

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 16, 2003**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A** _____

DATE: October 7, 2003

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: NORTHWEST NATURAL: (Docket No. UF 4172 (1)) Request for Approval to Adopt Company's Revised Employee Stock Purchase Plan into Order 00-558.

STAFF RECOMMENDATION:

The Commission should approve NW Natural Gas' (NWN or Company) application subject to all conditions originally adopted in Order 00-558.

DISCUSSION:

On August 15, 2000, NWN filed an application for authority to issue and sell, pursuant to the terms of its Employee Stock Purchase Plan (Plan), an additional 200,000 shares of its Common Stock, from 600,000 to 800,000 shares. Authority was requested under Oregon Revised Statute (ORS) 757.415¹ and Oregon Administrative Rule (OAR) 860-027-0030. On September 15, 2000, Order No. 00-558 was issued granting the Company's request to provide employees an ownership incentive and gaining funds for the utility's ongoing capital expansion program and for other regulated utility expenses.

On September 16, 2003, NWN filed an application with the Commission, requesting the Commission amend Order 00-558. The Company amended its Plan on July 24, 2003, and requests the Commission's adoption of the amendments to the Plan, which are intended to simplify the administration of the plan. The Company amended the Plan to include the following provisions:

- (1) Simplification of the payroll deduction process;

¹ As specified in ORS 757.415, net proceeds shall 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 reimbursement to the Company's treasury for funds used for such purposes.

- (2) Simplification of the share purchase price calculation;
- (3) Clarification of the terms of oversubscription (i.e., how to allocate shares if demand exceeds supply of available shares);
- (4) Simplification of the Delivery and Purchase terms;
- (5) Amendment of the termination of participation provisions;
- (6) Clarification that the right to purchase shares under the plan is not transferable;
- (7) Identification that the Company will not buy back shares issued under the Plan.

The purchase price of shares of Common Stock offered to employees under the Plan will be 85% of the fair market value of the Company's shares on the date of an offering. Approximately 137,000 shares are still authorized under the plan by Order No. 00-558. Assuming the Company sold all available shares, based on the current approximate share price of \$29.00 and the 85% discounted purchase price, about \$3.4 million in additional proceeds, less expenses, would be realized. The Company intends to offer stock under the amended Plan beginning November 1, 2003.

The Plan appears reasonable and should not harm customers.

PROPOSED COMMISSION MOTION:

NW Natural's application for the adoption of its amended Employee Stock Purchase Plan into Order 00-558 is approved with Staff's Conditions that were originally adopted in Order 00-558.

cc: Thomas Morgan