

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 27, 2004**

REGULAR _____ CONSENT X EFFECTIVE DATE April 27, 2004

DATE: April 14, 2004

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: NORTHWEST NATURAL: (Docket No. UF 4205) Application for Authority to Borrow \$75,000,000 under a Two-year Line of Credit.

STAFF RECOMMENDATION:

The Commission should approve NW Natural's (NWN or Company) application, subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any borrowing under the Two-year Line of Credit. This report also shall be used to notify the Commission as to any replacement, renewal, or extension of such Two-year Notes. The fees, interest rates, and expenses shall be consistent with competitive market prices for such Notes when entered into, and shall remain within, the limits specified in this Memo.
- 2) Under a Commission Order pursuant to this application, the Company may enter into replacements, renewals or extensions of such Two-year Notes for a three-year period following the date of such Order.
- 3) 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. In its next rate proceeding, the Company will be required to show that its capital costs, including imbedded expenses, and capital structure are just and reasonable.

DISCUSSION:

On March 30, 2004, NWN filed an application under Oregon Revised Statutes (ORS) 757.415 for authority to borrow up to \$75,000,000 under two-year unsecured notes and credit agreements with four commercial banks. The banks have authorized the Two-year

Notes in the line of credit on October 1, 2003, and the banks' two-year credit commitments will expire on September 30, 2005.

The agreements are with Bank of America N.A., Bank One, NA, U.S. Bank National Association and Wells Fargo Bank. The aggregate amount of the Company's credit lines, including \$75,000,000 of credit commitments for less than one year as well as the \$75,000,000 of credit commitments for two years, is \$150,000,000, the same as the maximum amount of commercial paper the Company may have outstanding at any time under its commercial paper program. Under the terms of the lines of credit, NWN pays commitment fees but is not required to maintain compensating bank balances.

Use of Proceeds

NWN represents that the proceeds from borrowings under the Two-year credit lines, if any, will be used to provide short-term liquidity in case NWN is unable to issue short-term commercial paper notes from time to time. The purposes for which borrowings under the Two-year Notes are to be used are: to arrange for the construction, completion, extension, or improvement of the Company's facilities; the potential repayment of maturing long-term obligations; the reimbursement of the treasury for expenditures against which long-term securities have not yet been issued; the discharging of current obligations; and to provide working capital for the maintenance of utility service. The Two-year Notes are not issued directly for property. These purposes are permitted by ORS 757.415(1).

Expenses

NWN represents that the fees the Company pays to the banks for the two-year component of its credit line, aggregating \$75,000,000 of credit commitments, will not exceed \$135,000 per year (0.18%), including \$90,000 (0.12%) in commitment fees paid quarterly and \$45,000 (0.06%) in upfront fees.

The interest rate to be paid on any loans under the Two-year Notes will be based on one or more options the Company may elect, as defined in the credit agreement with each bank. The interest rate shall be limited to one of the following options: it will be set at: (1) at the bank's Prime Rate; (2) at the bank's adjusted certificate of deposit rate plus 60 basis points; or (3) at the adjusted London Interbank Offered Rate (LIBOR, a widely used index) plus 50 basis points; in each case assuming the Company's long-term unsecured credit ratings were A- from S&P and A3 from Moody's, as they are today. The rates for these options would be 15 basis points higher if the Company's long-term unsecured rating were to be down-graded to the BBB+/Baa1 rating level, or 50 basis points higher if it were to be down-graded to BBB/Baa2. All of the banks offer loans at the adjusted LIBOR rate at the same spreads for each rating level.

The fees, expenses, and interest rate options appear reasonable.

NWN also requests the authority to replace, renew, or extend the Two-year Notes without further order of the Commission for a conditional exemption period of three years, pursuant to ORS 757.412. Staff's concern with the application is that any replacement, extension, or renewal be competitively priced, and Staff recommends a reporting requirement to address this concern. Staff also recommends a Condition that will allow the authority granted under this docket to extend for three years, as long as there is no material worsening of the financial terms and conditions of the replacements, renewals or extensions, from the date of any Order granted by the Commission. Such approval shall be under ORS 757.415 and shall provide the Company with the ability to renew the Notes as specified herein. Staff does not believe that a conditional exemption under ORS 757.412 is necessary and therefore recommends not approving the exemption requested thereunder.

Based on Staff's review, approval of NWN's application with the proposed conditions will provide a committed source of liquidity. The application appears reasonable and meets the appropriate statutory requirements.

PROPOSED COMMISSION MOTION:

NW Natural's application for the authority to borrow up to \$75,000,000 under Two-year Notes in its Line of credit be approved with Staff's Conditions.