

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: NOVEMBER 6, 2001**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE \_\_\_\_\_

**DATE:** October 30, 2001

**TO:** Phil Nyegaard, Marc Hellman and Bryan Conway

**FROM:** Thomas D. Morgan

**SUBJECT:** UF 4184— Application of Cascade Natural Gas Corporation for an order authorizing the issuance of common equity, preferred equity, and debt securities.

**STAFF RECOMMENDATION:**

I recommend that the Commission approve Cascade Natural Gas' (Cascade or Company) application subject to the following conditions and reporting requirements.

1. Rate Spreads and Financing Costs will be limited as indicated on Table 1 and Table 2 attached herein except for retail sales to individual investors in which case the Company shall provide an analysis showing that the all-in costs make the security at least as cost-effective in comparison.
2. Cascade should report two postings for each debt issue to demonstrate that the Rates it achieves is consistent with market rates, or otherwise demonstrate that the Rates it achieves is competitive. The postings should be filed as soon as possible after issuance and sale.
3. The authorization should remain in effect as long as 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.
4. Cascade should demonstrate that exercising any call feature or early refunding of any security is cost-effective.
5. Cascade should 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.

**DISCUSSION:**

On October 24, 2001, Cascade Natural Gas Corporation (Cascade or Company) filed an application under Oregon Revised Statutes (ORS) 757.415 and 757.480 for authority to issue and sell up to \$150,000,000 of common equity, preferred equity or debt instruments.

Cascade plans to issue up to \$40,000,000 of Long-term Unsecured Notes (Notes) by December 31, 2001.

The securities will be issued through competitive markets by professional firms. Fees paid for either common or preferred equities will be based on standard fees charged by investment banking firms used by the Company in the past. Fees on institutional debt securities such as Medium Term Notes (MTNs) will be based on the spreads detailed in Table 2 (attached). Some (retail) debt securities may be sold to individual investors with higher fees than indicated in Table 2, but would be more cost effective based on the all-in costs.

**Use of Proceeds**

The net proceeds to be received by Cascade from the sale of any security proposed in this application 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).

The indicated \$40,000,000 Note issue will be used to retire short-term debt and meet its construction financing requirements.

**PROPOSED COMMISSION MOTION:**

Cascade's application, UF 4184, should be approved subject to the conditions and reporting requirements in staff's recommendations.

**ATTACHMENT**

**Table 1. Maximum Spreads**

<u>Maturity</u>		<u>Maximum Spread Over Benchmark Treasury Yield<sup>1</sup></u>	
<u>Equal to or Greater Than</u>	<u>Less Than</u>	<u>If 30-Yr UST Yield is 6.5% or Lower</u>	<u>If 30-Yr UST Yield Exceeds 6.5%</u>
9 months	2 years	+170 basis points <sup>2</sup>	+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	+250 basis points	+130 basis points

**Table 2. Maximum Agent Commission Fees**

<u>Range of Maturities</u>	<u>Commission (Percentage of Aggregate Principal Amount of 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%
20 years and more	.750%

<sup>1</sup> The Benchmark Treasury Yield with respect to any medium-term note 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 note maturity rate, is generally considered by dealers in such obligations to be the standard for such obligations, whether federal, state or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any note, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such note is received by the Company and the agents.

<sup>2</sup> Basis point is defined as one-one-hundredth of a percentage point; i.e., 100 basis points equals 1.00 percent.