A.G. Edwards, Edward Jones, or JP Morgan. The Notes may be issued as public offerings or on a private basis.

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Credit Ratings:

The Company's current credit ratings on its outstanding notes is Baa1 (Moody's) and BBB+ (Standard & Poor's.)

The Company may apply for a rating on the Notes it intends to issue, if required.

Interest Rates:

The interest rate on the Notes will be determined when the notes are issued. The interest will be at fixed rates, with a set premium over Treasuries. The proposed maximum spreads over the applicable Treasury securities for various maturities are listed in Appendix A, Table 1. The schedule of interest rate spreads appears reasonable.

Expenses:

If the Securities are sold on a private basis or on a public basis to an institution, the underwriters/agents will receive the usual and customary amount prevailing for such sales and will not exceed 1.00 percent of the aggregate principal amount of the Securities, the final amount to be negotiated by the Company. Based on typical financing transactions of this size and tenor, the total underwriting fees range from 0.6 to 0.9 percent. If the Securities are sold through a retail distribution, the agent fees could be higher. The Company will not sell the notes through a retail agent unless the all-in cost is lower.

The Company may consider insuring the Notes, however any insurance fee would be offset by a lower interest rate. If the Company insures the Notes, Condition 2 requires that the Company show that the total all-in cost is economic.

If a retail-insured method is used, the underwriters' commissions are estimated to cost approximately 3.15% of the total principal amount. Cascade will use the retail method if it concludes that Debt sold through the retail method, after including the cost of the additional underwriters' commissions, will have a lower all-in cost than the Debt sold through the institutional method.

Total fees are represented in Appendix A, Table 2. The fees and expenses reflecting an Institutional Sale appears reasonable. The fees reflecting a Insured retail transaction appear somewhat high.

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Use of Proceeds:

Cascade will use the proceeds of the issuance under this authority for (a) the acquisition of property, or the construction, completion, extension, or improvement of its facilities; (b) the refunding of its obligations; or (c) the reimbursement of money actually expended from income or from any other money in the treasury which were incurred for utility purposes permitted under ORS 757.415 (1). The Company represents that it intends to use the proceeds from this financing to refinance higher cost debt securities that became callable in November, 2006.

Prior to finalizing the Staff memo, the proposed Conditions were shared with the Company and the Company is agreeable to them.

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Company's application, UF 4236, be approved subject to Staff's conditions and reporting requirements.

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Table 1 – Bonds - Maximum Spread over Treasury Rates

Maturity	Currently	Worst Case In Potential
	30-Year at 4.70% Maximum Spread Over Benchmark Treasury	Major Market Move Maximum Spread Over Benchmark Treasury
9 month - 2 years	+60 basis points	+85 basis points
2 years - 3 years	+65 basis points	+95 basis points
3 years - 4 years	+70 basis points	+105 basis points
4 years - 6 years	+80 basis points	+120 basis points
6 years - 9 years	+95 basis points	+140 basis points
9 years - 10 years	+110 basis points	+160 basis points
10 years - 11 years	+115 basis points	+165 basis points
11 years - 15 years	+120 basis points	+170 basis points
15 years - 20 years	+125 basis points	+175 basis points
20 years - 30 years	+135 basis points	+185 basis points

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Table 2 – Notes - Issuance Expenses

Item	Institutional MTN		Retail - Insured	
	Amount	Per \$1,000	Amount	Per \$1,000
1. Face value or principal amount	\$40,000,000	\$1,000.00	\$40,000,000	\$1,000.00
2. Plus premium or less discount				
3. Gross proceeds	\$40,000,000	\$1,000.00	\$40,000,000	\$1,000.00
4. Underwriters' spread or commission	400,000		1,260,000	
5. Bond insurance			800,000	
6. Printing and engraving expenses	15,000		40,000	
7. Trustee's charges	15,000		15,000	
8. Fees and expenses of independent public Accountants	20,000		20,000	
9. Legal fees	60,000		100,000	
10. Rating agency fees	50,000		50,000	
11. Miscellaneous expenses	60,000		60,000	
12. Total deductions	\$620,000	\$15.50	\$2,345,000	\$58.63
13. Estimated net amount to be realized	\$39,380,000	\$984.50	\$37,655,000	\$941.37