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March 30, 2005

Carole J. Washburn
Washington Utilities and Transportation Commission
1300 So. Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: Docket UG-_____: NW Natural's Application for an Order Authorizing the Issuance and Sale of up to \$50,000,000 of Medium-Term Notes, Series B, from NW Natural's Shelf Registration for an additional \$160,000,000 principal amount of Medium-Term Notes

Dear Ms. Washburn:

Transmitted herewith for filing with the Commission is an Application of Northwest Natural Gas Company requesting an Order of the Commission Establishing Compliance with RCW 80.08.040 and WAC 480-146-290 with respect to the Company's proposed issuance and sale of up to \$50,000,000 principal amount of its Medium-Term Notes, Series B.

The Application filed herein incorporates by reference the background information with respect to the Company's \$160,000,000 of Medium-Term Notes from the Shelf Registration described in its Statement in Docket UG-040405.

Also transmitted herewith is a draft recommended order of the Commission for use in connection with the processing of the Company's Application.

If you have any questions, or if you require additional information in support of this Application, please give me a call at 503-220-2345 or e-mail at steve.feltz@nwnatural.com.

Upon completion, please forward to Mr. C.J. Rue, Corporate Secretary, at this address, 10 certified copies of the Order of the Commission in this Docket.

Sincerely,

/s/ Stephen P. Feltz
Stephen P. Feltz
Treasurer and Controller

cc: w/Encl.: John T. Hood, Esq.
Margaret D. Kirkpatrick, Esq.
John M. Schweitzer, Esq.
David H. Anderson
C.J. Rue
Richelle T. Luther
C. Alex Miller
Ken Elgin – WUTC

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Request of)	DOCKET NO. UG-_____
)	
NORTHWEST NATURAL GAS COMPANY)	
)	
for an Order Establishing Compliance With)	APPLICATION
RCW 80.08.040 With Respect to the Proposed)	
Issuance and Sale of Not More Than an)	
Additional \$50,000,000 Principal Amount)	
of Medium-Term Notes, Series B)	

Northwest Natural Gas Company (“NW Natural” or the “Company”) previously filed with the Commission a Statement Establishing Preliminary Compliance with RCW 80.08.040 with Respect to the Issuance and Sale of up to \$160,000,000 of Medium-Term Notes, Series B (the “Statement”), in Docket UG-040405. This Statement describes the Company’s proposal to issue and sell from time-to-time not more than an additional \$160,000,000 aggregate principal amount of its Medium-Term Notes (“MTN”), consisting of Secured Notes, Series B (First Mortgage Bonds) (the “Secured Notes”), and Unsecured Notes, Series B (the “Unsecured Notes”), pursuant to a \$200,000,000 universal shelf registration (the “Shelf Registration”) filed with the Securities and Exchange Commission (the “SEC”). The Company by this reference incorporates the description of its proposal and the Shelf Registration, and the other information contained in the Statement, into this Application.

In its “Interpretive Statement Regarding Filing Requirements Prior to Issuance of Securities,” issued in Docket No. A-020334 on April 24, 2002 (the “Interpretative Statement”), the Commission clarified that a filing pursuant to RCW 80.08.040 and WAC 480-146-290 is not required when a public service company makes a

shelf registration filing with the SEC. Rather, the Commission said that companies were encouraged to time their filings so that reasonable specificity or detail would be available about the amount, type and terms of an issuance of securities, in order to ensure that regulated companies would provide the Commission with relevant and complete financing information on a timely basis.

Consistent with the Interpretive Statement, in February 2004 the Company filed an Application in Docket No. UG-040418 requesting that the Commission enter an order establishing compliance with RCW 80.08.040 and WAC 480-146-290 with respect to the Company's proposed issuance and sale of up to \$50,000,000 of common equity securities. On March 12, 2004, the Commission entered its Order Establishing Compliance with RCW 80.08.040 with respect to the issuance and sale of up to \$50,000,000 of the Company's common equity securities. In April 2004, the Company issued and sold 1,290,000 shares of its common stock at a price to the public of \$31.00 per share, with gross proceeds of \$39,990,000, pursuant to the Commission's Order in Docket No. UG-040418.

Also consistent with the Interpretive Statement, NW Natural now respectfully requests in this Application that the Commission enter an order establishing compliance with RCW 80.08.040 and WAC 480-146-290 with respect to the Company's proposed issuance and sale of up to \$50,000,000 of debt securities, as follows:

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1. Designate the type of security or securities the company expects to issue:

Secured Medium-Term Notes, Series B

2. Specify the purpose or purposes for which the company expects to use the proceeds of the issue.

The Company expects to use the proceeds of the issue or issues to refinance maturing long-term debt and to refund short-term debt which was incurred in connection with the acquisition of property or the construction, extension or improvement of the Company's facilities or the improvement or maintenance of service, as follows:

- the redemption of \$5,000,000 principal amount of the 6.34% Series of Secured Notes, which are due on July 25, 2005;
- the redemption of \$5,000,000 principal amount of the 6.38% Series of Secured Notes, which are due on July 27, 2005;
- the redemption of \$5,000,000 principal amount of the 6.45% Series of Secured Notes, which are due on July 29, 2005; and
- the remaining proceeds of up to \$35,000,000 to be used for refunding the Company's short-term debt, or for working capital requirements, incurred in connection with the acquisition of property or the construction, completion, extension or improvement of the Company's facilities or the improvement or maintenance of service.

Such purposes are permitted by RCW 80.08.030.

The Company's utility capital requirements in 2005 are estimated to total \$104 million, including \$30 million for customer growth, \$19 million for system improvement and support, \$15 million for equipment, facilities and information technology, \$11 million for pipeline integrity and geo-hazard, \$6 million for South Mist Pipeline related projects, \$1 million for utility storage projects and \$22 million for construction overhead.

3. Describe the proposed issuance or issuances including the estimated range of amounts and estimated terms.

Under NW Natural's financing plan for 2005, as approved by the Finance Committee of the Board of Directors, the Company expects to post with an agent or agents to sell up to \$50,000,000 of debt securities, consisting of Secured Notes, Series B, from the \$160,000,000 remaining on the Shelf Registration.

The proposed maturity or maturities of the Notes will be between 10 years and 30 years. The actual maturities for the new debt securities will be determined based on market conditions and the maturities of the Company's other outstanding debt. The Company will assess market conditions at each of the potential maturities and seek to determine where the yield curve and spreads over U.S. Treasury securities are relatively more attractive (lower), indicating more demand from investors.

The Company also will seek to select maturities for the new debt securities such that an unusually high amount of long-term debt will not mature in any given year.

Based upon recent advice from the Company's MTN agents (Merrill Lynch, UBS Warburg, JP Morgan and Piper Jaffray) in the context of current market conditions, we estimate that spreads over the respective U.S. Treasury securities for an A2/A+ rated secured debt should be less than 70 basis points for a no-call 10-year security or less than 80 basis points for a no-call 30-year security.

There will be no sinking fund requirements or put options for investors in connection with the sale of the debt securities covered under this Application, but the Company may consider call options (i.e. early redemption provisions) if the premium is less than 20 basis points. The actual interest rates, maturities and other redemption provisions (if any), and other terms and conditions will be established in accordance with procedures set forth in the Mortgage and the Twentieth Supplemental Indenture thereto, as described in the Statement. The offering price, agent's commission, and other terms of each issuance of debt securities will be determined at the time of sale. The agent's commissions (stated as a percentage of the aggregate principal amount of MTNs sold) will not exceed those set forth in the Company's Statement.

4. State why the issuance is in the public interest.

NW Natural believes that the facts set forth herein and in the Statement show that the proposed issuance and sale of the debt securities is for a lawful object within the corporate purposes of the Company and is compatible with the public interest; that said object is necessary or appropriate for or consistent with the proper performance by the Company of service as a

public utility; and that the issuance and sale of the debt securities is reasonably necessary or appropriate for such purpose.

The financing plan described in this Application is consistent with NW Natural's objectives to maintain a capital structure consisting of 45 to 50 percent common equity and 50 to 55 percent long-term and short-term debt, and to maintain investment-grade credit ratings. The Company's Secured Debt is currently rated "A2" by Moody's, "A+" by Standard & Poor's and "A" by Fitch, each with stable credit outlooks. Standard & Poor's upgraded NW Natural's debt in December 2004; Moody's and Fitch are expected to issue ratings or publish comments before the Company issues Secured Notes in the market in the second quarter of 2005.

The following table sets forth the Company's capital structure at December 31, 2004, along with its pro forma capital structure assuming the issuance of the full \$50,000,000 of the Secured Notes, the redemption of \$15,000,000 of long-term debt and the refunding of \$35,000,000 of short-term debt, as described above.

	Capital Structure at Dec. 31, 2004 (\$000)	Percent of Total	Pro Forma Financings (\$000)	Pro Forma Capital Structure with Financings ¹ (\$000)	Percent of Total
Common equity	\$568,517	48.6		\$568,517	48.6
Preferred stock	0	0		0	0.0
Long-term debt	484,027	41.4	\$50,000	534,027	45.6
Long-term debt due within one year	15,000	1.3	(15,000)	0	0.0
Short-term notes payable	102,500	8.7	(35,000)	67,500	5.8
Total ¹	<u>\$1,170,044</u>	<u>100.0</u>	<u>\$0</u>	<u>\$1,170,044</u>	<u>100.0</u>

¹ The pro forma capital structure set forth in the table above is not a projection of the Company's actual capital structure at December 31, 2005. Besides the financings described in this Application, the actual capital structure at that date is expected to reflect an increase in common equity and an increase in short-term notes payable.

As described in the Statement, the advantages of a Medium-Term Note Program are that it enables the Company to issue small tranches of debt at rates which often will be below those required for larger underwritten issues; to enter the market on a daily basis to take advantage of yield curve opportunities; to manage its financing program in light of market changes; to balance the maturities of its debt securities; and to average interest costs. Decisions can be made with the benefit of an immediate evaluation of financing costs. The Notes can be issued precisely when funds are required, eliminating both the need for interim financing in the floating rate markets and the reinvestment risk associated with financing in anticipation of capital requirements.

NW Natural submits that it is in the public interest for the Company to have the degree of flexibility in finalizing terms for the debt securities as is described in this Application. A full \$50,000,000 of new long-term debt would represent only about 10 percent of NW Natural's long-term debt outstanding as of December 31, 2004, before the redemption at maturity of the 6.34%, 6.38% and the 6.45% Series of MTNs, so the new issue or issues of MTNs will not have a significant impact on the Company's weighted average cost of debt. Similarly, the small amount of new debt will have a limited impact on the weighted maturity of NW Natural's long-term debt liabilities.

The Board of Directors has delegated to the Finance Committee of the Board the authority to determine the principal amount, interest rate, maturity, sinking fund, put or call option provisions and other terms and conditions of each issue of the debt securities to be sold, including whether they will be Secured or Unsecured, and the price and other terms of their sale. The Finance Committee in turn has delegated such authority to the officers of the Company. Neither the Board of Directors nor the Finance Committee of the Board approves the specific terms of a sale of debt securities immediately in advance of the sale, so there are no term sheets, offering circulars or meeting minutes available that state the specific terms of an offering.

Accordingly, pursuant to RCW 80.08.040(4), NW Natural respectfully requests a written order by the Commission establishing the Company's compliance with RCW 80.08.040 and WAC 480-146-290, so that it may undertake an issuance or issuances of securities within the parameters described in this Application without further order of the Commission.

The undersigned certifies, under penalties of perjury as provided in RCW 9A.72, that he has read the foregoing application and knows the contents thereof and that the same are true to the best of his own knowledge or belief.

DATED at Portland, Oregon this 30th day of March 2005.

NORTHWEST NATURAL GAS COMPANY

By /s/ Stephen P. Feltz

Stephen P. Feltz

Title: Treasurer and Controller

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DRAFT

In the Matter of the Application of)	DOCKET NO. UG-
NORTHWEST NATURAL GAS COMPANY)	
For an Order Establishing Compliance With)	ORDER ESTABLISHING
RCW 80.08.040, with Respect to its Proposal)	COMPLIANCE WITH
to Issue and Sell up to \$50,000,000 Principal)	RCW 80.08.040
Amount of Medium-Term Notes)	

BACKGROUND

1. On March __, 2005, Northwest Natural Gas Company (NW Natural or Company) filed an application of planned securities issuance (Application) with the Washington Utilities and Transportation Commission (Commission). In its Application, the Company requested an Order affirming that it has complied with the requirements of RCW 80.08.040 for the proposed issuance and sale of up to \$50,000,000 principal amount of its Medium-Term Notes, Series B. This is the first issuance of debt securities from the \$160,000,000 aggregate principal amount of Medium-Term Notes (MTN) filed with the Commission as an informational filing in Docket UG-040405, pursuant to a \$200,000,000 universal shelf registration (Shelf Registration) filed with the Securities and Exchange Commission. The Application is filed pursuant to Chapter 80.08 RCW and the requirements of WAC 480-146-290.
2. According to the Application and supporting materials filed by the Company, the proceeds of the financings are for one or more of the purposes allowed by RCW

80.08.030. The Company expects to use the proceeds of the issuance to refinance \$15,000,000 of maturing long-term debt and \$35,000,000 to pay down short-term debt incurred in connection with the acquisition of property or the construction, completion, extension or improvement of the Company's facilities or the improvement or maintenance of service.

FINDINGS AND CONCLUSIONS

3. (1) NW Natural is engaged in the business of natural gas service within the state of Washington. As a public service company, it is subject to the jurisdiction of the Commission under the provisions of Chapter 80.08 RCW.
4. (2) As to form, the application herein meets the requirements of Chapter 80.08 RCW and the rules and regulations of the Commission adopted pursuant thereto. *Chapter 480-146 WAC.*
5. (3) The Company's application in this Docket contains: (a) a certification by an authorized officer that the proceeds will be used for one or more purposes allowed by RCW 80.08.030; (b) a description of the proposed issuances, including the terms of financing, and (c) a statement as to why the proposed transaction is in the public interest.

ORDER

THE COMMISSION ORDERS

6. (1) NW Natural has complied with the requirements of RCW 80.08.040 with respect to the proposals set forth in its application and may issue and sell up to \$50,000,000 principal amount of its Medium-Term Notes, Series B.
7. (2) This authorization is conditioned on NW Natural filing a Report of Securities Issued as required by WAC 480-146-340. NW Natural is also required to file

verified copies of any agreement entered into in connection with any transaction pursuant to this Order. Finally, NW Natural shall file a verified statement setting forth in reasonable detail the disposition of the proceeds of each offering made pursuant to this Order.

8. (3) This Order shall in no way affect the authority of this Commission over rates, services, accounts, valuations, estimates, or determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs, or any valuation of property claimed or asserted.

9. This matter was brought before the Commission at its regularly scheduled open meeting on April __, 2005. The Commissioners, having determined this filing to meet the requirements of Chapter 80.08 RCW, directed the Secretary to enter this Order.

Dated at Olympia, Washington, and effective this __ day of April, 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary