

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 5, 2007**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: May 25, 2007

TO: Public Utility Commission

FROM: Ming Peng

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: NORTHWEST NATURAL: (Docket No. UF 4240) Application for Authority to Enter into \$400,000,000 Revolving Credit Agreement.

STAFF RECOMMENDATION:

I recommend that the Commission approve Northwest Natural Gas Company's (NW Natural or the Company) request to enter into \$400,000,000 Revolving Credit Agreement 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 if any funds are drawn under the revolving credit agreement. This report shall include the outstanding balances of revolving credit under the new facility and the outstanding letters of credit issued under the Credit Agreements, for as long as this credit facility remains in effect. This report shall demonstrate, upon any replacement, renewal, or extension of such credit agreements. The fees, interest rates, and expenses shall be consistent with the parameters specified in the Company's application in Attachment A, and also consistent with competitive market prices for such agreements.
- 2) The authorization shall 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.
- 3) The remaining financing authority granted under Order No. 05-1080 is withdrawn.
- 4) For ratemaking purposes, the Commission shall reserve judgment on the reasonableness of the Company's capital costs, capital structure and any associated 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 structure, are just and reasonable.

DISCUSSION:

On May 7, 2007, NW Natural filed an application under Oregon Revised Statutes (ORS) 757.410 and 757.415, and Oregon Administrative Rules (OAR) 860-027-0030, for an order authorizing NW Natural's proposed revolving line of credit with a syndication of banks (JPMorgan Chase Bank, N.A. is as administrative agent, and Bank of America, N.A. is as syndication agent), providing for a committed revolving line of credit to be used as a back-up facility for the Company's commercial paper borrowings. The credit agreement includes the issuance of up to \$400,000,000 of notes (Notes), with an initial facility commitment in the amount \$250,000,000. Such notes have an initial term of five years with the option to extend the maturities for additional one-year periods by mutual consent of the Company and the banks.

The Company has not drawn down on its commercial paper back-up credit facility in recent years, and there were no outstanding balances of borrowings under the current NW Natural lines of credit as of December 31, 2006.

The requested authority would replace the financing authority the Commission authorized in Order No. 05-1080, Docket No. 4220. In that Order, the Commission authorized the Company to issue up to \$200 million of five-year Notes similar to those covered in the enclosed Application. The Company represents that it is not opposed to the Commission withdrawing the remaining authority granted under Order No. 05-1080.

The securities covered by this Application are as follows:

Facility Notes. The Facility provides for the issuance of an unsecured note with an initial term of five years (which maturity may be extended for additional one-year periods) with a syndication of banks, in an initial aggregate amount of \$250,000,000 (Original Note), which aggregate amount may be increased from time to time up to an additional aggregate amount of \$150,000,000 (Accordion Note). The Notes are not convertible and have no voting privileges.

Letters of Credit. The Facility will permit the issuance of letters of credit in an aggregate amount up to \$250,000,000 (or up to \$400,000,000 upon increase of the aggregate commitment under the Facility) for the account of the Company.

Swingline Loans. Swingline loans are available under the Facility on a same day basis to the Company in an aggregate amount not exceeding \$25,000,000 and in minimum amounts of \$1,000,000.

Use of Proceeds

NW Natural represents that the purpose of the Facility is to provide a committed source of short-term liquidity in case the Company is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the Notes are proposed to be used, if and as required, 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; the issuance of letters of credit; and to provide working capital for the improvement or maintenance of utility service. These purposes are permitted by ORS 757.415(1).

Expenses

Under the terms of the Credit Agreement, NW Natural will pay upfront fees, administrative agent fees, and annual commitment fees, but is not required to maintain compensating bank balances. The interest rates on borrowings under the lines of credit, if any, are based on the Company's credit ratings (see Attachment Table 1 & 2) and on current market rates. The Company represents that any Notes or other amounts outstanding under the Facility will mature no later than five years from the date of issuance of the Original Note, subject to exercise of one-year extension periods by mutual consent of the Company and the banks.

NW Natural represents that fees for 5-year Syndicated Facilities¹ total \$912,000 (see Attachment Table 3), including \$125,000 per year in commitment fees², an annual agent fee of \$15,000, \$55,000 in upfront fees. The average annual cost of the credit line is 7 basis points (0.07 percent), or \$182,400, which is 1 basis point or 10 percent lower than the average cost of the Company's existing five-year bilateral credit facilities³.

The fees, expenses, and interest rate options appear reasonable. Based on Staff's review, approval of NW Natural's application with the proposed conditions appears

¹ Syndicated Facilities: When a group of banks work together to provide funds for a borrower. The group of banks is responsible for making the loans and taking the risk.

² Commitment Fee: Any fee paid by a potential borrower to a lender for the lender's promise to lend money at a specified rate and within a given time period.

³ Bilateral credit facilities: A loan granted by one bank to the borrower. There is no joint responsibility or spreading of risk in bilateral agreements.

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reasonable, meets the appropriate statutory requirements, and provides an additional source of liquidity for the Company.

PROPOSED COMMISSION MOTION:

NW Natural's application for authority to enter into \$400,000,000 revolving credit agreement be approved with Staff's Conditions and reporting requirements.

Attachment

Attachment A

The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies, are as follows:

Table 1. Rating Level Spread (basis points)

Debt Rating⁽¹⁾	Commitment Fee	Applicable Margin for LIBOR Loans / LC Fee Rate	All-in Drawn (including Commitment and Utilization⁽²⁾ Fees)
≥ AA- / Aa3	3.0 bps	12.0 bps	20.0 bps
A+ / A1	4.0 bps	13.5 bps	22.5 bps
A / A2	5.0 bps	15.0 bps	25.0 bps
A- / A3	6.0 bps	19.0 bps	30.0 bps
BBB+ / Baa1	7.0 bps	23.0 bps	35.0 bps
BBB / Baa2	9.0 bps	31.0 bps	45.0 bps
≤ BBB- / Baa3	10.0 bps	40.0 bps	55.0 bps

(1) The Commitment Fee and Applicable Margin for LIBOR Loans shall be the applicable rate per annum set forth in the table below opposite the Borrower's credit rating from Standard & Poor's (S&P) or Moody's Investors Service Inc. (Moody's), changing when any applicable credit rating changes. In the case of a split rating, the higher rating will apply, unless, if ratings are available from S&P, Moody's and Fitch, Inc., doing business as Fitch Ratings, the rating given by two of them are equal, in which case such rating shall apply.

(2) The Borrower shall pay to the Administrative Agent for the account of each Lender a utilization fee at a rate per annum equal to 0.05% on such Lender's Revolving Credit Exposure on each day that the Revolving Credit Exposure of all Lenders exceeds 50% of the Aggregate Commitments. (Credit Agreement, p. 19)

The table below summarizes the Company's current debt credit ratings from S&P and Moody's.

Table 2. NW Natural's Credit Ratings

	S & P	Moody's
Commercial Paper (short-term debt)	A-1 +	P-1
Senior secured (long-term debt)	AA-	A2
Rating outlook	Stable	Stable

The estimated fees and expenses in connection with the five-year Facility are as follows:

Table 3. Fees and Expenses

Fees and Expenses	Estimated
Commitment fees	\$625,000
Agent fee	75,000
Upfront fees	55,000
Arrangement fee	100,000
Out-of-pocket legal and administrative costs to agent	50,000
Printing and Engraving Expenses	0
Counsel Fees	5,000
Miscellaneous Expenses (e.g. freight, postage, travel)	2,000
Total fees and expenses	\$912,000