

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Statement and Application)
of)
NORTHWEST NATURAL GAS COMPANY)
Establishing Compliance With RCW 80.08.040)
With Respect to Lines of Credit with Five)
Commercial Banks and \$200,000,000 of)
Five-Year Notes Issued in Connection)
therewith, Constituting a Back-Up Line of Credit)
for the Commercial Paper Program.)

DOCKET NO. UG-_____

Statement and
Application

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Northwest Natural Gas Company ("NW Natural" or "the Company") respectfully submits this Statement and Application to the Washington Utilities and Transportation Commission (the "Commission") to establish compliance with RCW 80.08.040 and WAC 480-146-290 with respect to NW Natural's proposed lines of credit with five commercial banks along with the five-year notes (the "Five-Year Notes") and other ancillary documents issued by NW Natural in connection therewith, all of which back up the Company's commercial paper program (the "Five-Year Facility"). The Company is requesting a written order in connection with the filing of this Statement and Application. The Proposed Form of Order is enclosed.

The Company's management and Board of Directors have concluded that it continues to be prudent to protect the Company's cash liquidity position by securing credit commitments from commercial banks for longer than the traditional 364-day period for its commercial paper back-up credit line. Dislocations in the financial markets in the past few years have demonstrated that the time to ensure adequate credit is when the market is stable or a company's financial condition is strong, not

when either is facing a crisis. The following information is furnished in support of this Statement:

(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 80.08.30:

The purpose of the Five-Year Facility is to provide a committed source of short-term liquidity in case NW Natural is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the Five-Year Facility are proposed to be used, if and as required, are for the acquisition of property, or the construction, completion, extension, or improvement of the Company's facilities, or the improvement or maintenance of its service; or for the issuance of stock dividends or the discharge or refunding of the Company's obligations; 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.

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

NW Natural's primary source of short-term funds is commercial paper notes payable. NW Natural issues commercial paper under an agency agreement with Wells Fargo Bank.

The Company proposes to enter into credit agreements in the form attached hereto (the "Credit Agreements") with five commercial banks (Bank of America

N.A., JPMorgan Chase Bank, U.S. Bank National Association, Wells Fargo Bank and Wachovia Bank) providing for committed credit lines to be used as back-up for the Company's commercial paper program. The Company is currently party to credit agreements with Bank of America N.A., JPMorgan Chase Bank, U.S. Bank National Association and Wells Fargo Bank that are substantially similar to the Credit Agreements for which this Statement and Application is being filed. The aggregate amount of the proposed Five-Year Facility is \$200,000,000. Each bank will provide a \$40,000,000 credit line. Under the terms of the Credit Agreements, NW Natural pays upfront fees and commitment fees but is not required to maintain compensating bank balances. The interest rates on borrowings under the lines of credit, if any, are based on current market rates.

The Credit Agreements require that credit ratings be maintained in effect at all times and that notice be given of any change in its senior unsecured debt ratings. A change in NW Natural's credit rating is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon the lines of credit. However, interest rates on any loans outstanding under the lines of credit are tied to credit ratings, which would increase or decrease the cost of borrowing under the lines of credit, if any, when ratings are changed.

The Credit Agreements do not include a "material adverse change" (MAC) clause that would entitle the banks to terminate their lending commitments and accelerate the maturity of any borrowings outstanding if there were a material adverse change in the Company's operations or financial condition. Instead, the Credit Agreements require that the Company maintain an indebtedness to total capitalization ratio, as defined in the Credit Agreements, of 65 percent or less. Failure to comply with this covenant would entitle the banks to terminate their lending commitments and to

accelerate the maturity of all amounts outstanding. The Company was in compliance with this covenant in its current credit facility at Dec. 31, 2004 and at June 30, 2005.

The maturity dates for any individual borrowings under the Five-Year Facility would be no later than September 30, 2010. The Company may prepay any Prime Rate Loan or Fed Funds Rate Loan (each as defined in the Credit Agreements) in whole or in part without premium payment or penalty. The Company may also prepay a Negotiated Rate Loan, a C/D Rate Loan or a LIBOR Loan (each as defined in the Credit Agreements), but the Company will have to pay breakage and other fees if the prepayment is at any time other than the last day of an applicable Interest Period, as defined in the Credit Agreements.

The interest rates that would be applicable to any loans under the Five-Year Facility are defined in Schedule I to each Credit Agreement (each of which is attached). The selections or definitions of interest rates in Schedule I may vary slightly from bank to bank, but in general they are specified as a spread over benchmark interest rates in effect from time to time, such as the Prime Rate or the Adjusted London Interbank Overnight Rate (LIBOR). The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies. Under the proposed Credit Agreements, the Company has selected LIBOR and Prime Rate as interest rate options. The banks must offer LIBOR and Prime Rate Loans if the Company decides to draw down on the credit lines.

Full terms of the lines of credit are set forth in the form of Credit Agreement, the form of the Five-Year Note and Schedule I, applicable to each of the five banks' individual Credit Agreements, each of which is attached to this filing.

Fees for NW Natural's Five-Year Facility total \$800,000, including \$700,000 in commitment fees (paid quarterly) and \$100,000 in upfront fees (paid at the outset of the five-year period). No arrangement fee is included because NW Natural has negotiated bilateral lines of credit as opposed to a syndicated loan facility. The cost estimate for a syndicated loan facility would have increased the total cost to the Company by at least \$200,000. The average annual cost of the credit line is 8 basis points (0.08 percent), or \$160,000, which is 2 basis points lower than the average cost of the Company's existing 364-day credit line and 6 basis points lower than the average cost of its existing three-year credit line, reflecting aggressive current market pricing due to lender demand for strong investment grade borrowers. The Company believes these fees are competitive for credit lines of this size and for a company with NW Natural's credit profile (see attached table from JP Morgan for a list of recent comparable "A" rated transactions).

The Company has not drawn down on its commercial paper back-up credit facility in recent years, and there were no outstanding balances of borrowings under the current NW Natural lines of credit as of December 31, 2004 or June 30, 2005.

Events of the past few years have caused the bank credit market to tighten, resulting in credit facilities with shorter durations and higher fees. Traditionally the Company's short-term lines of credit were effective for only 364 days, requiring renewal once a year. The shorter term helped limit its cost, but it also exposed the Company to annual renewal risk and annual re-pricing, and perhaps the risk of losing its ability to sell commercial paper and to provide liquidity. The current market for five-year facilities is very attractive, and the annual cost difference between a 364-day facility and

a five-year facility is negligible. As a result, the utility sector over the past 12 months has been moving to more five-year deals in the bank market. Accordingly, the Company has sought a longer term credit commitment from commercial banks.

The Company solicited proposals for the Five-Year Facility from each of the five banks, all of which, with the exception of Wachovia Bank, had been in the credit line in the prior year. The Company proposed that the terms and conditions of the credit lines would be as defined in the Credit Agreements, which had been used in substantially the same form in the prior year. The Company asked each bank to submit bids for the commitment fees and upfront fees that would apply to the Five-Year Facility. Based on these bids, the Company negotiated fees and amounts of participation in the lines so as to apply the same fees to each bank, while minimizing to the extent practicable the total amount of the commitment fees.

The Five-Year Notes are not issued *pro rata* to existing holders of any other securities of the Company, and are not subject to any preemptive right or in connection with any liquidation or reorganization.

(3) A statement as to why the transaction is in the public interest:

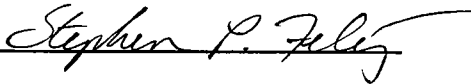
It is crucial for NW Natural to have a committed source of short-term liquidity in case the Company is unable to issue short-term commercial paper notes from time to time. Five-year credit commitments rather than 364-day commitments for the Company's line of credit provide a more secure source of such liquidity. The Company believes that the facts set forth herein show that the Company's proposed use of the Five-Year Facility as a back up for its commercial paper program 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 Five-Year Facility is reasonably necessary or appropriate for such purpose.

The undersigned certifies, under penalties of perjury as provided in RCW 9A.72.085, that he has read the foregoing Statement 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 13th day of September 2005.

NORTHWEST NATURAL GAS COMPANY

By 

Stephen P. Feltz

Title: Treasurer and Controller

Attachment

Copies of the **form of Credit Agreement**, the form of **Five-Year Note** and **Schedule I** applicable to each of the banks' individual Credit Agreements