

Agenda Date: January 9, 2002  
Item No.: 2B

**Docket:** UG-011607  
Company Name: Northwest Natural Gas Company (NW Natural)

Staff: Graciela Etchart, Regulatory Analyst  
Joanna Huang, Regulatory Analyst

**Recommendation:**

Set the filing by Northwest Natural Gas Company in Docket No. UG-011607 for hearing.

**Background:**

On December 4, 2001, Northwest Natural Gas Company (NW Natural or the Company) filed an application for an Order approving a corporate reorganization to create Northwest Natural Holdco, a holding company, to acquire Portland General Electric Company (PGE).

**Discussion:**

On October 5, 2001, NW Natural, Northwest Energy (a temporary name for Northwest Natural Holdco), Enron Corp., and Enron Northwest Assets, LLC entered into a Stock Purchase Agreement. This agreement outlines a reorganization in which NW Natural will become a wholly owned subsidiary of NW Natural Holdco, and shares of NW Natural common stock will be converted into shares of NW Natural Holdco common stock. As part of the overall transaction, NW Natural Holdco will purchase all of the common stock of PGE, currently a wholly owned subsidiary of Enron Corp., from Enron. Following completion of the transaction, NW Natural and PGE will function as separate operating utility subsidiaries of NW Natural Holdco.

Enron Corp. recently filed for protection under Chapter 11 of the bankruptcy laws. As a result of an order issued by the bankruptcy court, a step in this transaction will be eliminated. Rather than Enron Northwest Assets, LLC exercising its option to acquire PGE from Enron, followed by a sale of PGE from Enron Northwest Assets, LLC to NW Natural Holdco – as contemplated in the application – NW Natural Holdco will be purchasing PGE directly from Enron Corp.

NW Natural Gas Company serves approximately 43,000 customers in Vancouver and surrounding areas of southwest Washington. The Company serves approximately 428,000 Oregon customers. PGE provides electric service to approximately 637,000 Oregon customers. It does not have Washington customers.

Staff is concerned about the significant debt that Holdco, the holding company, will incur in this acquisition. It is the Oregon Public Utility Commission's requirement that PGE maintain a

minimum common equity ration of 48% to incorporate into PGE's existing ratings. Northwest Natural is not currently protected by any such requirements, although it is subject to regulatory approval prior to significant transaction and financing. The benefits of this acquisition for Washington customers have not been clearly defined or assured. Staff believes that this acquisition should ensure Northwest Natural Washington customers that their rates should be based on the capital structure necessary to serve them.

Citing the unusual circumstances created by the Enron bankruptcy and the benefits of taking advantage of currently low interest rates to secure financing, Northwest Natural has requested expeditious consideration to issue a decision approving the application by May 15, 2002. However, Staff needs to conduct analyses and reviews to provide information sufficient to ensure that the rights and interests of the public will not be adversely affected. Those analyses and reviews require time.

**Considerations and Recommendations:**

Staff recommends that the Commission set the filing by Northwest Natural Gas Company in Docket No. UG-011607 for hearing.