ENTERED 11/06/08

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4254

In the Matter of	)	
	)	
NORTHWEST NATURAL GAS, dba NW NATURAL	)	ORDER
	)	
	)	
Application for authorization to issue and sell up to $300,000,000 of debt securities.	)	
	)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On October 14, 2008, Northwest Natural Gas Company, dba NW Natural (NW Natural), filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.410, ORS 757.415, ORS 757.480 and OAR 860-027-0030, for authority to offer, issue and sell up to $300 million of debt securities. The debt securities may be secured or unsecured, and maturities may range from one to 50 years. The basis for the current request is further detailed in Staff's recommendation memo, attached as Appendix A and incorporated by reference.

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 4, 2008, the Commission adopted Staff's recommendation and approved NW Natural's current request.

ORDER

IT IS ORDERED that NW Natural Gas Company's application for authority to issue and sell up to $300,000,000 of debt securities is approved, subject to the conditions and reporting requirements detailed in Appendix A.

Made, entered, and effective NOV 06 2008.

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

ITEM NO. CA8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 4, 2008

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** ____N/A____

DATE: October 30, 2008

TO: Public Utility Commission

FROM: Steve Storm SS

THROUGH: Lee Sparling through Marc Hellman

SUBJECT: NORTHWEST NATURAL: (Docket No. UF 4254) Application for authority to issue and sell up to $300,000,000 of debt securities.

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's (NWN or the Company) request to issue and sell up to $300,000,000 of debt securities, subject to the following conditions and reporting requirements:

1) Securities issued under this authority shall not exceed a total of $300,000,000 or, if the securities are issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than $300,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).

2) The Company shall demonstrate the cost-effectiveness of any early refunding of existing securities and that any put or call provision or required sinking fund placed on new issuances is cost-effective.

3) The Company may not issue debt to affiliates without separate, prior authorization.

4) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each issuance and sale. This report is to include, in U.S. Dollars, the total value of the issuance; per unit price(s); total expenses and net proceeds of the issuance; and interest costs and credit ratings. Should any issued securities be designated as medium-term notes, the Company shall file a Pricing Supplement with the Commission providing a description of the terms and conditions of each issuance of the

medium-term notes. This report shall also be used to notify the Commission as to any replacement, renewal, or extension of sale of each debt security. The fees, interest rates, and expenses associated with any debt securities issued under this authority shall be cost-effective and consistent with competitive market prices.

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. The Company has the burden of proof to demonstrate that its financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable

6) Subsequent to a Commission Order pursuant to this application, NWN may issue the debt securities as set forth in NWN's filing without further Commission approval if all-in rate[1] spreads do not exceed limits set forth in column C or column D, as applicable, of Table 1 in Attachment A. Alternatively, should all-in rate spreads exceed the relevant maximum spread over Treasuries limitation as set forth in column C or column D, as applicable, of Table 1 in Attachment A, the Company may issue debt securities without further Commission approval if the all-in rate does not exceed 9.0 percent. Should issuance be under this alternative, the Company shall provide a post-issuance report to the Commission within ten business days, with the report describing the prevailing market conditions for the Company's debt, explaining the reasons for the high level of spreads over Treasuries relative to the all-in rate, and detailing any steps taken by the Company to minimize the overall cost of the issuance.

7) A Commission approval in this docket shall remove any remaining authority granted under Order No. 04-248 in Docket UF 4208, of which authority the Company has represented $85 million remained as of January 2008.

8) The authorization is to remain in effect as long as the Company maintains senior secured debt ratings no lower than BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.

[1] The terms "all-in rate" and "all-in cost" used here are defined as including all associated issuance expenses, the coupon rate, and any discount from par value at issuance. Technically, it is the percentage Internal Rate of Return (IRR) when all costs, such as any Original Issue Discount (OID), floatation, and insurance costs, as well as the actual cash flows of the security, are included. See page 747 of "Futures, Options, and Swaps," Fifth Edition; by Robert W. Kolb and James A. Overdahl; Blackwell Publishing, Ltd; 2007.

DISCUSSION:

Northwest Natural filed an application October 14, 2008, under Oregon Revised Statutes (ORS) 757.410, 757.415, 757.480 and Oregon Administrative Rule (OAR) 860-027-0030 for an order authorizing the Company to offer, issue, and sell up to $300 million of debt securities. The debt securities may be secured or unsecured and maturities may range from one year to fifty years.

NWN proposes issuing up to $300,000,000 in debt securities without further Commission approval as long as the all-in cost(s), which the Company defines to include discounts or premiums, but not other expenses associated with issuance, do not exceed the limit(s) as set forth in the third or fourth column, as applicable, of the Table on page 11 of the Company's application. The Company additionally proposes a "hard cap" on interest rates of 8.5 percent for maturities of 10 years or less and of 9.0 percent for maturities of more than 10 years.[2]

NWN proposes that such authorization as may be ordered by the Commission 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 debt securities will be used for corporate purposes allowable under ORS 757.415 (1)(a) through (1)(d).

Expenses

Technical services fees and other expenses[3] associated with the financing are estimated by the Company to total no more than $271,670, based on an issuance of $100,000,000.[4]

These expenses appear reasonable.

The Company provided information on agents' commissions as a percentage of the principal amount of debt securities issued.[5] While Staff takes no position as to the

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[2] *See* page 10 of Northwest Natural's application.

[3] Technical services fees and expenses associated with debt issuance include regulatory agency fees, SEC fees, company counsel fees, accounting fees, printing and engraving fees, rating agency fees, and trustee/indenture fees.

[4] *See* page 18 of Northwest Natural's application.

[5] *See* page 17 of Northwest Natural's application.

reasonableness of the estimated level of these expenses, these estimates are used in calculating Staff's all-in rate spread values, as in column D of Table 1 in Attachment A.

Staff wishes to clarify the order of consideration in determining whether an issuance falls within cost/pricing limitations. The first consideration is: "Will the debt securities be issued having an all-in rate within the maximum spread over the yield of the relevant benchmark Treasury security, as provided in column C or column D, as applicable, of Table 1 in Attachment A?" Should this be the case, the limitation on pricing is considered to be met.

Should this not be the case, a second consideration is addressed: "Will the debt securities be issued having an all-in rate less than or equal to 9.0 percent?" If the second consideration is met, then the limitation on pricing is considered to be met. In other words, the pricing limitation is considered met if, first, the applicable all-in rate spread limitation is met, or alternatively, if the spread limitation is not met while the all-in rate limitation is met.

Staff established the maximum all-in rate spread[6] over the yield of the relevant benchmark Treasury security by calculating all-in rates for 5-, 10-, and 30-year maturities based on information supplied by the Company. Subtracting the closing benchmark Treasury yields on October 27, 2008, from the calculated all-in rate provided the all-in rate spread for each of the three maturities. An all-in rate spread weighted average of the three maturities was calculated, with the 5- and 10-year maturities receiving weightings of 25 percent each and the 30-year maturity receiving a weighting of 50 percent. The maximum all-in rate spread for the 20- to 50-year maturity range was upwardly adjusted (to 272 bps) to serve as the same effective limitation as the maximum interest rate spread proposed by the Company, based on costs provided by the Company and the 4.12 percent closing yield of the 30-year Treasury on October 27, 2008.

Under the current credit environment, focusing on credit (interest rate) spreads alone may not be sufficient, since high spreads may be offset by relatively low Treasury yields, resulting in moderate to low interest rates on utility debt securities. Since the all-in rate represents the inclusive borrowing costs to the Company and potentially to its customers, it is reasonable under current conditions to provide an alternative to the traditional spread table included in most utility financing dockets. The provided alternative is intended to afford the Company additional flexibility in issuing debt in the current financial environment, while continuing to provide protections to customers.

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[6] The discussion immediately following applies to the all-in rate spreads in column D of Table 1 in Attachment A.

As a numerical example, consider the hypothetical situation where NWN issues $300 million of 10-year medium-term notes (MTNs) at par having a coupon rate of 6.20 percent, which is 241 basis points (bps) over the recent benchmark U.S. Treasury yield of 3.79 percent.[7] Issuance and other associated costs total $2,705,010, and interest is paid semiannually. The all-in cost of this hypothetical bond issuance is calculated to be 6.323 percent, which is 253 bps over the benchmark Treasury yield. In this example the all-in rate spread of the MTNs (253 bps) exceeds the maximum all-in rate spread of 250 bps for 10-year securities per Table 1. However, the all-in rate is 6.323 percent, which is less than the all-in rate "hard cap" of 9.0 percent. Therefore NWN could issue the MTNs and be in compliance with the all-in rate limitation.

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

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to borrow up to $300,000,000 of Debt Securities be approved with Staff's Conditions and Reporting Requirements.

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[7] This was the closing yield of the 10-year Treasury on October 27, 2008.

Attachment A

Table 1

Maximum Spreads over Benchmark U.S. Treasury Yield[8]

for Medium-Term Notes and Other Debt Securities

Maturity		Maximum Spread Over Benchmark U.S. Treasury Yield	
Equal to or Greater Than	Less Than	All-in Rate (if Treasury yield exceeds 6.5%)	All-in Rate (if Treasury yield is 6.5% or lower)
(A)	(B)	(C)	(D)
1 year	2 years	+ 95 bps	+ 250 bps
2 years	3 years	+ 105 bps	+ 250 bps
3 years	4 years	+ 110 bps	+ 250 bps
4 years	6 years	+ 115 bps	+ 250 bps
6 years	9 years	+ 120 bps	+ 250 bps
9 years	10 years	+ 120 bps	+ 250 bps
10 years	11 years	+ 125 bps	+ 250 bps
11 years	15 years	+ 130 bps	+ 250 bps
15 years	20 years	+ 135 bps	+ 250 bps
20 years	50 years & 1 day	+ 140 bps	+ 272 bps

[8] The Benchmark U.S. Treasury Yield, with respect to any of the debt securities' 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 debt securities' 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 debt securities', the Benchmark U.S. Treasury Yield shall be determined as of the time the commitment to purchase such debt securities' is received by the Company or its agents.