

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Statement Establishing Compliance of	)	DOCKET NO. UG-_____
	)	
NORTHWEST NATURAL GAS COMPANY	)	STATEMENT ESTABLISHING COMPLIANCE
	)	
Establishing Compliance With RCW 80.08.040 With Respect to the Proposed Issuance and Sale of Not More Than \$130,000,000 Principal Amount of First Mortgage Bonds	)	
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Northwest Natural Gas Company (“NW Natural” or the “Company”) hereby files this Statement Establishing Compliance pursuant to RCW 80.08.040, for the issuance and sale not to exceed \$130,000,000 of secured notes in the aggregate, comprised of (i) \$80,000,000 of 5.18% secured notes (“5.18% Bonds”), and (ii) \$50,000,000 of 5.23% secured notes (“5.23% Bonds” and together with the 5.18% Bonds, “First Mortgage Bonds”) through a private placement offering.

On August 13, 2021, the Company filed a universal shelf registration (the “2021 Universal Shelf Registration”) with the Securities and Exchange Commission (the “SEC”) on a Form S-3 registering for public offerings an unlimited amount of certain debt and equity securities, including, but not limited to: (i) Secured Notes, Series B issued under the Company’s Medium-Term Note Program (“Medium-Term Notes”); (ii) Unsecured Notes issued under the Company’s unsecured indenture (“Unsecured Notes”); and (iii) other debt instruments, including first mortgage bonds which are not issued as part of the Company’s Medium-Term Note Program (collectively with Medium-

Term Notes and Unsecured Notes referred to as “Debt Securities”). In accordance with WAC 480-90-242(3), no filing with the Washington Utilities and Transportation Commission (“WUTC”) was necessary upon filing of the 2021 Universal Shelf Registration. The 2021 Universal Shelf Registration replaced the Company’s previously filed Universal Shelf Registration which was due to expire in October 2021. The Debt Securities may be issued and sold in registered public offerings or in unregistered private placements.

With the filing of this Statement Establishing Compliance, the understanding is that the Company has satisfied its statutory obligations under RCW 80.08.040 and WAC 480-90-242 with respect to the Company's proposed issuance and sale of not to exceed \$130,000,000 principal amount of First Mortgage Bonds.

The following is the information required in RCW 80.08.040:

- (1) A description of the purposes for which the issuance will be made, including a certification by an officer authorized to do so, that the proceeds from any such financing are for one or more of the purposes allowed by RCW 80.08.030.**

The Company will use the proceeds from the First Mortgage Bonds for (i) the acquisition of property, or (ii) the construction, completion, extension or improvement of its facilities, or (iii) the improvement or maintenance of its service, or (iv) the discharge or refunding of its obligations, or (v) the reimbursement of moneys actually expended from income or from any other moneys in the treasury of the Company not secured by or obtained from the issue of stock or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidence of indebtedness of the Company for any of the aforesaid purposes except maintenance of service. In each case, the Company keeps its accounts and vouchers for such expenditures in such manner as to enable the

WUTC to ascertain the amount of money so expended and the purpose for which the expenditures were made. Such purposes are permitted by RCW 80.08.030.

In accordance with WAC 480-90-242, the Company will, within 60 days after the issuance of any First Mortgage Bonds, file with the WUTC a verified statement (a) outlining the final terms and conditions of the transaction; and (b) setting forth actual proceeds from the issuance and, to the extent known, the disposition of proceeds stating the final amount to be used for each purpose allowed by RCW 80.08.030.

**(2) A description of the proposed issuance, including the terms of financing.**

**(a) Type and nature of securities**

A description of the First Mortgage Bonds is included in the 2021 Universal Shelf Registration filed with the SEC on August 13, 2021, a copy of which is attached hereto as Exhibit A, and in the Prospectus Supplement, filed on August 13, 2021, attached hereto as Exhibit B. The First Mortgage Bonds are nearly identical to the Medium-Term Notes issued under the Company's Medium-Term Note Program but are marketed and sold through a different process.

The Company intends to issue the First Mortgage Bonds under its Mortgage and Deed of Trust, dated as of July 1, 1946, as amended and supplemented by twenty-six Supplemental Indentures, including the Twenty-sixth Supplemental Indenture to be entered into in connection with the issuance of the First Mortgage Bonds, and as may be further amended and supplemented (the "Mortgage"), with Deutsche Bank Trust Company Americas (formerly Bankers Trust Company), as Trustee, which is attached hereto as Exhibit C. The Mortgage constitutes a first mortgage lien on substantially all of the utility property now owned and hereafter acquired by the Company. The First

Mortgage Bonds will be issued and sold pursuant to the Bond Purchase Agreement, which is attached hereto as Exhibit D<sup>1</sup>. The First Mortgage Bonds will have a term of no more than 31 years.

The First Mortgage Bonds will be sold on a private placement basis in a negotiated transaction and will be unregistered securities. The First Mortgage Bonds were priced with a delayed settlement feature, which allowed the Company to execute a binding Bond Purchase Agreement establishing the interest rate and other terms of the sale but postpone the actual sale of the First Mortgage Bonds and receipt of funds to a date of the Company's choice up to nine months after pricing. The delayed settlement feature allowed the Company to lock-in interest rates but defer the sale of the First Mortgage Bonds to correspond with the Company's cash needs. The Company signed the Bond Purchase Agreement on December 13, 2022, closed a portion of the transaction by issuing and selling \$100,000,000 of the 5.43% Bonds on January 6, 2023 as described in a WUTC filing in docket no. UG-220938, and expects to close the remaining portions of the transaction by issuing and selling \$80,000,000 of the 5.18% Bonds and \$50,000,000 of the 5.23% Bonds and receiving proceeds on or about August 4, 2023.

**(b) Amount of Securities**

The Company makes this filing to comply with the requirements of RCW 80.08.040 and WAC 480-90-242 with respect to the issuance and sale of an aggregate principal amount not to exceed \$130,000,000 of First Mortgage Bonds, provided that if

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<sup>1</sup> The Bond Purchase Agreement provides for the issuance of the First Mortgage Bonds described herein. In addition, it relates to the Company's first mortgage bonds, 5.43% Series Due 2053 (the "5.43% Bonds"), issued and sold on January 6, 2023. This Statement Establishing Compliance pertains solely to the First Mortgage Bonds. The Company previously filed in docket no. UG-220938 a Statement Establishing Compliance covering the 5.43% Bonds described in the Bond Purchase Agreement.

the First Mortgage Bonds are issued at an original issue discount (“OID”) not to exceed 1%, such greater amount will result in an aggregate offering price of not more than \$130,000,000.

**(c) Interest Rate**

The interest rate on the First Mortgage Bonds will be fixed and payable semi-annually in arrears, beginning on February 4, 2024. The interest rate for the First Mortgage Bonds is determined at the point of pricing from individual negotiations between individual investors, through a placement agent, and the Company, based on prevailing rates at the time for U.S. Treasury debt securities of comparable maturities and spreads over those rates reflecting the risk premium for corporate debt with the Company’s credit ratings. Pursuant to the Bond Purchase Agreement, the interest rate for the 5.18% Bonds will be 5.18% per annum, and the interest rate for the 5.23% Bonds will be 5.23% per annum.

**(d) Date of Issuance and Maturity**

Pursuant to the Bond Purchase Agreement, the Company expects to issue the First Mortgage Bonds on or about August 4, 2023, in an aggregate principal amount of not more than \$130,000,000 in one or more tranches. The First Mortgage Bonds will be issued on a private placement basis through privately negotiated transactions as reflected in the Bond Purchase Agreement and will be unregistered securities. The First Mortgage Bonds will have a maturity of no more than 31 years.

**(e) Method of Sale**

The First Mortgage Bonds will be issued and sold to the institutional investors named as purchasers in the Bond Purchase Agreement with the services of JPMorgan

Securities LLC, BMO Capital Markets Corp and Wells Fargo Securities, LLC, as placement agents.

**(f) Fees for Services**

At the time of closing the sale of the First Mortgage Bonds under the Bond Purchase Agreement, the Company will pay the placement agents an aggregate fee equal to approximately 0.30 percent of the aggregate principal amount of the First Mortgage Bonds sold to investors (the “Placement Fee”). The Placement Fee is a customary fee for such services in arm’s-length transactions.

**(g) Price and Proceeds**

This Statement establishes compliance with RCW 80.08.040 with respect to an aggregate principal amount of not more than \$130,000,000 of First Mortgage Bonds in one or more tranches.

The following illustrative example assumes total gross proceeds of \$130,000,000 and calculates the estimated expenses and the net proceeds to the Company from the sale of the First Mortgage Bonds:

**Estimated Fees and Expenses<sup>2</sup>**

<u>Item</u>	<u>Amount</u>
1. Principal amount or Par Value	\$130,000,000
2. Plus Premium or Less Discount	<u>None</u>
3. Gross proceeds estimated	130,000,000
4. Placement Fee	390,000
5. Securities and Exchange Commission registration fee	None
6. State mortgage registration tax	None
7. New York Stock Exchange fee	None
8. State Commission fee	None
9. Fees for recording indenture	13,000
10. United States document tax	None
11. Printing and engraving expenses	6,500

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<sup>2</sup> Many of the costs and terms cannot be determined until after completion of the sale by NW Natural to the purchasers of the First Mortgage Bonds.

12.	Trustee's or Registrar's fees	32,500
13.	Counsel's fees	390,000
14.	Accountants' fees	65,000
15.	Bond Rating Agency fees	None
16.	Miscellaneous expenses	13,000
17.	Allocation of other shelf registration expenses	<u>None</u>
18.	Total estimated commissions and expenses	<u>910,000</u>
19.	Net estimated amount to be realized	\$129,090,000

(h) **Corporate Authority**

The Company's management and Board of Directors have concluded that the Company will have an opportunity to achieve the most favorable terms and lowest cost of money with desired issuance maturity and redemption provisions and timing of issuance with respect to debt financing through the issuance of the First Mortgage Bonds as contemplated in the Bond Purchase Agreement.

The Board of Directors has delegated to the Finance Committee of the Board the authority to approve the issuance and sale of certain securities, including first mortgage bonds through public or private placement, and has authorized the officers of the Company to seek Oregon Public Utility Commission ("OPUC") and WUTC approval for such issuances. The Board of Directors also authorized the officers of the Company to conduct negotiations with respect to the issuance of the First Mortgage Bonds. A certified copy of the Board Resolutions is attached hereto as Exhibit E. The Finance Committee of the Board of Directors has approved the sale of the First Mortgage Bonds pursuant to the Bond Purchase Agreement. A certified copy of the Finance Committee Resolutions is attached hereto as Exhibit F. The OPUC has issued an order permitting the Company's sale of the First Mortgage Bonds.

(i) **Other Matters**

The First Mortgage Bonds to be issued as proposed herein will not be issued *pro rata* to existing holders of securities of the Company pursuant to any preemptive right or in connection with any liquidation or reorganization. None of the First Mortgage Bonds will have voting privileges.

(j) **Consistency with Company's Financing Plan**

The financing plan described in this Statement is consistent with NW Natural's objectives to maintain a long-term capital structure consisting of approximately 50 percent common stock equity and approximately 50 percent long-term debt, and to maintain investment-grade credit ratings. As of the date of this Statement, the Company's secured debt is rated "A2" by Moody's Investors Service ("Moody's") and "AA-" by S&P Global Ratings ("S&P"), the Company's unsecured debt is rated "Baa1" by Moody's and the Company has a corporate credit rating of A+ from S&P, with a stable credit outlook by Moody's and a stable credit outlook by S&P.

The following table sets forth the Company's capital structure at December 31, 2022, along with its *pro forma* capital structure assuming the issuance of the full \$130,000,000 of the First Mortgage Bonds.

	Capital Structure at December 31, 2022 (\$000)	Percent of Total	<i>Pro Forma</i> Financings (\$000)		<i>Pro Forma</i> Capital Structure with Financings (3) (\$000)	Percent of Total
Common Equity	\$ 1,191,082	47.9%			\$ 1,191,082	46.6%
Long-term Debt	1,035,935	41.7%	329,090	(1, 2)	1,365,025	53.4%
Long-term Debt < 1 year	89,942	3.6%	(89,942)		-	0.0%
Short-term Notes Payable	170,200	6.8%	(170,200)		-	0.0%
Total	\$ 2,487,159	100.0%	\$ 68,948		\$ 2,556,107	100.0%



(1) The proceeds from the debt issuance will be reduced by estimated debt issuance fees and costs of approximately \$910,000.

(2) In January 2023, NW Natural issued and sold \$100.0 million aggregate principal amount of its First Mortgage Bonds, 5.43% Series due January 2053. In March 2023, NW Natural issued and sold \$100.0 million aggregate principal amount of 5.75% Secured Medium-Term Notes, Series B due 2033.

(3) The *pro forma* capital structure set forth in the table above is not a projection of NW Natural's actual capital structure at December 31, 2022; it is for illustrative purposes only and is presented on a consolidated basis. The Universal Shelf Registration that the Company maintains for its Medium-Term Note Program allows for issuance of only debt securities by the Company. In October 2018, the Company reorganized into a holding company structure with no public equity. The Company's parent may make equity contributions to the Company from time to time.

**(3) A Statement as to why the transaction is in the public interest.**

The advantages of debt financing through the issuance of the Company's Debt Securities (collectively the "Long-Term Debt Program") are that it enables the Company to: (1) issue small tranches of debt in the medium-term note market at rates which may be below those required for larger underwritten issues, while retaining the flexibility to use other forms of offerings if otherwise advantageous; (2) enter the market on short notice to take advantage of favorable yield and credit spread opportunities; (3) manage its financing program in light of market changes; (4) balance the maturities of its debt securities; and (5) achieve a potentially lower average interest cost while managing interest rate risk. In short, the Long-Term Debt Program gives the Company optimum flexibility to take advantage of favorable markets and attractive debt terms.

The Long-Term Debt Program provides the Company with the ability to raise funds at specific maturities in the intermediate and long-term range. Decisions can be made with the benefit of an immediate evaluation of financing costs. The Debt Securities can be issued precisely when funds are required, mitigating the need for interim financing in the floating rate markets and the reinvestment risk associated with financing in anticipation of capital requirements when market conditions are less attractive.

The Company's ability to enter the market quickly, and to negotiate rates, enables it to press the market for the lowest rates possible. In view of the volatility of interest rates, the opportunity to take immediate advantage of fixed-rate market "windows" has proven beneficial to the Company. Such a program serves as an alternative to the risk of fixing the interest rate for a large offering in a less than optimal market and paying debt service for funds before they are needed.

The market for our First Mortgage Bonds and other long-term debt instruments is comprised of a broad mix of money center and regional institutions. These represent money market and corporate bond investors, including banks, bank trust departments, insurance companies, investment companies, municipalities, pension funds and others, including individual investors. The depth of the market is significant. For more than 25 years, utilities and other corporate issuers have found a strong acceptance for their debt securities in this market.

As a public utility, the Company is obligated to secure sufficient gas supplies and maintain sufficient distribution capacity to serve its customers reliably at the lowest reasonable cost. The Company believes that the First Mortgage Bonds described herein will further enable the Company to effectively manage the overall financing costs and risks associated with the Company's public utility obligations. Therefore, the Company believes that the First Mortgage Bonds are for a lawful object within the corporate purposes of the Company; are compatible with the public interest; are necessary or appropriate for and consistent with the proper performance by the Company of service as a public utility; will not impair the Company's ability to perform such service; and are reasonably appropriate for such purposes.

Accordingly, this filing satisfies the Company's obligations under RCW  
80.08.040.

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The undersigned hereby states, "I certify (or declare) under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct."

DATED at Portland, Oregon this 17<sup>th</sup> day of July, 2023.

NORTHWEST NATURAL GAS COMPANY

By:  \_\_\_\_\_

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## EXHIBITS

- Exhibit A Registration Statement on Form S-3 filed with the Securities and Exchange Commission on August 13, 2021.
- Exhibit B Prospectus Supplement related to the Medium-Term Notes filed with the Securities and Exchange Commission on August 13, 2021.
- Exhibit C Copy of the Mortgage and Deed of Trust, dated as of July 1, 1946, as heretofore amended and supplemented by 25 Supplemental Indentures, to Deutsche Bank Trust Company Americas (formerly Bankers Trust Company), Trustee, and the Form of Twenty-sixth Supplemental Indenture.
- Exhibit D Copy of Bond Purchase Agreement, dated as of December 13, 2022, between the Company and the institutional investors named as purchasers therein.
- Exhibit E A certified excerpt of resolutions adopted by the Board of Directors effective October 19, 2022 delegating to the Finance Committee the authority to approve the issuance of certain securities, including first mortgage bonds, and to approve the forms of the agreements establishing and selling such securities.
- Exhibit F A certified excerpt of resolutions adopted by the Finance Committee of the Board of Directors effective December 9, 2022 approving the sale of the First Mortgage Bonds, approving the Bond Purchase Agreement, and approving the Twenty-sixth Supplemental Indenture.
- Exhibit G A copy of the Company's Amended and Restated Articles of Incorporation.
- Exhibit H A copy of the Company's Amended and Restated Bylaws.