

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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)  
In the Matter of the Request of )  
Northwest Natural Gas Company )  
for an Order Establishing )  
Compliance With RCW 80.08.040. )  
\_\_\_\_\_

APPLICATION

Docket \_\_\_\_\_

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STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

Northwest Natural Gas Company (the "Company") hereby requests the Washington Utilities and Transportation Commission (the "Commission") to enter a written order pursuant to RCW 80.08.040(4).

The following information is furnished in support of this Application:

- (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 to be used for one or more of the purposes allowed by Chapter 80.08 RCW:

The Company has amended its Restated Stock Option Plan (formerly known as the 1985 Stock Option Plan) (as so amended, the "Plan") to authorize the issuance of an additional 1,200,000 shares. The purpose for which the proceeds are to be used from the issuance and sale of an additional 1,200,000 shares of the Company's Common Stock pursuant to options granted and to be granted under the Plan is as follows: for the construction, completion, extension, or improvement of the Company's facilities and to defray, in part, the cost of constructing additional extensions, betterments and improvements to the Company's plant and property.

The Company is faced with the requirement to raise capital to meet in part its continuing construction activities. Capital requirements for construction activities over the next five years (2003-2007) are estimated at between \$500 million and \$600 million. The Company estimates that approximately 60 percent of the funds required for these purposes will be internally generated and that the balance will be raised through the sale of debt and equity securities in such amounts and at such times as may be determined by the Company's cash requirements and market conditions.

The undersigned officer certifies that the proceeds from such financing are to be used for one or more of the purposes allowed by RCW Chapter 80.08.

- (2) A description of the proposed issuance, including the terms of financing:

In 1985, the Board of Directors adopted and the shareholders approved the Plan. A total of 450,000 (as adjusted for the three-for-two stock split effective

September 6, 1996) shares of the Company's Common Stock initially were reserved for issuance under the Plan.

In 1995, the Board adopted, and the shareholders approved, amendments to the Plan that, among other things, increased the number of shares authorized to be issued under the Plan from 450,000 to 1,200,000 shares, also as adjusted for the three-for-two stock split.

In February 2002 the Board adopted, and in May 2002, the shareholders approved, amendments to the Plan that, among other things, increased the number of shares authorized to be issued under the Plan from 1,200,000 to 2,400,000 shares.

The purpose of the Plan is to enable the Company to attract and retain experienced and able employees and to provide additional incentive to these employees to exert their best efforts for the Company and its shareholders. Approval of this application will allow the Company to continue to grant Incentive Stock Options and Non-Statutory Stock Options to employees, including officers. The material terms of the Plan are described below.

Administration - The Board of Directors has delegated authority to administer the Plan to the Organization and Executive Compensation Committee of the Board of Directors (the "Committee") which consists of five independent directors. All determinations of the Committee are conclusive.

Eligibility- The Plan now allows options to be granted to all employees of the Company, or any parent or subsidiary of the Company, thereby allowing the Company to provide incentives to non-management as well as management employees to exert their best efforts for the Company and its shareholders.

Shares Available - Subject to the provisions of the Plan regarding adjustments for changes in capital structure, no more than 1,900,231 shares (including the 1,200,000 additional shares approved for issuance under the Plan by the shareholders in May 2002 and shares subject to outstanding options) of authorized but unissued or reacquired Common Stock may be issued pursuant to the Plan. Any shares of Common Stock subject to an option that are not issued before the expiration of the option will again be available for award under the Plan.

Incentive Stock Options- The Plan authorizes the Committee to grant Incentive Stock Options, as defined under Section 422 of the Code, subject to the following: (1) the option price per share may not be less than the fair market value of the Common Stock when the option is granted and, if the optionee owns stock possessing more than 10% of the combined voting power of the Company, the option price may not be less than 110% of the fair market value of the Common Stock when the option is granted; (2) the term of the option may not exceed ten years, or five years for 10% shareholders; and (3) the aggregate fair market value (determined on the date of grant) of shares for which Incentive Stock Options become exercisable for the first time by an optionee in any calendar year may not exceed \$100,000.

Non-Statutory Stock Options- The Committee may also grant Non-Statutory Stock Options. The option price may not be less than the fair market value of the Common Stock when the option is granted. The term of the option may not exceed ten years plus seven days.

Exercise of Options - Options may be exercised as prescribed by the Committee and stated in the option.

Amendment or Termination- The Board of Directors may alter, amend, suspend or terminate the Plan at any time but may not, without shareholder approval, adopt any alteration or amendment that would: (1) increase the total number of shares of Common Stock that may be purchased under the Plan, except for adjustments for changes in the capital structure of the Company; (2) change the minimum option price; (3) increase the maximum option period; or (4) materially modify the requirements for eligibility for participation in the Plan. Unless earlier terminated by the Board of Directors, the Plan will continue in effect until options have been granted and exercised with respect to all shares reserved for the Plan, except that no Incentive Stock Options may be granted under the Plan on or after February 28, 2012.

- (3) A statement as to why the transaction is in the public interest:

The Company believes that the facts set forth herein show that the proposed issuance and sale of Common Stock pursuant to the Plan 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 Common Stock is reasonably necessary or appropriate for such purpose.

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 28<sup>th</sup> day of February 2003.

NORTHWEST NATURAL GAS COMPANY



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By: Bruce R. DeBolt  
Title: Senior Vice President and  
Chief Financial Officer