BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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| In the Matter of the Request of<br><br>NORTHWEST NATURAL GAS COMPANY<br><br>for an Order Establishing Compliance With RCW 80.08.040 With Respect to the Proposed Issuance and Sale of Not More Than an Additional $60,000,000 Principal Amount of Medium-Term Notes, Series B | )<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>) | DOCKET NO. UG-031627<br><br>AMENDED SECOND SUPPLEMENTAL APPLICATION |

Northwest Natural Gas Company ("NW Natural" or "the Company"), applicant in this proceeding, submits the following amended application including additional information in support of its request for an order establishing compliance with RCW 80.08.040 and WAC 480-146-290 with respect to the Company's proposed issuance and sale of debt securities. This amendment and the additional materials are in response to a request for information from the WUTC Staff, and are intended to be consistent with the Commission's "Interpretive Statement Regarding Filing Requirements Prior to Issuance of Securities," issued in Docket No. A-020334 on April 24, 2002, and cited in the introduction to the Company's application.

First, NW Natural hereby amends the application to change the amount of securities for which an order is requested from "not more than an additional $60,000,000" to "not more than an additional $50,000,000." This amendment conforms with the Company's financing plan, which has been further refined since the Second Supplemental Application was filed.

Second, NW Natural respectfully submits additional information in support of the application. The topics in the following numbered paragraphs correspond with the topics in the equivalent paragraphs in the application. Relevant information from the application in these topical areas has been repeated in this document so the presentation is complete in one place.

1. **Designate the type of security or securities the company expects to issue.**

   Secured Notes

2. **Specify the purpose or purposes for which the company expects to use the proceeds of the issue.**

   The Company expects to use the proceeds of the issue or issues to refinance long-term debt and preferred stock securities that have been or will be repaid or redeemed. The repayments and redemptions include:

   - the $4,000,000 principal amount of the 7.50% Series of Secured Notes due June 30, 2023, which was redeemed at 103.75% of its principal amount on July 1, 2003 pursuant to the voluntary redemption provisions applicable to the series;
   - the $11,000,000 principal amount of the 7.52% Series of Secured Notes due June 30, 2023, which was redeemed at 103.76% of its principal amount on July 1, 2003 pursuant to the voluntary redemption provisions applicable to the series;
   - the $20,000,000 principal amount of the 7.25% Series of Secured Notes due August 18, 2023, which was redeemed at 103.65% of its

principal amount on August 18, 2003 pursuant to the voluntary redemption provisions applicable to the series; and

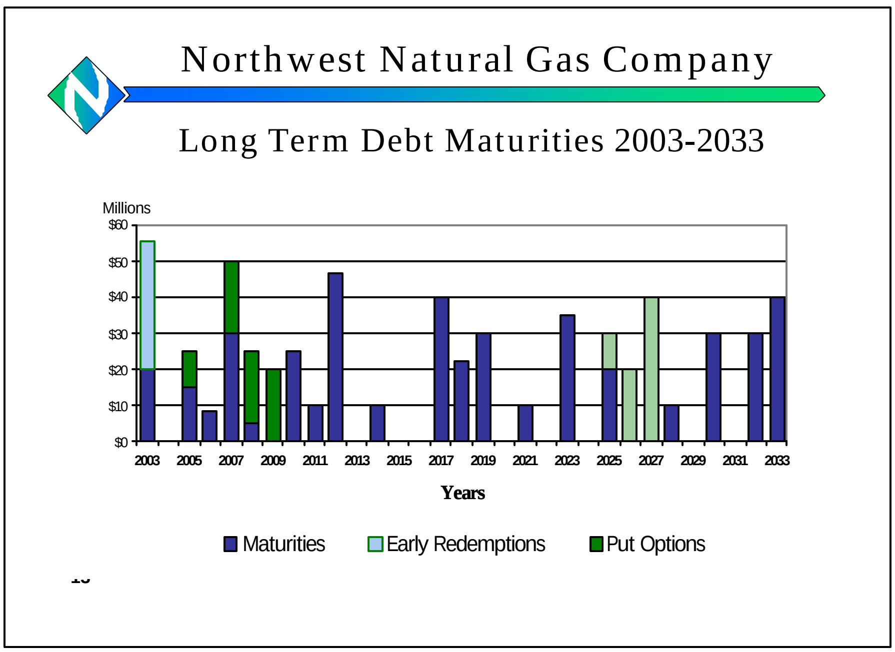
- the remaining $7,500,000 principal amount (75,000 outstanding shares) of the $7.125 Series of Redeemable Preferred Stock, which will be redeemed at 102.375% of its stated value of $100 per share on November 14, 2003 pursuant to the voluntary redemption provisions applicable to the series.

**3. Describe the proposed issuance or issuances including the estimated range of amounts and estimated terms.**

Under NW Natural's financing plan for the fourth quarter of 2003 as approved by the Finance Committee of the Board of Directors in September 2003, the Company expects to post with agents to sell up to $50,000,000 of Secured Notes, Series B, of the $110,000,000 remaining from the $150,000,000 Medium-Term Note Shelf Registration filed with the SEC.

The maturity the Company intends to post and sell for $40,000,000 of the Notes will be 20 years. A maturity of 20 years for these Notes would match the remaining life of the $35,000,000 of Notes redeemed during the third quarter of 2003. The proposed maturity for the other $10,000,000 of the Notes will be either seven years or 10 years. A maturity in this range would approximately match the remaining life of the $7.125 Series of Redeemable Preferred Stock, which is subject to annual sinking fund payments of $750,000 and would be fully retired in 10 years (2013). The actual maturity for these Notes (as between seven years and 10 years) will be determined based on market conditions and the maturities of the Company's other outstanding debt.  The Company will assess market conditions at each of these maturities and seek to determine where spreads over Treasury securities are relatively more attractive (lower), indicating more demand from MTN investors.

The Company also will seek to select maturities for the Notes such that an unusually high amount of long-term debt will not mature in any given year.  The Company's current long-term debt maturity schedule is shown in the following graph.




Based upon recent advice from the Company's MTN agents (Merrill Lynch, UBS Warburg, Banc One Capital Markets and US Bank Piper Jaffray) in the context of current market conditions, we estimate that spreads over the respective Treasury benchmark securities for A-rated secured MTNs should be less than 90 basis points for a seven-year or a 10-year Note and less than 100 basis points for a 30-year Note.

There will be no sinking fund requirements or put options for investors in connection with the sale of the Notes covered under this supplemental application. The actual interest rates, maturities and other redemption provisions (if any), and other terms and conditions of the Notes, will be established in accordance with procedures set forth in the Mortgage and the Twentieth Supplemental Indenture thereto, as described in the Company's Application in Docket UG-020986. The offering price, agent's commission, and other terms of each issuance of Notes will be determined at the time of sale.

**4. State why the issuance is in the public interest.**

NW Natural believes that the facts set forth herein and in the Application show that the proposed issuance and sale of the Notes 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 Notes is reasonably necessary or appropriate for such purpose.

The financing plan described in this supplemental application is consistent with NW Natural's objectives to maintain a capital structure containing 45 to 50 percent common equity and to maintain investment-grade credit ratings. The Company's Secured Notes currently are rated "A2" by Moody's, "A" by Standard & Poor's and "A" by Fitch, with stable credit outlooks. Fitch affirmed its ratings of NW Natural's debt in September 2003;

Moody's and Standard & Poor's are expected to issue ratings or publish comments before the Company goes to market in the fourth quarter of 2003.

NW Natural's redemptions of the three issues of MTNs will reduce the Company's cost of debt. Pages 1 and 2 of the **Attachment** to this Amendment are a redemption analysis for the 7.50% Series of MTNs, showing present value savings of $303,899 from redeeming this issue, assuming a spread of 80 basis points on an equivalent portion of the $40,000,000 refinancing issue, or savings of $202,456 assuming a spread of 100 basis points. Likewise, pages 3 and 4 are a redemption analysis for the 7.52% Series of MTNs showing present value savings of $859,057 or $579,677, respectively, and pages 5 and 6 are a redemption analysis for the 7.25% Series of MTNs showing present value savings of $984,184 or $486,323, respectively, in both cases on the same range of spread assumptions. In each of these three analyses the Company assumed a yield of 5.25% on the benchmark U.S. Treasury 30-year bond.

A redemption of the preferred stock also will reduce the Company's cost of capital. Pages 7 and 8 of the **Attachment** are a redemption analysis for the $7.125 Series of Redeemable Preferred Stock showing present value savings of $1,777,520 assuming a spread of 70 basis points on an equivalent portion of the $10,000,000 refinancing issue, or savings of $1,743,868 assuming a spread of 90 basis points. In this analysis the Company assumed that the refinancing issue would be a 10-year MTN, and assumed a yield of 4.25% on the benchmark U.S. Treasury 10-year note.

Pages 9 and 10 of the **Attachment** are calculations of NW Natural's cost of capital as of June 30, 2003. Page 9 includes the costs of the MTNs that were redeemed, while page 10 removes these MTNs but includes the refinancing issues on a pro forma basis. In the case of the pro forma presentation on page 10, we have assumed refinancing issues at the top of the assumed range of costs (i.e., 6.25% with a spread of 100 basis points for the 20-year financing, and 5.15% with a spread of 90 basis points for the 10-year financing). The embedded cost of debt based on these assumptions would decline from 7.237 percent to 7.130 percent.

The pro forma presentation of the cost of debt on page 10 of the **Attachment** includes, as part of the costs of the two projected new series of MTNs, allocations of the redemption premiums and unamortized costs relating to the issues redeemed. The costs from the 7.50%, 7.52% and 7.25% Series of MTNs are allocated to the 6.25% Series of MTNs due 2023 ($40,000,000), while the costs from the $7.125 Series of Redeemable Preferred Stock are allocated to the 5.15% Series of MTNs. The redemption premiums and unamortized costs are shown in detail on page 11 of the **Attachment**.

Page 12 of the **Attachment** shows the Company's weighted average cost of capital in traditional ratemaking format as of June 30, 2003. The first table shows the cost of capital before the redemptions and refinancings. The second table shows the cost of capital, on a pro forma basis, after the redemptions and refinancings. The pro forma table uses the embedded costs of debt calculated on pages 9 and 10, and both tables assume the authorized return on equity determined in NW Natural's last general rate case in Washington. Based on all embedded assumptions, the resulting impact of the redemptions and refinancings would be a reduction in the Company's weighted average cost of capital from 8.94 percent to about 8.88 percent.

The following table sets forth the capital balances from the Company's Balance Sheet at June 30, 2003, along with its pro forma capital balances assuming the issuance of the full $50,000,000 of Secured Notes, redemption of the $35,000,000 of long-term debt and redemption of the $7,500,000 of preferred stock as described above. The actual capital balances at June 30, 2003, reflected the redemption at maturity of the 6.40% Series of Secured Notes.

| | Capital Balances at June 30, 2003 ($000) | Percent of Total | Pro Forma Financings ($000) | Pro Forma Capital Balances with Financings[1] ($000) | Percent of Total |
|---|---|---|---|---|---|
| Common equity | $501,071 | 49.6 | | $501,071 | 49.1 |
| Preferred stock | 7,500 | 0.7 | $(7,500) | 0 | 0.0 |
| Long-term debt | 450,858 | 44.6 | 50,000 | 510,858 | 50.0 |
| Long-term debt due within one year | 35,000 | 3.5 | (35,000) | 0 | 0.0 |
| Short-term notes payable | 16,600 | 1.6 | (7,500) | 9,100 | 0.9 |
| Total | $1,011,029 | 100.0 | $0 | $1,021,029 | 100.0 |

As stated in the Application, the advantages of a Medium-Term Note Program are that it enables the Company to issue small tranches of debt at rates which often will be below those required for larger underwritten issues; to enter the market on a daily basis to take advantage of yield curve opportunities; to manage its financing program in light of market changes; to balance the maturities of its debt securities; and to average interest costs. Decisions can be made with the benefit of an immediate evaluation of financing costs. The Notes can be issued precisely when funds are required, eliminating both the need for interim financing in the floating rate markets and the reinvestment risk associated with financing in anticipation of capital requirements.

NW Natural submits that it is in the public interest for the Company to have the degree of flexibility in finalizing terms for the Notes as is described in this supplemental application. A full $50,000,000 of new long-term debt would represent only about 11 percent of NW Natural's long-term debt outstanding as of June 30, 2003, before the redemption at maturity of the 6.40% Series of MTNs, so the new issues of MTNs will not have a large impact – albeit a favorable impact – on the Company's weighted average cost of debt. Similarly, the small amount of new debt will have a limited impact on the weighted maturity of NW Natural's long-term debt liabilities.

The Board of Directors has delegated to the Finance Committee of the Board the authority to determine the principal amount, interest rate, maturity, sinking fund, put or call provisions and other terms and conditions of each issue of the Notes to be sold, including whether they will be Secured Notes or Unsecured Notes, and the price and other terms of their sale. The Finance Committee in turn has delegated such authority to the officers of the Company. Neither the Board of Directors nor the Finance Committee of the Board approves the specific terms of a sale of Notes immediately in advance of the sale, so there are no term sheets, offering circulars or meeting minutes yet available that state the specific terms of an offering.

Accordingly, pursuant to RCW 80.08.040(4), NW Natural respectfully requests a written order by the Commission establishing the Company's compliance with RCW 80.08.040 and WAC 480-146-290, so that it may undertake an issuance or issuances of securities within the parameters described in this Second Supplemental Application without further order of the Commission.

The undersigned certifies, under penalties of perjury as provided in RCW 9A.72, that he has read the foregoing amended 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 ___th day of October 2003.

NORTHWEST NATURAL GAS COMPANY

By_________________________

Bruce R. DeBolt

Title: Senior Vice President and
Chief Financial Officer

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[1]The pro forma capital balances set forth in the table are not a projection of the Company's actual capital balances at Dec. 31, 2003. Besides the financings described in this supplemental application, the actual capital balances at that date are expected to reflect an increase in common equity and an increase in short-term notes payable. The pro forma capital balances do not incorporate the impact of redemption premiums for the Notes redeemed during the third quarter or the Preferred Stock to be redeemed during the fourth quarter. These premiums, along with other unamortized costs of the issues redeemed, will be amortized over the lives of the debt issues used to refinance them.