

ORDER

IT IS ORDERED THAT the application of Cascade Natural Gas Corporation is granted, subject to the conditions and reporting requirements, as further specified in Appendix A.

Made, entered and effective _____.

BY THE COMMISSION:

Vikie Bailey-Goggins
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: September 25, 2001**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: September 19, 2001

TO: Phil Nyegaard through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: UF 4183 — Cascade Natural Gas Corporation's Application to Register \$150,000,000, in Aggregate, Common Equity, Preferred Equity and Debt Securities with the SEC; and for Authority to Issue \$40,000,000 of Unsecured Long Term Debt

SUMMARY RECOMMENDATION:

I recommend approving the application with reporting requirements.

DISCUSSION:

On August 6, 2001, Cascade Natural Gas Corporation (Cascade) filed an application under Oregon Revised Statutes (ORS) 757.415 and 757.480 to register with the SEC for the eventual issuance of \$150,000,000, in aggregate, of common and preferred equity and debt securities. In addition to the authorization for the "shelf registration"², Cascade requests approval for the issuance, by October 1, 2001, of up to \$40,000,000 of Long-term Unsecured Notes (30-Year Debt) maturing in 2031.

The 30-Year Debt will be issued with the assistance of Edward Jones, as Underwriter. The 30-Year Debt will have a five-year 100% call provision,³ will be insured⁴ to an AAA rating, and will have an estate feature⁵.

² A shelf registration allows a two-year period to issue the specified securities. This Application requests approval for filing Form S-3. It does not preclude future Commission approval for additional issuances of securities.

³ A call feature allows the company to pay off the obligation in advance of its normal maturity.

⁴ The insurance policy guarantees security's rating to investors and is expected to reduce the interest (coupon) rate commensurate with the reduced risk.

⁵ The estate feature allows for early redemption if the holder of the note should pass-away, limited to \$25,000 per holder per year and 3.0% of the issue in aggregate per year.

The coupon interest rate (Rate) is expected to be approximately 7.0 percent, payable quarterly. The Company has indicated that the Rate will be no greater than 7.50 percent. The proposed Rate is consistent with previous Commission authorizations and appears appropriate absent other information.

Expenses

Cascade did not provide an estimate of expenses and fees to raise the entire capital that will be included in the bench registration to the SEC and Cascade has indicated that it will be provided with the final registration statement. Cascade did provide an estimate of the proposed expenses for the \$40,000,000 30-Year Debt issue.

Edward Jones, acting as Underwriter, will receive a fee equal to 3.15% of the gross amount, or \$1,260,000. There is also an expected fee estimated at \$1,587,200 for AMBAC Assurance to cover the insurance premium to qualify the Notes as the equivalent of a AAA Standard & Poors rating. According to Cascade, the cost of the insurance is more than offset by the difference in the interest rate spread between BBB+ and AAA notes. Additional legal, accounting and filing fees are expected to be \$65,000. The proposed fees and expenses appear reasonable for the current issue.

Use of Proceeds

The net proceeds to be received by Cascade from the sale of the 30-Year Debt will be used for the acquisition of utility property or the construction, extension or improvement of utility facilities, the improvement or maintenance of service; the discharge or lawful refunding of obligations that were incurred for utility purposes (such as higher cost debt or preferred stock) or the reimbursement of Cascade's treasury for funds used for the foregoing purposes, all as permitted under ORS 757.415 (1) (a), (b) or (e).

STAFF RECOMMENDATIONS:

I recommend the Commission approve Cascade's Application to file the "shelf registration" with the SEC and to issue 30-Year Debt subject to reporting requirements whereby Cascade should:

- (1) report two postings for the debt issue to demonstrate that the Rate it achieves is consistent with market rates, or otherwise demonstrate that the Rate it achieves is competitive; and
- (2) provide a study or analysis that demonstrates that insuring the 30-Year Debt is cost effective.

The postings or other demonstrations should be filed as soon as possible after issuance and sale.

I further recommend that the Commission approve Cascade's Application and that such authorization remain in effect as long as:

- (1) the interest rate on the proposed issue is no greater than 7.50 percent; and
- (2) the Company maintains senior secured debt ratings of at least BBB-/Baa3, i.e., "investment-grade", from Standard & Poor's and Moody's Investors' Service, Inc., respectively.

Cascade should demonstrate that exercising any call feature or early refunding of any security is cost-effective. I also recommend that the company be required to file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after the sale.

For ratemaking purposes, the Commission reserves judgment on the reasonableness of Cascade's capital costs, capital structure and the commissions and expenses incurred for each issue. In its next rate proceeding, Cascade will be required to show that its capital costs and structure are just and reasonable.