

BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

UG-__
GENERAL RATE APPLICATION
OF
NORTHWEST NATURAL GAS COMPANY

December 18, 2020

Direct Exhibit of Wayne K. Pipes

FACILITIES

Exh. WKP-2



REAL ESTATE STRATEGY

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PREPARED FOR
NW Natural

PREPARED BY

Leland Consulting Group

Cushman & Wakefield

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Introduction

This report provides a summary of the first phase of research and analysis conducted for NW Natural as part of its long-term evaluation of a headquarters office building relocation. To guide that process in a deliberate and methodical manner, NW Natural contracted with Leland Consulting Group, supported by Cushman and Wakefield, to develop a process that will arrive at a headquarters solution that best meets the needs of NW Natural operations and employees while also fulfilling its obligation to ratepayers to diligently review all relevant alternatives and make a prudent decision regarding its real estate expenditures.

The scope of work of Phase 1 included developing a solid base of information to inform the process, surveying key stakeholders at NW Natural as to the issues and factors that should influence a headquarters location decision, developing evaluation criteria to screen potential relocation areas and development models, and developing a focused short list of alternatives for further analysis.¹ Additional Phase 1 research included a high-level financial analysis of alternatives and an assessment of risk factors related to the seismic resilience of the One Pacific Square (OPS) building and selected alternative locations.

Major corporations such as NW Natural relocate or reinvent their corporate headquarters only once every 20 or 30 years, or even longer. The impact of such a decision on company operations, the corporate brand and culture, and the neighborhood where it is located makes such a decision a legacy opportunity. While real estate makes up a relatively small part of NW Natural's financial expenditures, it is the home of its employees, which are its most important asset, and any decision must take into account the long-term impact on customers, too. Creating an engaging, efficient, and quality work environment will pay dividends in employee productivity, recruitment, and retention, which will also facilitate the best possible delivery of services to customers. Such a work environment must be able to be provided not only in normal operations, but especially in times of regional or local business disruption when our customers will be depending on us for continuity of service.

¹ Note: the lease at One Pacific Square is expected to expire on May 31, 2020. While NW Natural has a five year extension option, the company has chosen to use this 2020 date as the target completion date for decisions related to deciding upon their future headquarters location.

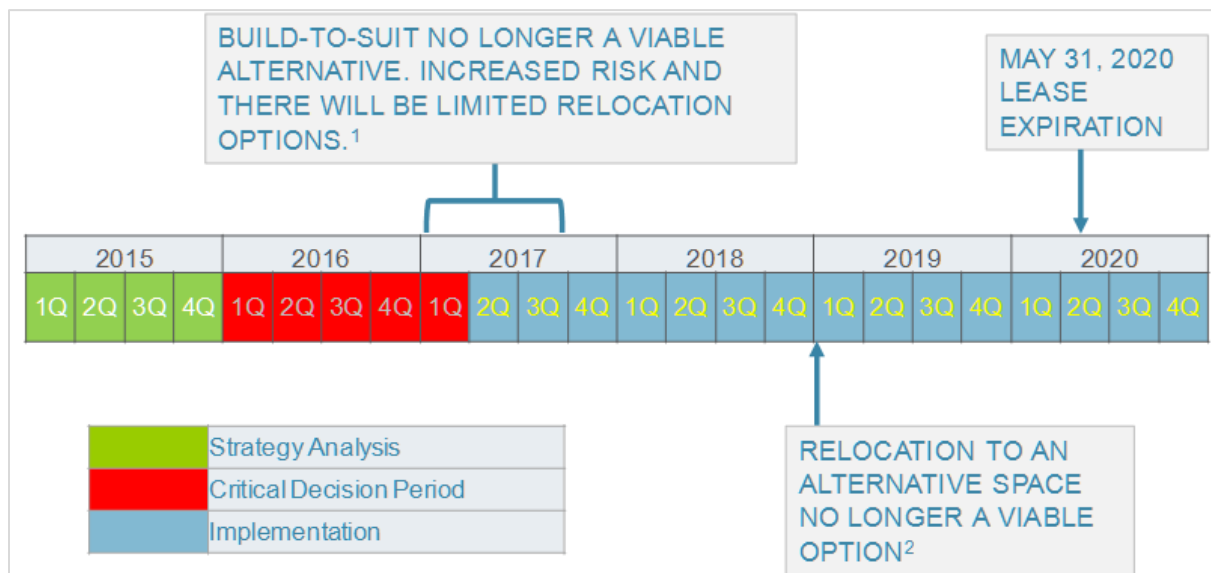
Key Findings

Phase 1 concluded with several key findings:

- The commercial office space market is experiencing unprecedented change, with workplace standards and cost-effective building configurations evolving constantly.
- Maintaining a high-quality, functional workplace in an accessible and well-served location is essential to recruiting and retaining employees.
- While the current building is functional, it has many inefficiencies and the neighborhood is perceived by employees to be unsafe and lacking in amenities. These perceptions were largely confirmed by the objective data analyzed. Addressing those inefficiencies, and safety and operational needs may not be the most cost-effective option.
- Portland's Central Eastside emerged as the most favorable location for a possible relocation. The Central Business District and Old Town/China Town were identified as possible areas, subject to site-specific considerations. The Pearl District and South Waterfront were eliminated from further consideration.
- With all else being equal, alternatives where NW Natural develops on land that it owns is more cost-effective than leasing property.
- Seismic safety emerged as an important criterion in a relocation decision. More work is needed to understand NW Natural's seismic safety needs and possible building standards. NW Natural has noted that there are many functions such as gas control, resource management/dispatch, and other critical functions that need to be operational following a seismic event. While the backup emergency operations center at Sherwood would suffice for other emergency events, NW Natural is continuing to evaluate if this is sufficient following a seismic event, particularly given likely travel restrictions after such an event. A preliminary seismic analysis indicated that OPS would not be functional following a significant seismic event.

Figure 1 shows the timeline for the alternatives analysis leading up to a headquarters decision. The timeline is structured to work backwards from the 2020 lease expiration, noting critical decision points and the latest possible dates for those decisions while maximizing the number of available alternatives at each point in time. If deadlines are missed at points along the timeline, certain alternatives (e.g., building a new building or having a credible threat of relocation to leverage negotiations with the OPS landlord) must be eliminated, limiting NW Natural's available options and most likely increasing costs.

FIGURE 1. ALTERNATIVES ANALYSIS TIMELINE



Notes:

1/ If a build-to-suit building is no longer an alternative, NW Natural will be at the mercy of the market, potentially giving it very few options and limited pricing leverage.

2/ At this time, there are no known existing buildings in Portland that have enough space to accommodate NW Natural's needs.

Scope of Work

The work conducted under this assignment followed a methodical process of developing evaluation criteria, evaluating relocation alternatives against those criteria, and thoroughly documenting the process so that any decisions are informed and prudent. The work began with a Discover phase, which resulted in the development of a resource binder incorporating a range of baseline research and data to inform NW Natural and the OPS Committee, its designated steering committee to guide this process. The resource binder included the following tabbed sections:

- Real estate portfolio: Maps and spreadsheets detailing NW Natural's existing real estate assets.
- Industry trends: Background research on the changes occurring in the workplace, particularly the emergence of open workplace standards for office environments. Key findings from this research included the role that a quality workplace plays in recruiting and retaining younger workers.
- Market trends: Summary information about commercial real estate market conditions in Portland and its Central City submarkets.
- Lunch and learn: Presentation given to the entire officer team to discuss market and economic trends and to generate ideas related to alternative workplace systems, potential evaluation criteria, and other factors.
- Utility peer review: Background and research regarding other utilities both within NW Natural's territory and outside its territory to review developing trends and standards among its peers.

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- Stakeholder interviews: Summary of interviews conducted by the consultant team with NW Natural executive officers and other senior leaders to gather insights about operational needs and to develop preliminary evaluation criteria to screen alternatives.
- Space assessment: Information about NW Natural's current use of space at OPS.
- Employee survey: The results of an employee survey regarding workspace needs and preferences.
- Financial analysis: The results of a preliminary financial analysis of different locational and ownership alternatives.
- Seismic assessment: Findings from a preliminary assessment of the likely impacts to operations at OPS as the result of a significant seismic event, including the ability to evacuate OPS safely.

The resource binder supplemented several work sessions with the OPS Committee. On January 5, 2015, the consultant team met with the OPS Committee and other executives to present background information about industry trends and market conditions. On February 11, 2015, the consultant team held a workshop with the OPS Committee to review the background information and develop a preliminary set of evaluation criteria. This included a prioritization exercise to identify the qualitative and quantitative criteria that should be used to screen potential locations and lease/ownership models. With the criteria identified and weighted, the consultant team analyzed the various alternatives to arrive at a short list of priorities that should be analyzed in greater depth in Phase 2.

Evaluation Criteria

Through the work sessions and analyses, seven criteria were developed that were used to analyze and prioritize potential alternatives. The purpose of the criteria was to provide a quantitative and qualitative framework for evaluating the relative strengths and weaknesses of alternatives related to building locations, building features, and ownership/lease models. Each criterion was developed based on the values expressed during the stakeholder interviews as well as the consultant team's recommendations on factors to consider.

The criteria were divided into two categories:

- Locational criteria: These criteria focused on differentiating attributes that applied to the location of a headquarters facility. Locational factors included characteristics of the neighborhood relative to other locations, particularly with respect to employee retention impacts, safety, customer needs, seismic resiliency, and operational excellence.
- Building criteria: These criteria focused on evaluating how different ownership or leasing models might impact the ability for NW Natural to meet its operational needs and create a positive work environment for its employees, all while maintaining cost-effectiveness.

During the workshop of February 11, 2015, the consultant team facilitated a discussion and prioritization exercise to refine these criteria and prioritize them so that the subsequent decisions could be weighted on those factors that are most important to NW Natural. At that workshop, the team also discussed and prioritized evaluation metrics within each criterion. These metrics described the quantitative and qualitative ways that each criterion would be measured so that the outcome would be clear, resulting in a prioritized set of recommendations. It should be noted that there is some overlap

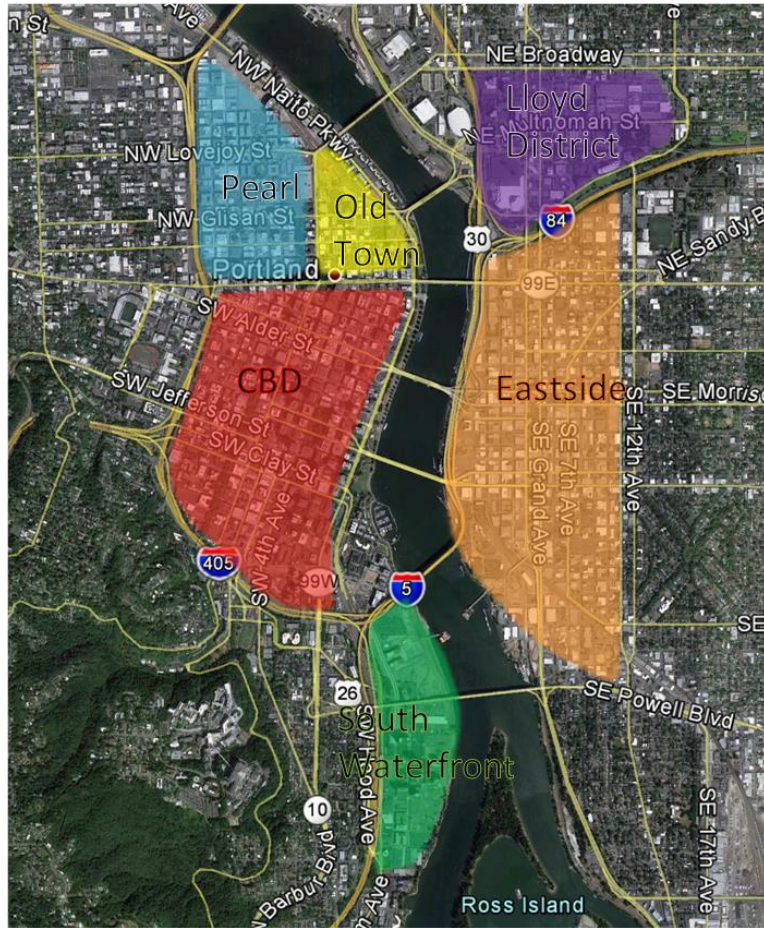
between criteria (e.g., building safety vs. employee safety); there was considerable discussion around these overlaps and the selected weighting reflects how the objectives on one criterion could likely be met by another.

Locational Criteria

Locational criteria were analyzed across six geographic submarkets that were considered for a potential relocation of the headquarters facility. All of the submarkets are in central Portland, reflecting the decision that a relocation outside the central city (e.g., to Vancouver or one of Portland's suburbs) was neither feasible nor desired from either a business operations or customer point of view. As shown in Figure 2, these submarkets include:

- Old Town: Generally located east of Broadway and north of Burnside and the current location of NW Natural's headquarters building.
- Pearl District: North of Burnside and between I-405 and Broadway.
- Central Business District: The downtown core, located inside the I-405 loop south of Burnside.
- South Waterfront: Located to the south of downtown between I-5 and the Willamette River.
- Eastside: A large area incorporating the Central Eastside Industrial District, including the location of NW Natural's Central and Exley sites.
- Lloyd District: Located between I-84 and NE Broadway.

FIGURE 2. CENTRAL CITY SUBMARKETS



The following matrix describes in more detail each criterion, the methodology used to evaluate it, and the relative weighting given to it as a result of the workshop.

Criterion	Evaluation Metric	Weighting
Building Safety and Security		37%
Conditions related to the physical safety and security that are affected by the building's location.	<p>Seismic safety: Map specific location or centroid of submarket on Portlandmaps.com and note seismic hazard level. There is a range of seismic hazard levels – greater seismic hazard levels are assumed to require more costly buildings to achieve the same level of seismic resistance and to ensure that the business can be operational following a seismic event. It was also noted that the State of Oregon, as well as the nation, are focused on ensuring that the country's infrastructure and operations, including utility infrastructure, are protected from significant disruption caused by natural disasters.</p>	

<p>Flood resistance: Map specific location or centroid of submarket on Portlandmaps.com and note presence of site within 100-year floodplain.</p>	
<p>Accessibility to Workforce and Partners/Public Conditions related to the ease of access by employees and visitors from multiple modes of transportation.</p>	<p>29%</p>
<p>Parking: Indexed scoring of each location based on general availability of off-street parking in the neighborhood, prevailing rates for monthly parking, and average parking ratio of existing buildings.</p>	
<p>Impact on commute: Scoring based on number of employees within 10, 15, 30, and 45-minute drive time to each location from zip code and employee census data.</p>	
<p>Public transit: Scoring based on presence of frequent-service transit (service every 15 minutes or less), with extra weighting for light rail service. Scoring was adjusted for planned service improvements that will be operational by 2020. It was noted that NW Natural has a commitment to environmental stewardship and as such would like to support public transit and sustainable community options.</p>	
<p>Neighborhood Amenities Attributes about the surrounding neighborhood that would serve as amenities for employees and visitors.</p>	<p>19%</p>
<p>Restaurants and coffee houses: Weighted scoring based on walkscore.com rating for each neighborhood and number of coffee shops and restaurants relative to other submarkets. Adjusted for submarket trends where the number of retailers is likely to be greater in the future than it is today.</p>	
<p>Proximity to recreation: Rating based on presence of or proximity to hardscape parks (plazas), green spaces (trees and grass), and trails (jogging/biking paths).</p>	
<p>Services and retail: Weighted scoring based on walkscore.com rating for each neighborhood, number of grocery stores, and after hours gathering locations relative to other submarkets. Adjusted for submarket trends where the number of retailers is likely to be greater in the future than it is today. It was noted that in today's competitive job market, especially for experienced labor, amenities are necessary for attracting and retaining a skilled workforce.</p>	
<p>Employee Safety and Security Whether the neighborhood surrounding the building is likely to provide a safe</p>	<p>15%</p>

environment for employees and visitors when outside the building.
Personal safety: Mapping of personal crime data by submarket, weighted by population within each area, as reported by City of Portland.
Property crime: Mapping of property crime data by submarket, weighted by population within each area, as reported by City of Portland.

Building Criteria

Building criteria were analyzed across several alternatives that included ownership, leasing, staying in the existing OPS building, and various combinations of the above. The evaluated alternatives included:

- Stay Put: NW Natural would remain in the existing OPS building, likely with extensive remodeling to bring it up to modern operational and safety standards and commensurate with what could be expected in a long-term lease.
- Relocate to Existing Building(s): Under this alternative, NW Natural would relocate its headquarters to an existing building in one of the target submarkets. There are four variations on this option.
 - Leased space (single unit): In this alternative, NW Natural would relocate as a single unit (maintaining all departments in one facility) into leased space.
 - Rehabbed building: NW Natural would move into an existing building that would be fully rehabbed to accommodate it.
 - Leased space (split functions): In this alternative, NW Natural would split up its operations and enter into multiple leases in separate buildings.
 - Owned space (split functions): In this alternative, NW Natural would split up its operations and relocate into multiple buildings that it would own. It would also be possible to own one building and lease the other under this alternative.
- Relocate to New Buildings: Under these alternatives, NW Natural would relocate into a new building constructed largely to NW Natural's specifications. Any of these alternatives could be modified to reflect a splitting up of staff into multiple facilities. There are four variations on this option:
 - Single tenant lease: NW Natural would relocate as a single unit and be the sole tenant in a new building as a lessee.
 - Multiple tenant lease: NW Natural would relocate as a single unit into a building with multiple tenants.
 - Ownership single tenant: NW Natural would relocate to a new building that it would own and it would be the only tenant.
 - Ownership multiple tenants: NW Natural would relocate to a new building that it would own and it would lease some space in that building to other tenants.

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The following matrix describes in more detail each criterion, the methodology used to evaluate it, and the relative weighting given to it as a result of the workshop.

Criterion	Evaluation Metric	Weighting
Building Safety and Security		49%
Conditions related to the ability for the specific building to be made secure.		
	Security and access: Ease and relative cost of provision of building security features such as secured lobby, elevator access control, secured floors, etc.	
Building Amenities		31%
Ability to provide or ease of providing in-building employee and visitor amenities. NW Natural recognizes the importance of amenities in order to attract and retain talented employees.		
	Hospitality center: Whether a hospitality center similar to the one currently provided at the OPS building could be accommodated.	
	Workout/locker room: Whether a workout and locker room could be accommodated.	
	Bicycle parking and amenities: Whether the building could provide high quality bicycle parking and amenities such as a shower and changing room.	
	Employee cafeteria: Relative ease of providing a shared employee cafeteria.	
	Onsite business services: Whether the building could accommodate onsite services such as a restaurant, coffee shop, or retail.	
Flexibility/Future		20%
Whether the building configuration is able to adapt easily in the future to changing tenant or market needs.		
	Accommodating new space needs: Whether the building floorplate or ownership model can easily accommodate growing or shrinking space needs.	

“Parking lot” Criteria

Several criteria were raised during the process that were deemed important, but were not utilized during the initial round of analysis. These criteria were largely “must haves” and were factors that

would not distinguish one option from another, as they would be specifications that NW Natural would require of any relocation (including remodeling the existing building). The “must have” criteria included:

- Detailed financial analysis: All alternatives will be required to be robustly tested financially and demonstrate their ability to meet prudence standards. Phase 1 did include a preliminary financial analysis to better understand the relationship of alternative factors to financial performance, but a detailed financial analysis that reflects specific building concepts and locations will still need to be conducted in Phase 2 where specific sites, building costs, and space alternatives can be defined.
- Culture and identity: The new space must reflect and reinforce NW Natural’s culture and identity. A key element of this philosophy is that the building be modest, reflecting NW Natural’s prominent role as a regulated utility.
- Better climate control: Many employees noted that the current building provides unsatisfying indoor air quality levels. Any new building or a remodel should provide improved climate control.
- Better lighting: Like climate control, employees want better lighting, both natural and artificial.
- Environmentally sustainable: Cost-effective green solutions including possibly LEED certification should be considered when feasible.
- Improved IT infrastructure: Communications technology is rapidly changing and any new building or remodel timed for move-in in 2020 will by necessity incorporate improved IT infrastructure (higher speed internet, Wi-Fi, remote accessibility) than currently exists. In addition, the data center would be relocated to a more protected part of a building.
- Seismic safety: Although seismic safety was preliminarily evaluated in Phase 1, additional analysis will be needed in Phase 2 as specific alternatives and sites are considered.

In addition to these “must haves,” there were several other criteria that were “wants” but were not suitable for evaluation until specific sites, buildings, and financial impacts can be considered. These include:

- Ingress/egress: Ease of getting to and from the facility by various modes of transportation.
- Functional lobby space: Additional meeting rooms, informal meeting areas, group workspaces to create better and more efficient operations.
- Community stewardship: Reinforcing NW Natural’s commitment to the community.

Analysis of alternatives

Upon confirmation of the criteria and the relative weighting that each would have, the consultant team conducted technical and qualitative analyses of each locational and building criteria against the evaluation metrics using the methodologies noted in the above tables. Using a five-point scale to summarize the technical analysis, the following two charts show how each location and building type was rated against the criteria. Thus, there are two levels of weighting: 1) evaluation metrics are weighted within each criterion to come up with an overall rating for each criterion, and 2) the criteria scores were further adjusted based on the weighting noted in the tables above. Because the locational analysis was inherently more quantitative, the ranking scale showed results at five points, from “worse”

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to “better.” The building criteria were much more qualitative in nature and were generally analyzed relative to staying in the existing OPS building, so the scoring used was a simpler three-point scale from “difficult” to “better.” Figure 3 shows the results of the locational criteria analysis, where red circles reflect the lowest composite scores and green circles represent the highest ones. A separate technical memorandum was prepared that describes the technical methodology for each evaluation.

FIGURE 3. LOCATIONAL CRITERIA ANALYSIS

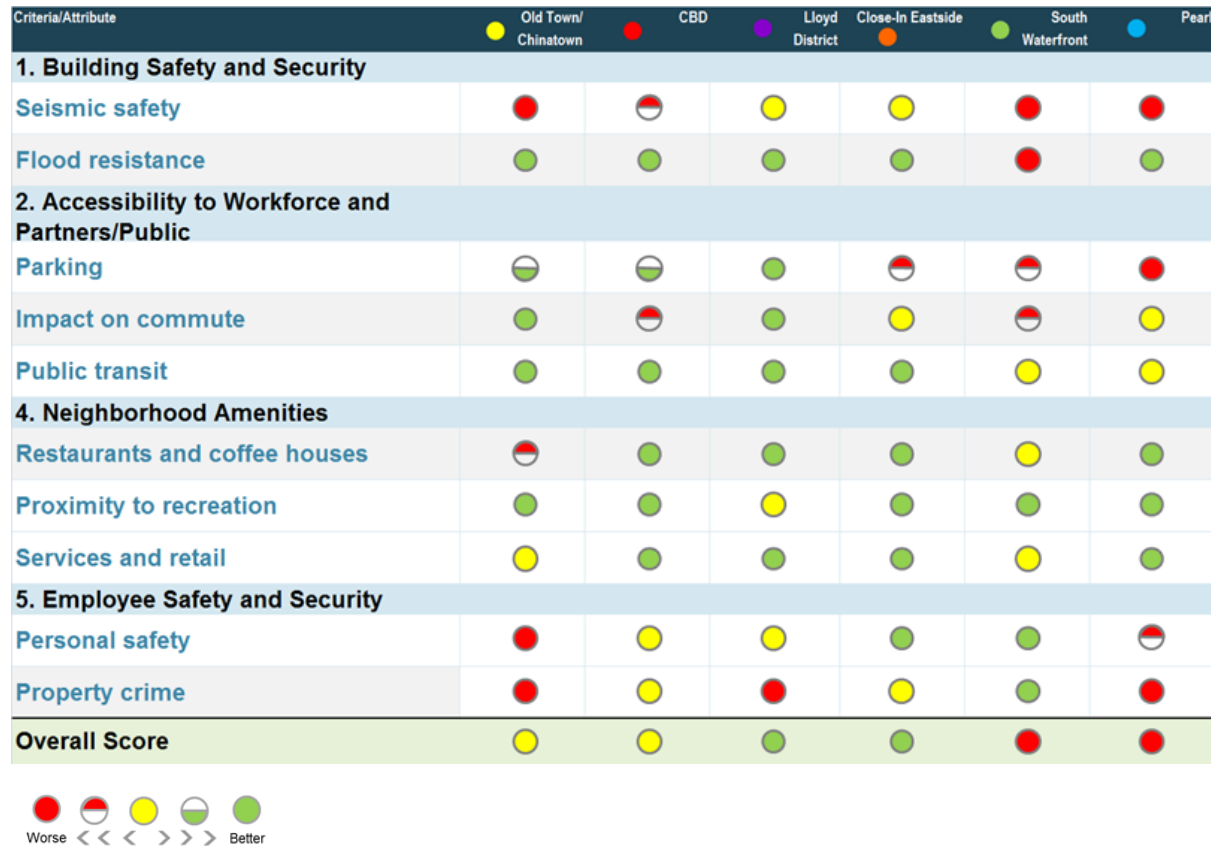


Figure 4 shows the results of the building criteria analysis, using the simpler three-point scale.

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FIGURE 4. BUILDING CRITERIA ANALYSIS

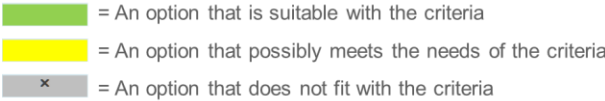
Criteria/Attribute	Stay Put		Relocate to Existing Building(s)		Relocate to New Building(s)			
	Extensive Remodel	Leased space (single unit)	Split functions into multiple leased spaces	Split functions into owned property	Single Tenant Lease	Multiple Tenant Lease	Ownership Single Tenant	Ownership Multiple Leases
1. Building Safety and Security								
Security and access	●	●	●	●	●	●	●	●
3. Building Amenities								
Hospitality center	●	●	●	●	●	●	●	●
Workout/locker room	●	●	●	●	●	●	●	●
Bicycle parking and amenities	●	●	●	●	●	●	●	●
Employee cafeteria	●	●	●	●	●	●	●	●
Onsite business services	●	●	●	●	●	●	●	●
6. Flexibility/Future								
Accommodating new space needs	●	●	●	●	●	●	●	●
Grand Total	●	●	●	●	●	●	●	●


 Difficult < Possible > Better

From that analysis, two locational and several building alternatives were eliminated from consideration, as shown in Figure 5.

FIGURE 5. INTERIM DEVELOPMENT ALTERNATIVES RECOMMENDATIONS

Criteria/Attribute	Old Town/ Chinatown	CBD	Lloyd District	Close-In Eastside	South Waterfront	Pearl
Stay Put						
Extensive Remodel/building rehab		×	×	×	×	×
Relocate to Existing Building(s)						
Leased space (single unit)	×			×	×	×
Rehabbed building					×	×
Split functions into multiple leased spaces	×	×	×	×	×	×
Split functions into owned property	×	×	×	×	×	×
Relocate to New Building(s)						
Single Tenant Lease					×	×
Multiple Tenant Lease					×	×
Ownership Single Tenant					×	×
Ownership Multiple Tenants					×	×


 = An option that is suitable with the criteria
 = An option that possibly meets the needs of the criteria
 = An option that does not fit with the criteria

Locational Analysis

Of the six geographic areas under consideration, South Waterfront and the Pearl District were eliminated from consideration. Both areas received a low aggregate score relative to the other geographies. South Waterfront was eliminated largely due to its location within the 100-year floodplain - since building safety was 37 percent of the weighting, a negative score on this criterion greatly affected the aggregate score. The Pearl District was eliminated in part because of its location in a high seismic hazard zone, but also due to its relative expense and sparse parking availability.

The remaining locations (Old Town, CBD, Lloyd District, and Close-in Eastside) were all deemed suitable, with the Lloyd District and Close-in Eastside receiving higher scores than Old Town and the CBD. The eastside locations received higher scores for a range of reasons – including their somewhat lower seismic risk and lower crime rates. All areas had relatively similar neighborhood amenities, with the exception of Old Town where there were markedly fewer restaurants and coffee houses than in other areas.

Building Criteria Analysis

Based on feedback heard during the interviews and the consultant team's assessment of NW Natural's work style and culture, splitting functions into multiple buildings was not viewed as optimal but would be considered if financial, operational, seismic, or other factors made multiple facilities the best alternative. Our findings were that there is great value and efficiency from having all departments in the same building and that it is part of NW Natural's culture that company executives are accessible and physically proximate to all staff, creating some efficiencies in operations. This is not to say that having some functions in different buildings is not possible in some scenarios, but that as an order of priority, solutions that accommodate the entire operation in one facility (which could include multiple adjacent buildings) be considered first.

Preliminary Financial Analysis

Beyond the two alternatives that were eliminated, we found that there was not much that differentiated one option from another at this early stage of planning. Many of the building criteria such as the inclusion of specific building amenities could be accomplished under virtually any scenario – it is just a matter of cost. In a few cases, there are conceivably higher costs, such as providing security to multiple tenants rather than one, but these were not significant enough to shift the results one way or another. Therefore, in order to provide more insight into potential alternatives, the team conducted a preliminary financial analysis of a range of factors in order to gauge the order-of-magnitude impact those factors might have on a headquarters decision. The financial analysis modeled the impact of variables such as construction costs, space efficiency, land leasing, seismic improvements, parking, tenant improvements, swing space (temporary space during construction), and ownership of land.

While not tailored to a specific site or development program, the analysis provided important insights into how certain variables will impact the financial performance of an option. In general, the analysis was structured to identify the impact on total rent that is attributable to each factor. Most importantly for this early stage of planning, the analysis found that:

- Increasing the seismic standard of a new building contributes a relatively small amount toward total rent costs;

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- Overall construction costs, however, account for 70% to 80% of the base rental rate;
- Tenant improvements contribute the second greatest amount toward rent costs;
- Seismic improvements contribute anywhere from 2% to 10% toward rent costs, depending on the level of seismic resiliency assumed in the model;
- The impact of owning your own land is significant, and alternatives where NW Natural owns its own land had lower total rent costs than other alternatives;
- Assumptions around space efficiency are important – while new construction may cost more than renovating NW Natural’s existing space, the savings potential from leasing less space overall (due to a more efficient layout in a new building) can more than offset the higher per-square-foot rental rate;

For these reasons, future analysis should focus on:

- Building on land that NW Natural owns, either on the eastside or in China Town;
- Renovating NW Natural’s existing OPS space.

In either case, a prudent process will also consider any reasonable option that is brought forward by the development community, which will be discussed later in the Phase 2 outline.

As a result of this analysis, the Interim Development Alternatives Recommendations show in Figure 5 were revised to reflect the elimination of the Lloyd District and CBD areas from consideration, since they would require new construction on leased sites, which were deemed to be the least financially viable alternatives. As mentioned, proposals from these areas will still be considered if they arise, but they will not be prioritized in the Phase 2 analysis. Figure 6 below shows the revised Development Alternatives Recommendations.

FIGURE 6. REVISED DEVELOPMENT ALTERNATIVES RECOMMENDATIONS

Criteria /Attribute	Old Town / Chinatown	CBD	Lloyd District	Close-in Eastside	South Waterfront	Pearl
STAY PUT						
Extensive remodel / building rehab		X	X	X	X	X
RELOCATE TO EXISTING BUILDINGS						
Leased space (single unit)	X			X	X	X
Rehabbed building					X	X
Split functions into multiple leased spaces	X	X	X	X	X	X
Split functions into owned property	X	X	X	X	X	X
RELOCATE TO NEW BUILDING(S)						
Single tenant lease		X	X		X	X
Multiple tenant lease		X	X		X	X
Ownership single tenant		X	X		X	X
Ownership multiple tenants		X	X		X	X

More detailed results from the financial analysis are found in a PowerPoint presentation dated July 23, 2015.

Conclusion and Next Steps

The work conducted to date:

1. Produced a thorough process to ensure that NW Natural reaches a prudent decision regarding its headquarters.
 - a. The consultant team facilitated a transparent process of workshops and analyses that started with a wide spectrum of alternatives and logically narrowed down the scope of possibilities to alternatives that best meet NW Natural’s needs. All work was thoroughly documented in a resource binder so that future decision makers can review and understand the headquarters decision process.
2. Developed evaluation criteria to screen potential relocation areas and development models. These criteria will continue to be used in subsequent steps when specific sites, development, and/or remodel alternatives are considered as applicable.
 - a. Organized into two categories: Locational Criteria and Building Criteria
 - b. These criteria were weighted by importance and then analyzed in order to reach a short list of more specific and vetted alternatives for further analysis.
3. Ranked six alternative geographic locations based on the evaluation criteria.
 - a. Old Town and Close-In Eastside were ranked as the best fit for NW Natural’s needs, largely driven by the ability to build on land already owned by NW Natural.

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- b. The Lloyd District and the Central Business District potentially meet NW Natural's needs, but were eliminated due to the impact of leasing on the financial analysis.
 - c. South Waterfront and the Pearl District were identified to not meet NW Natural's needs and were ruled out as potential locations.
 - d. Nevertheless, when evaluating market options in Phase 2, developer proposals from all geographies will be considered.
4. Analyzed development models to assess their implications on operations. Conclusions from this step include:
 - a. Not splitting up employee groups into separate locations was considered very important.
 - b. Leasing space in an existing building was not evaluated due to lack of alternatives (there are no existing buildings in Portland with enough available space to accommodate NW Natural's needs).
 - c. Owning vs. leasing space will be further evaluated in Phase 2, but occupying a building on land that is owned by NW Natural (where the building could be either owned or leased) is financially preferable.
 - d. NW Natural can maximize meeting its objectives by having a new building built to its specifications.
5. Conducted a high-level financial analysis of different development models and geographic locations in order to understand the impact of different factors on total rent costs. Findings from this analysis concluded that:
 - a. Seismic costs make up a relatively small percentage of total rent costs, particularly for new construction. However, a retrofit of the existing OPS building would be a significant cost.
 - b. Development on land owned by NW Natural is likely to result in the least-cost solution.
 - c. Space efficiency gained through new construction is a significant factor to reducing total rent costs.
 - d. Leased building options in the CBD and Lloyd District should be removed from consideration at this stage. However, developer proposals from any area will be considered in Phase 2, but will need to be evaluated financially against all alternatives.
6. Whether in an existing or new building, NW Natural needs to be in a facility that meets current seismic safety standards.
 - a. At a minimum, there are some elements of NW Natural's operations that need to be in a facility at an even higher seismic standard. Additionally, due to the seismic assessment of OPS, it may be necessary or preferable to have split operations, where some departments operate out of a building with a higher seismic rating due to differing needs for being operational after an event.
 - b. NW Natural completed a study of this issue in order to determine how it might affect a preferred alternative solution, such as soil types, building seismic rating, or whether functions within the headquarters facility could be split (e.g., multiple buildings could be built to different seismic standards depending on the need of different departments).

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7. Outlined a process to find and implement the optimal and most prudent real estate solution (described below).

Next Steps

Phase 2 of the process will focus on developing workplace strategies, space needs, and applying the criteria from Phase 1 to specific opportunity sites brought forward through a developer request for interest (RFI) process. Phase 2, from beginning to end, will likely take a good part, if not all, of 2016. Much of the timing associated with this Phase is determined by the NW Natural team's availability to provide feedback and information in the workplace strategy portion, which is essential to defining the specific program that will be incorporated into the RFI and subsequent financial analyses. It is important to note that nearing the completion of Phase 2, when a decision is reached internally and brought forward for executive approval, there will be a natural transition into implementation. That is to say that at the end of Phase 2 the decision process will be completed, allowing for ample time to construct and/or remodel the space.