

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Statement and Request For a Written Order of	)	DOCKET NO. UG-_____
	)	
	)	
	)	
NORTHWEST NATURAL GAS COMPANY	)	STATEMENT ESTABLISHING COMPLIANCE AND REQUEST FOR WRITTEN ORDER
Establishing Compliance With RCW 80.08.040 With Respect to the Proposed Issuance and Sale of Up to 1,700,000 shares of Common Stock	)	
	)	
	)	
	)	

Northwest Natural Gas Company (“NW Natural” or the “Company”) hereby files this Statement with the Washington Utilities and Transportation Commission (“WUTC” or “the Commission”) complying with RCW 80.08.040 for the proposed offering, issuance and sale, through one or more offerings, of up to 1,700,000 authorized but unissued shares of the Company’s Common Stock, no par value (“Common Stock”). This amount of shares is expected to generate gross proceeds (price to the public prior to underwriting discounts or commissions and other expenses) of up to approximately \$97 million in one or more negotiated public offerings involving one on more underwriters over the next twenty-four months.

Additionally, the Company requests a written order confirming that the Company has so complied. A form of proposed order is attached as Exhibit A. NW Natural now respectfully requests in this Statement that the WUTC enter an order establishing compliance with RCW 80.08.040 and WAC 480-90-242 with respect to the Company's proposed issuance and sale of up to 1,700,000 shares of its Common

Stock. Though actual number of shares issued to achieve desired proceeds may be less, the Company requests that the Commission issue its order establishing compliance with RCW 80.08.040 with respect to the sale of up to 1,700,000 shares to provide the Company with the flexibility to adapt to changes and opportunities in the market. 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 is for one or more of the purposes allowed by RCW 80.08.030.**

The Company will use the proceeds from the Common Stock for the acquisition of property, or the construction, completion, extension or improvement of its facilities, or the improvement or maintenance of its service, or the discharge or refunding of its obligations, or 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. 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 expenditure was 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 Common Stock, 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 rights and privileges of the Company's Common Stock is included in Section (2)(i) below and on pages 13 through 16 of the Company's

Form S-3 Registration Statement filed with the Securities and Exchange Commission on December 3, 2013 (the "SEC Shelf Registration"), a copy of which is filed as Exhibit B to this Statement. The SEC Shelf Registration will expire three years from the filing date. Prior to that time the Company will file a new shelf registration statement that is substantially similar to the SEC Shelf Registration. The SEC Shelf Registration, and any replacement upon its expiration, provides for, among other securities, common stock, as such securities are offered from time to time in amounts authorized from time to time.

**(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 up to 1,700,000 shares of Common Stock upon Board approval of such issuance. The authorization being sought hereunder would be separate and in addition to any authorization in effect to issue Common Stock in connection with the Company's dividend reinvestment and direct stock purchase plan and other employee benefit and compensation plans.

**(c) Interest or Dividend Rate**

The Common Stock will be entitled to receive such dividends as are declared by the Board of Directors on the Company's Common Stock from time to time.

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

The specific date(s) of issuance is/are not known at this time, but are expected to occur in one or more issuances within the next twenty-four months. Management will identify equity financing needs and assess market conditions, and the Board of Directors will approve the timing of the proposed sale(s) of Common Stock, the terms of issuance, including the number of shares of Common Stock to be sold, and price to be paid to the Company.

**(e) Voting Privileges**

The Common Stock to be issued pursuant to the authorization sought hereby will have the same voting privileges as the Company's other issued and outstanding Common Stock. These rights are described in Section (2)(i) below and on pages 13 through 16 of the Company's attached SEC Shelf Registration.

**(f) Other Terms**

The terms of the sale of the Common Stock, including the name(s) of any underwriters, dealers or agents, purchase price, underwriting discounts, agents' commissions and other items constituting underwriting compensation, initial public offering price, and discounts or concessions allowed or reallocated or paid to dealers will be determined by market conditions at or near the time of the sale. The Form of Underwriting Agreement for the sale of Common Stock will be filed as Exhibit C when available, and a conformed copy of the executed agreement will be filed with the Company's compliance filing.

**(e) Method of Sale**

The Common Stock will be issued and sold in one or more series in any of three ways: (1) through underwriters or dealers; (2) through agents; or (3) directly to a limited number of purchasers or to a single purchaser.

*Through Underwriters or Dealers.* If underwriters are used in the sale, the Common Stock will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at the initial public offering price or at varying prices determined at the time of the sale. The Common Stock may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more managing underwriters. Unless otherwise set forth in a prospectus supplement, the obligations of the underwriters to purchase the Common Stock offered by such prospectus supplement will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all of such Offered Securities, if any are purchased.

*Through Agents.* The Common Stock may be sold through agents designated by the Company from time to time. A prospectus supplement will set forth the name of any agent involved in the offer or sale of the Common Stock in respect of which such prospectus supplement is delivered as well as any commissions payable by the Company to such agent. Unless otherwise indicated in such prospectus supplement, any such agent will be acting on a reasonable best efforts basis for the period of its appointment.

*Directly to One or More Purchasers.* NW Natural may sell the Offered Securities directly to one or more purchasers. In this case, no underwriters or agents would be involved.

The Company may authorize agents, underwriters or dealers to solicit offers by certain specified institutions to purchase the Common Stock from NW Natural at the initial public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject to those conditions set forth in a prospectus supplement, and such prospectus supplement will set forth the commission payable for solicitation of such contracts.

***Pro Rata to Existing Holders***

The Common Stock will not be issued pro rata to existing holders of the Company's securities or pursuant to any preemptive right or in connection with any liquidation or reorganization.

***Competitive Bidding***

The Company has not requested or obtained exemption from competitive bidding requirements of any federal or other state regulatory body.

**(f) Fees for Services.** The fees for the sale of the Common Stock will be customary for such services in an arm's length transaction to an underwriter or agent, as applicable. For purposes of this application, the underwriters' discount and fees for the issuance and sale of 1,700,000 shares of Common Stock is estimated at \$6,200,000 though actual discount and fees are expected to be less and will not be known until the time of the transaction.

**(g) Price and Proceeds.** This Statement seeks approval for the Company to issue up to 1,700,000 shares of Common Stock, in one or more issuances over the next twenty-four months. The amount the Company actually issues is expected to be less than this amount and will depend on market conditions and

projected capital structure targets at the time. To illustrate the price and proceeds for this application, the following illustrative example assumes total gross proceeds of \$97 million and calculates the estimated expenses and the net proceeds to the Company from the sale of the Common Stock:

<u>Estimated Fees and Expenses</u>		
<u>Item</u>		<u>Amount</u>
1.	Price to Public/Gross Proceeds Estimated	\$97,000,000
2.	Underwriting/Agent discounts and commissions	6,200,000
3.	Securities and Exchange Commission registration fee	11,200
4.	State mortgage registration tax	None
5.	New York Stock Exchange fee	8,160
6.	State Commission fee	None
7.	Fees for recording indenture	None
8.	United States document tax	None
9.	Printing and engraving expenses	5,000
10.	Trustee's or Registrar's fees	None
11.	Counsel's fees	50,000
12.	Accountants' fees	30,000
13.	Bond Rating Agency fees	None
14.	Miscellaneous expenses	25,000
15.	Allocation of other shelf registration expenses	<u>100,000</u>
16.	Total estimated commissions and expenses	6,429,360
17.	Net estimated amount to be realized	\$90,570,640

### **(h) Corporate Authority**

The Board of Directors has authorized the issuance and sale of an amount of securities to be approved by the Finance Committee and has authorized the officers of the Company to seek OPUC and WUTC approval for such issuances. A copy of Certified Board Resolutions is attached hereto as Exhibit D. In addition, the Board of Directors has delegated to the Special Financing Committee of the Board the authority to determine the timing of the proposed sale of Common Stock, the terms of issuance including the number of shares to be sold, up to 1,700,000 shares, and the price to be paid to the Company, and the terms and conditions of any underwriting, purchase, sales, agency and other agreement with respect to the sale of the shares of Common



Stock. A copy of Certified Board Resolutions is attached hereto as Exhibit E. The Special Financing Committee has not yet determined the specific terms of the proposed sale of Common Stock at this time. The resolutions approving the specific terms of the proposed sale of Common Stock will be submitted as Exhibit F at such time as they are approved by the Special Financing Committee.

NW Natural has filed a Statement with the Public Utility Commission of Oregon (the "OPUC") to establish preliminary compliance with applicable Oregon statutes and rules with respect to the Company's proposed issuance and sale of Common Stock necessary to generate gross proceeds of up to \$97 million, which is currently estimated to be up to 1,700,000 shares of Common Stock. The OPUC has not yet issued an order that permits the Company to issue the Common Stock.

The SEC Shelf Registration included as Exhibit B to this Application was filed with the SEC in December 2013 pursuant to the Securities Act of 1933. The SEC Shelf Registration will be replaced with a new shelf registration statement on or before December 3, 2016, which will be substantially similar to the SEC Shelf Registration. The Company will file a Prospectus and Prospectus Supplement under the SEC Shelf Registration for the Common Stock that is publicly offered.

**(i) Consistency with Company 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 and Request, the Company's secured debt is rated "A1" by Moody's Rating and "A+" by Standard & Poor's (S&P), and the Company's unsecured debt is rated "A3" by Moody's, with a stable credit outlook by Moody's and a stable credit outlook by S&P.

The authorized and outstanding capital stock of the Company was as follows:

*Preferred Capital Stock:* authorized, 3,500,000 shares, without par value; none issued and outstanding, as of both December 31, 2015 and June 30, 2016.

The Preferred Stock is entitled in preference to the Common Stock to cumulative dividends at the applicable rate for each series, which shall be set by the Board of Directors, from time to time, in accordance with the Company's Restated Articles of Incorporation. The Preferred Stock is entitled in preference to the Common Stock, upon voluntary liquidation, to such amounts per share that are determined by the Board of Directors, from time to time, in accordance with the Company's Restated Articles of Incorporation.

None of the Preferred Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

*Common Capital Stock:* As of December 31, 2015, the number of shares of Common Stock authorized, 100,000,000 shares; issued and outstanding, 27,422,456 shares; reserved for future issuance to employees under the Company's Employee Stock Purchase Plan, 78,857 shares; reserved for future issuance to common shareholders under the Company's Dividend Reinvestment and Direct Stock Purchase Plan, 297,879 shares; reserved to accommodate the Restated Stock Option Plan (formerly the 1985 Stock Option Plan, terminated in 2012 for new stock option grants), 352,688 shares outstanding; and reserved for future grants under the Long-Term Incentive Plan ("LTIP"), 438,744 (250,000 for option grants, and 188,744 for any type of award under LTIP).

As of June 30, 2016 the number of shares of Common Stock authorized, 100,000,000 shares; issued and outstanding, 27,548,631 shares; reserved for future issuance to employees under the Company's Employee Stock Purchase Plan, 78,857 shares; reserved for future issuance to common shareholders under the Company's Dividend Reinvestment and Direct Stock Purchase Plan, 259,274 shares; reserved to accommodate the Restated Stock Option Plan (formerly the 1985 Stock Option Plan, terminated in 2012 for new stock option grants), 229,588 shares outstanding; and reserved for future grants under the Long-Term Incentive Plan ("LTIP"), 406,393 (250,000 for option grants, and 156,393 for any type of award under LTIP).

The Common Stock is entitled to dividends when and as declared by the Board of Directors subject to the preferences of the Preferred Stock outlined above.

Generally, only the Common Stock has voting rights, subject to the special voting rights of the Preferred Stock, if any. Holders of Common Stock are entitled to cumulative voting for the election of directors.

None of the Common Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

*Long-Term Debt.* As of December 31, 2015 and June 30, 2016, the classes and series of long term debt or notes of the Company were as listed in the following table (the principal amount includes sinking fund requirements, of which there are none):

Thousands	December 31, 2015 and June 30, 2016
<b>Medium-Term Notes</b>	
<b>First Mortgage Bonds:</b>	
5.15 % Series B due 2016	25,000
7.00 % Series B due 2017	40,000
6.60 % Series B due 2018	22,000
8.31 % Series B due 2019	10,000
7.63 % Series B due 2019	20,000
5.37 % Series B due 2020	75,000
9.05 % Series A due 2021	10,000
3.176 % Series B due 2021	50,000
3.542% Series B due 2023	50,000
5.62 % Series B due 2023	40,000
7.72 % Series B due 2025	20,000
6.52 % Series B due 2025	10,000
7.05 % Series B due 2026	20,000
7.00 % Series B due 2027	20,000
6.65 % Series B due 2027	19,700
6.65 % Series B due 2028	10,000
7.74 % Series B due 2030	20,000
7.85 % Series B due 2030	10,000
5.82 % Series B due 2032	30,000
5.66 % Series B due 2033	40,000
5.25 % Series B due 2035	10,000
4.00 % Series B due 2042	50,000
Total long-term debt	<b>601,700</b>

### ***Rational for Selected Securities and Proposed Manner of Sale***

The Company seeks to maintain a strong consolidated capital structure, generally consisting of 45% to 50% common stock equity and 50% to 55% long-term and short-term debt, with a target utility capital structure of 50% Common Stock and 50% long-term debt. This capital structure is critical to the financial health of the Company, as it enables the Company to preserve its ability to access capital markets when necessary to maintain liquidity and raise future debt capital at favorable rates. Given the Company's anticipated total capital spend over the next twenty-four months, including in connection with the North Mist gas storage expansion project, the Company anticipates issuing additional long-term debt, and to maintain its targets capital structure, issuing the Common Stock that is the subject of this Application.

Management has determined that issuance of Common Stock allows the Company to take advantage of the currently favorable equity market for utility stocks.

Management reviewed the possibility of issuing preferred stock, but determined that a preferred stock issuance would be more expensive than long-term debt. Additionally, as classified by ASC 480 and as treated by credit rating agencies, preferred stock would not achieve the benefits that an issuance of Common Stock would for the purposes of maintaining a strong capital structure and supporting the Company's long-term credit ratings.

The approximate effect on the Company's capital structure of the proposed issuance of Common Stock (utilizing the amounts set forth in the table shown Section (2)(6) above) and the Company's intended issuance of long-term debt, which was previously approved by the Commission, as shown in the table below, would increase the consolidated common equity ratio from 47 percent at December 31, 2015 to 50 percent on a pro forma basis if the full common stock issuances were completed at the same time. As a practical matter, the Company will likely issue long-term debt as appropriate to achieve the Company's targeted debt to equity ratios.

	Balance at 12/31/15 (\$000)	Actual Ratios (%)	Pro forma Changes in Amounts (\$000)	Pro forma Amounts (\$000)	Pro forma Ratios (%)
Long-Term Debt	\$601,700	36	\$0	\$601,700	35
Short-Term Debt	270,035	16	0	\$270,035	15
Preferred & Preference Stock	0	0.0	0	0	0
Common Stock	782,369	47	97,000	\$873,069	50
Total	\$1,654,104	100	97,000	\$1,744,804	100

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

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. To accomplish this objective, the Company seeks to maintain a strong consolidated capital structure, generally consisting of 45% to 50% common stock equity and 50% to 55% long-term and short-term debt, with a target utility capital structure of 50% Common Stock and 50% long-term debt. This capital structure is critical to the financial health of the Company, as it enables the Company to preserve its ability to access capital markets when necessary to raise future debt capital at favorable rates. We anticipate that an issuance pursuant to this application will allow the Company to take advantage of a generally favorable market for utility stocks.

Issuance of the Common Stock described herein will aid the Company in maintaining its targeted capital structure and minimize the overall financing costs and risks associated with the Company's public utility obligations. Therefore, the Company believes that the issuance of Common Stock is for a lawful object within the corporate purposes of the Company; is compatible with the public interest; that said object is 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 is reasonably appropriate for such purposes.

Accordingly, this filing satisfies the Company's obligations under RCW 80.08.040. In addition, and pursuant to RCW 80.08.040(4), the Company respectfully requests a written order establishing the Company's compliance with RCW 80.08.040 and WAC 480-90-242.

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 25th day of October, 2016.

NORTHWEST NATURAL GAS COMPANY

By



Brody J. Wilson  
Chief Financial Officer, Treasurer,  
Controller and Chief Accounting Officer

## EXHIBITS

- Exhibit A Proposed Form of Order
- Exhibit B Registration Statement on Form S-3 filed with the Securities and Exchange Commission on December 3, 2013
- Exhibit C Form of Underwriting Agreement for the sale of Common Stock will be filed when available, and a conformed copy of the executed agreement will be filed with the Company's compliance filing
- Exhibit D A certified excerpt of minutes of the Board of Directors meeting delegating authority to the Finance Committee **(CONFIDENTIAL)**
- Exhibit E A certified excerpt of minutes of the Board of Directors meeting delegating authority to the Special Financing Committee **(CONFIDENTIAL)**
- Exhibit F Special Financing Committee resolutions approving the issuance of Common Stock will be submitted at such time as they are approved by the Special Financing Committee
- Exhibit G A copy of the Company's Restated Article of Incorporation, as amended.
- Exhibit H A copy of the Company's Bylaws, as amended.