

U6-061700(SF)

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November 6, 2006

Ms. Carole J. Washburn, Secretary  
Washington Utilities and  
Transportation Commission  
1300 South Evergreen Park Drive S.W.  
Olympia, WA 98504-7250

Attention: Supervisor of Utility Finance

Ladies and Gentlemen:

Re: Docket UG-\_\_\_\_\_ (Issuance and Sale of Up to 200,000 Shares of Common Stock)

Transmitted herewith for filing with the Commission are an original and one conformed copy of the Application of Northwest Natural Gas Company for an Order of the Commission Establishing Compliance with RCW 80.08.040 with respect to the Company's proposed offering, issuance and sale of up to an additional 200,000 shares of its Common Stock through the Company's Employee Stock Purchase Plan.

Also submitted herewith are a hard copy and diskette containing a draft recommended order of the Commission for use in connection with the processing of the Company's Application.

Please forward to me ten certified copies of the Order of the Commission in this docket.

Please call if you have any questions regarding this matter.

Very truly yours,

  
C. J. Rue

CJR:lmw  
Encl.

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Request of	)	
	)	
NORTHWEST NATURAL GAS COMPANY	)	APPLICATION
	)	
for an Order Establishing Compliance With	)	DOCKET UG-_____
RCW 80.08.040 With Respect to the Proposed	)	
Issuance and Sale of Up to an Additional	)	
200,000 Shares of its Common Stock Pursuant	)	
to the Employee Stock Purchase Plan	)	

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Northwest Natural Gas Company (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 the proposed offering, issuance and sale, through its Employee Stock Purchase Plan, as amended, of up to an additional 200,000 authorized but unissued shares of the Company's Common Stock, no par value (the "Common Stock").

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 for one or more of the purposes allowed by Chapter 80.08 RCW:

(a)	The construction, completion, extension or improvement of facilities: to defray, in part, the cost of constructing additions, extensions, betterments, and improvements to plant and property	\$6,8000,000
(b)	The discharge or lawful refunding of obligations	0
(c)	The reimbursement of moneys actually expended from income or from any other moneys in the treasury	<u>0</u>
	TOTAL	<u>\$6,800,000</u>

The proceeds to be received by the Company from the sale of the Common Stock will be used to provide financing for the construction, completion, extension or improvement of the Company's facilities. Utility construction and equipment expenditures in 2006 are expected to aggregate about \$104 million and the Company expects such expenditures in the five-year period 2006-2010 to aggregate between \$500 and \$600 million.

(2) A description of the proposed issuance, including the terms of 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 an additional 200,000 shares of its Common Stock through the Company's Employee Stock Purchase Plan, as amended (the "Plan").

The Plan, which originally was adopted by the Board of Directors and approved by the shareholders in 1967, was amended in 1968, 1976, 1980, 1996, 2000, 2003 and 2006. A total of 1,000,000 shares of the Company's Common Stock (including the 200,000 shares which are the subject of this Application) have been reserved for issuance under the Plan. At September 30, 2006, 275,803 shares were available for future issuance under the Plan.

On February 23, 2006, the Board adopted, subject to shareholder approval, amendments to the Plan that would: (1) increase the number of shares authorized to be issued under the Plan from 800,000 to 1,000,000 shares; and (2) facilitate the administration of the Plan by providing (a) that employees who work less than 20 hours per week, as opposed to 20 hours or less, are excluded from participating and (b) that the purchase price for shares be rounded up to a full penny rather than to the nearest one-tenth of a dollar. These amendments were approved by the shareholders at the Annual Meeting of Shareholders held on May 25, 2006.

The purposes of the Plan are to encourage employees to become shareholders in the Company, to stimulate increased interest on their part in the affairs of the Company, to afford them the opportunity to share in the earnings and growth of the Company and to promote systematic savings by them.

The material terms of the Plan are described below.

The Plan provides for future offerings of the Company's Common Stock to eligible employees at such times and in such amounts, up to the total shares authorized for the Plan, as may be determined by the Board. The Board intends to continue its current practice of making annual offerings under the Plan. The price of each future offering will equal 85 percent of the fair market value of the Common Stock on the initial date of that offering.

All regular full-time employees (including officers and directors who are full-time employees) are eligible to participate in the Plan. However, no employee may participate if he or she owns, or through any subscription will acquire, sufficient Common Stock to give him or her 5 percent or more of the total combined voting power or value of all classes of stock of the Company. At the date hereof, approximately

1,245 employees were eligible to participate in the Plan.

An eligible employee may participate by subscribing for shares within a prescribed period, normally 30 days, after the commencement of each offering. Subject to the dollar limits prescribed by Internal Revenue Code Section 423, each participant may subscribe for a maximum of 900 shares per year. If any offering is oversubscribed, the shares offered will be allocated among the participants.

Payment for shares subscribed will be made through payroll deductions within a period of not less than six months from the offering date. The maximum period under the Plan for payment for shares is 27 months, although the Board historically has limited the maximum period to 12 months consistent with its practice of making annual offerings. At any time prior to the twentieth day before the end of the offering period, a participant may cancel his subscription and accumulated cash contributions in the employee's account will be returned to the employee without interest.

Common shares will be purchased automatically with the employee's contributed payroll and bonus deductions on the last day of the offering period and a transaction statement confirming the issuance in uncertificated form of the shares purchased by the participant shall be delivered to the participant. There are no restrictions upon the disposition of shares purchased through the Plan.

None of the participants' rights under the Plan are assignable or transferable. The right to participate in, and any subscription under the Plan, terminates upon the termination of employment.

The Board of Directors, without shareholder approval, may amend, modify, suspend or terminate the Plan at any time without notice, but it may not, without the affected employee's written consent, adversely affect any existing subscription or

offering, and it may not amend the Plan, without shareholder approval, to change the number of shares authorized to be offered (otherwise than to reflect a change in capitalization, such as a stock dividend or stock split), decrease the offering price below 85 percent of fair market value or change the eligibility requirements.

Because the Common Stock will be issued and sold through the Employee Stock Purchase Plan, no person (other than attorneys, accountants and similar technical services) will receive or be entitled to receive a fee for services in connection with the issuance and sale of the additional 200,000 shares of the Common Stock.

The total gross proceeds, the expenses and the net proceeds to the Company from the sale of the additional 200,000 shares of Common Stock are estimated as follows:

Estimated Fees and Expenses

<u>Item</u>	<u>Amount</u>
1. Gross proceeds estimated	\$ 6,800,000 <sup>1</sup>
2. Underwriter's Commissions	None
3. Securities & Exchange Commission registration fee	750
4. State mortgage registration tax	None
5. New York Stock Exchange fee	1,000
6. State Commission fee	None
7. Fees for recording indenture	None
8. Printing and engraving expenses	900
9. Trustee's or Registrar's fees	None
10. Counsel's fees	3,000
11. Accountants' fees	1,500
12. Bond Rating Agency fee	None
13. Miscellaneous Expenses	<u>2,000</u>
14. Total estimated expenses	<u>9,150</u> <sup>2</sup>
17. Net estimated amount to be realized	<u>\$ 6,790,850</u>

<sup>1</sup> Based on 85 percent of the market value of \$40.00 per share.

<sup>2</sup> Estimated expenses expected to be incurred over a five-year period.

(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 will not impair its ability to perform such service; and that the issuance and sale of the Common Stock is reasonably necessary or appropriate for such purpose in that it is essential that the Company obtain funds to finance its continuing construction program.

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 6<sup>th</sup> day of November 2006.

NORTHWEST NATURAL GAS COMPANY

By:   
Title: Secretary and Assistant Treasurer