

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Application of	)	DOCKET NO. UG-_____
	)	
NORTHWEST NATURAL GAS COMPANY	)	
	)	
for an Order Establishing Compliance With RCW	)	APPLICATION
80.08.040 With Respect to the Proposed	)	
Issuance and Sale of Up To 1,500,000 Shares of	)	
its Common Stock	)	

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Northwest Natural Gas Company (“NW Natural” or “the Company”) hereby applies to the Washington Utilities and Transportation Commission (the “Commission”) for an order establishing compliance with RCW 80.08.040 with respect to NW Natural’s proposed offering, issuance and sale, through a negotiated public offering involving one or more underwriters, of up to 1,500,000 authorized but unissued shares of the Company’s Common Stock, \$3-1/6 par value, and the Rights appurtenant thereto (the “Common Stock”). The Company currently plans to offer, issue and sell the number of shares required to generate gross proceeds of approximately \$40 million, but requests that the Commission issue its order establishing compliance with RCW 80.08.040 with respect to the sale of up to 1,500,000 shares to provide the Company with the flexibility to adapt to changes and opportunities in the market.

**Supporting Information**

The following information is furnished in support of this Statement, pursuant to RCW 80.08.040 and WAC 480-146-290:

**(1) A description of the purposes for which the issuance is 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 proceeds to be received by the Company from the sale of the Common Stock will be added to the general funds of the Company and used for corporate purposes, including:

- the acquisition of property or the construction, completion, extension or improvement of the Company's facilities or the improvement or maintenance of service; or
- for the issuance of stock dividends or the discharge or refunding of the Company's obligations including the repayment of short-term debt incurred to provide interim financing for the acquisition of property or the construction, completion, extension or improvement of the Company's facilities or the improvement or maintenance of service; or
- for 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.

NW Natural's expenditures for utility construction and equipment totaled about \$127 million in 2003. The Company's sources of funds for its capital program in 2003, in addition to internally generated cash, included a net increase of \$45 million in long-term debt (reflecting \$90 million of new debt issued and \$55 million of existing debt redeemed or retired); \$8.3 million of common stock issued through dividend reinvestments

and other equity plans; and an increase of \$15.4 million in short-term debt (commercial paper) outstanding. Short-term debt applicable to the Company's utility business totaled \$85.2 million at Dec. 31, 2003.

NW Natural expects its equivalent capital expenditures to aggregate about \$165 million in 2004, including \$31 million for costs relating to customer growth; \$38 million for system improvement; \$71 million for completion of a project that expands the Company's ability to meet system daily and seasonal peak usage requirements from its underground gas storage system by extending the pipeline from NW Natural's Mist gas storage field to the Portland metropolitan area; \$8 million for the construction of a gas distribution system in Coos County, Oregon; and \$17 million for construction overhead. The Company plans to fund its capital program in 2004 with \$40 million of new Common Stock from a public offering, about \$8 million of Common Stock from dividend reinvestments and other equity plans and \$30 million of new long-term debt, as well as internally generated cash and changes in short-term debt as required.

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

The Company requests that the Commission issue its order establishing compliance with RCW 80.08.040 with respect to the Company's issuance and sale of up to 1,500,000 shares of its Common Stock through a negotiated public offering involving one or more underwriters. Although NW Natural currently plans to offer, issue and sell the number of shares required to generate proceeds of approximately \$40 million, the Company requests that the Commission issue its order establishing compliance with RCW 80.08.040 with respect to the sale of up to 1,500,000 shares in order to provide the Company with the flexibility to adapt to changes and opportunities in the securities market.

A description of the rights and privileges of the Company's Common Stock is included on pages 15 through 17 of the Company's Form S-3 Registration Statement filed with the Securities and Exchange Commission on Feb. 6, 2004 (the "SEC Shelf Registration"), a copy of which is filed as an **Exhibit** to this Application. The SEC Shelf Registration provides for the registration of \$200 million of securities, which may include first mortgage bonds (including secured Medium-Term Notes ("MTNs")), unsecured debt, preferred stock and Common Stock. The \$200 million total amount in the SEC Shelf Registration includes \$60 million of long-term debt securities that were remaining from the Company's previous shelf registration effective in January 2003. The previous shelf registration has been withdrawn from the SEC. The Company is concurrently filing a Statement with the Commission to establish preliminary compliance with RCW 80.08.040 with respect to NW Natural's proposed issuance and sale from time-to-time of not more than an additional \$160 million aggregate principal amount of its MTNs through its long-standing MTN Program.

NW Natural's management and Board of Directors have concluded that it would be appropriate, in view of the Company's high forecasted capital requirements for utility construction, to issue and sell both common equity and long-term debt capital in 2004 in order to maintain a capital structure comprised of about 50 percent common equity and 50 percent debt (long-term and short-term). The Company seeks to obtain about \$40 million of common equity capital in the first half of 2004 through the issuance and sale of the number of shares required to meet that objective from the total of 1,500,000 shares for which an order is requested herein. The Company also plans to issue and sell about \$30 million of long-term debt through its MTN Program in the second half of 2004. NW Natural

expects to raise the balance of its capital requirements in 2004 from internally generated cash or through increases in short-term debt.

Maintenance of a capital structure incorporating this additional amount of common equity is critical to maintaining the Company's credit ratings for secured long-term debt at their current, consistent levels of "A2" from Moody's Investors Service, "A" from Standard & Poor's and "A" from Fitch Ratings. Maintaining its common equity ratio at a healthy level will enable the Company to preserve its ability to raise future debt capital at favorable rates. The proposed sale of Common Stock also will allow NW Natural to take advantage of the currently favorable market for its Common Stock.

In November 2003, NW Natural exercised the early redemption provision applicable to all of the remaining shares of its \$7.125 Series of Redeemable Preferred Stock with an aggregate stated value of \$7.5 million. This series of preferred stock had been re-classified as a liability rather than as equity effective Sept. 30, 2003, under Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 would require the same accounting treatment for future potential issuances of preferred or preference stock with redemption provisions. The Company redeemed the preferred stock with the proceeds from sales of commercial paper, then re-financed this amount of capital from its sale of \$10 million of new long-term debt with a comparable maturity of seven years and a coupon interest rate of 4.11%, with the effect of reducing the Company's embedded cost of capital. Although NW Natural's SEC Shelf Registration would allow the issuance and sale of new preferred stock, as well as Common Stock and long-term debt (MTNs), the Company currently has no plans to issue preferred stock because this form of capital would be more expensive than long-term debt and, as classified by SFAS No. 150

and as treated by the credit rating agencies, would not be equivalent to an issuance of Common Stock for the purpose of supporting the Company's credit ratings.

The specific terms of the proposed sale of Common Stock are not known at this time. The Board of Directors has delegated its authority to the Board's Finance Committee to determine the timing of the proposed sale of the Common Stock, the terms of issuance including the number of shares to be sold and the price to be paid to the Company, and the terms and conditions of any underwriting or other agreements. The Common Stock will be issued and sold through a negotiated public offering. An underwriting commission, which will not exceed the customary fee for such services in arm's length transactions, will be paid to the underwriter or underwriters. For purposes of this Application, the underwriters' fee for the issuance and sale of \$40 million of Common Stock is estimated at \$1.5 million.

The approximate effect on the Company's capital structure<sup>1</sup> of the proposed issuance of Common Stock, the planned issuance of additional long-term debt and the repayment of short-term debt, as shown in the table below, would be to increase the common equity ratio from 46.4 percent at Dec. 31, 2003 to 50.0 percent on a pro forma basis if all of the transactions were conducted at the same time. The sale of the Common Stock in the first half of 2004 will enable NW Natural to enter the second half of the year, when most of its capital costs will be incurred and when it plans to sell the \$30 million of MTNs, with a strong balance sheet and a good liquidity position.

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<sup>1</sup> Excluding the effects of commissions and other expenses of issue.

	Balance at 12/31/03 (\$000)	Actual Ratios (%)	Pro forma Changes in Amounts (\$000)	Pro forma Amounts (\$000)	Pro forma Ratios (%)
Long-Term Debt	\$500,319	45.8	\$30,000	\$530,319	48.6
Short-Term Debt	85,200	7.8	(70,000)	15,200	1.4
Preferred & Preference Stock	0	0.0	0	0	0.0
Common Stock	<u>506,316</u>	<u>46.4</u>	<u>40,000</u>	<u>546,316</u>	<u>50.0</u>
Total	\$1,091,835	100.0	0	\$1,091,835	100.0

NW Natural understands that an order establishing its compliance with RCW 80.08.040 in this docket will in no way affect the authority of the Commission over rates, services, accounts, valuations, estimates, or determination of costs, or any matters whatsoever that may come before it, nor shall anything in this application or in the Commission's order be construed as acquiescence in any estimate or determination of costs, or any valuation of property claimed or asserted.

The total estimated gross proceeds, the estimated expenses and the net proceeds to the Company from the sale of the Common Stock are as follows:

Estimated Fees and Expenses

<u>Item</u>	<u>Amount</u>
1. Par Value plus Premium	\$40,000,000
2. Less Discount	<u>None</u>
3. Gross proceeds estimated	40,000,000
4. Underwriters' Commissions	1,500,000
5. Securities and Exchange Commission registration fee	3,950
6. State mortgage registration tax	None
7. New York Stock Exchange fee	170,000
8. State Commission fee	200
9. Fees for recording indenture	None
10. United States document tax	None

11.	Printing and engraving expenses	20,000
12.	Trustee's or Registrar's fees	None
13.	Counsel's fees	100,000
14.	Accountants' fees	10,000
15.	Bond Rating Agency fees	None
16.	Miscellaneous expenses	<u>1,800</u>
17.	Total estimated commissions and expenses	<u>1,805,950</u>
18.	Net estimated amount to be realized	\$38,194,050

**(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 the Common Stock 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.

**Certification**

The undersigned certifies, under penalties of perjury as provided in RCW 9A.72.085, that he has read the foregoing Application and knows the contents thereof and that the same are true and correct to the signer's information and belief.

DATED at Portland, Oregon this \_\_\_th day of February 2004.

NORTHWEST NATURAL GAS COMPANY

By \_\_\_\_\_

Bruce R. DeBolt

Title: Senior Vice President, Finance,  
and Chief Financial Officer



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## **Exhibit**

Form S-3 Registration Statement Dated Feb. 6, 2004 for the Sale of \$200,000,000 of  
Debt Securities, Preferred Stock and Common Stock