

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-3



Headquarters Relocation: Phase 2 Process Summary



NW Natural

September 2017

Acknowledgements

NW Natural Steering Committee

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Introduction

In 2015, NW Natural began a process to explore options for its headquarters office, which are currently located at One Pacific Square in downtown Portland. With its current lease expiring in May 2020, it was prudent to embark on a deliberate and strategic process to evaluate all potential options, including moving, building new, and lease renewal.

The Strategy began with a Phase 1 that focused on developing evaluation criteria that would be used to screen broad categories of options (geographical areas) in early stages and specific sites in later stages. At the end of Phase 1, NW Natural had concluded several things: a central city location was preferred (specifically downtown, Old Town, and the Central Eastside, including the Lloyd District), employee safety and security are very important, neighborhood amenities are important, and that seismic resiliency is critical.

In Phase 2, beginning in 2016, the team engaged the development community to identify potential candidates, including the current building at One Pacific Square. Through the Phase 2 process, additional research was conducted (including architectural test fits and seismic suitability studies) to identify options that best met the evaluation criteria while being financially prudent.

This report documents the key steps of Phase 2.

Phase 2 Process

The Phase 2 process took the evaluation criteria and general findings from Phase 1 and applied them to specific sites in order to arrive at a short list of potential options, subsequently arriving at a final option for lease negotiation and execution. The scope of Phase 2 incorporated several unique but interrelated steps:

- Completing a workplace strategy analysis to determine space needs;
- Selecting an architecture firm to serve as NW Natural's architect for test fits and space planning;
- Issuing a request for information (RFI) and request for proposals (RFP) to potential landlords and developers;
- Screening the landlord responses against the criteria;
- Refining the seismic suitability criteria and evaluating each option seismically;
- Conducting detailed financial analyses of the short-listed options;
- Negotiating with finalist options to achieve optimal lease terms prior to selection.

Workplace Strategies

As a precursor to space planning and test fits, NW Natural engaged Cushman & Wakefield's workplace strategies team in March 2016 to review existing space utilization at One Pacific Square (OPS) and develop workplace standards to be used in programming of a new or rehabilitated office environment.

The goals of the study were to:

- Identify key factors that may impact the future workplace strategy and space need;
- Understand the optimal ways of working for NWN in order to achieve organizational effectiveness and success; and how the future workplace should support those work practices;
- Identify key departmental needs and adjacency requirements that support collaboration and the NWN culture;
- Develop a space budget based on a range of recommended space allocation assumptions; and
- Inform the direction of the future real estate strategy.

Research to support this work involved several meetings with the steering committee, a tour of NW Natural's existing office space, and more than 15 interviews with department leaders to better understand departmental head count forecasts, adjacency needs, and support space requirements. These findings were combined with headcount growth projections to arrive at a high-level total

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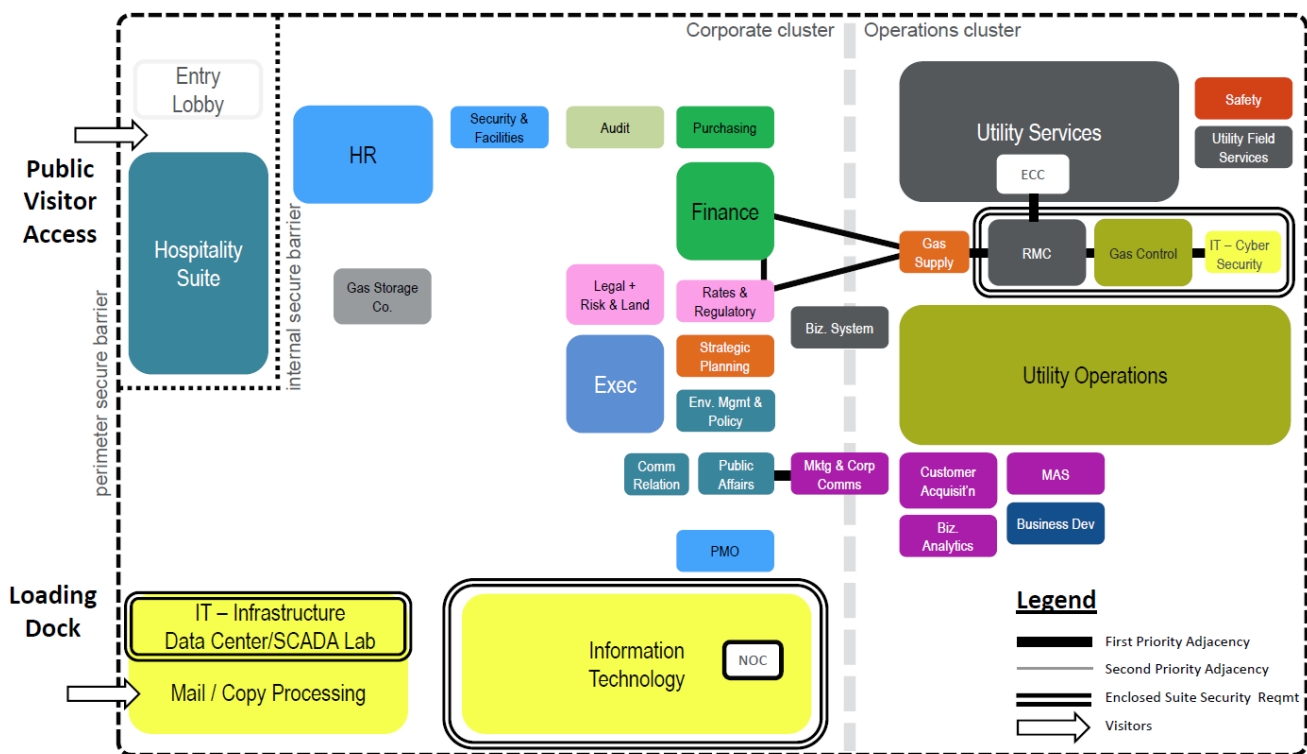
space requirement and adjacency considerations. This space program incorporated recommendations on space types and sizes that would modernize NW Natural’s environment and meet the future needs of its workforce. Some of the key findings from this analysis included:

- Overall, there is an inadequate number of **conference rooms** at OPS and there is a desire for more **informal spaces** for employee collaboration and non-confidential meetings;
- There is an opportunity to **reduce square footage for storage** through an enterprise-wide content management system;
- There is a desire for the workplace to be **flexible and engaging**, supporting an atmosphere that creates employee pride and reinforces NW Natural’s culture; and
- NW Natural’s needs are best met through a **single location** as opposed to splitting functions across two or more sites.

With an efficient floor plan in a single location, the total space requirement for 2020 would be approximately 167,000 square feet.

The space requirements developed through this effort served as a baseline for conducting initial developer outreach, as will be discussed later in this report.

Figure 1. Adjacency Requirements



Source: Cushman & Wakefield

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Following the initial workplace strategies analysis, NW Natural formed a Guiding Principles Subcommittee to refine the initial recommendations and develop more specific space layout guidelines, organizational principles, functional design principles, and standards for individual workstations, private offices, and shared work areas. These standards, described in the appendix, provided further guidance for the test fits of candidate buildings.

Architect Selection

In March 2016, NW Natural (through Cushman & Wakefield) issued a request for qualifications (RFQ) for architectural services. The purpose was to select an architect to provide the following services throughout the headquarters planning process:

- Refinement of workplace strategies and space standards;
- Conduct test fits of candidate office locations;
- Coordinate with landlord/developer architects; and
- Prepare space planning designs and documents for final office location.

A RFQ evaluation committee was formed to review the submittals and conduct interviews for the four firms that were invited to submit. The committee met to establish evaluation criteria and scored the proposals against that criteria, which included factors such as the depth of experience in similarly-scaled projects, their project approach, their resources available, and references. The firms were then asked to submit a price proposal, which was added to the scoring process in May.

Through this process, NW Natural selected GBD Architects, which was deemed most qualified and provided the best balance of value, experience, and approach among the submitting firms. Additionally, the Fee for Services was also negotiated to meet the competing qualified firm's fee.

Developer/Site Selection Process

Request for Information / Request for Proposals

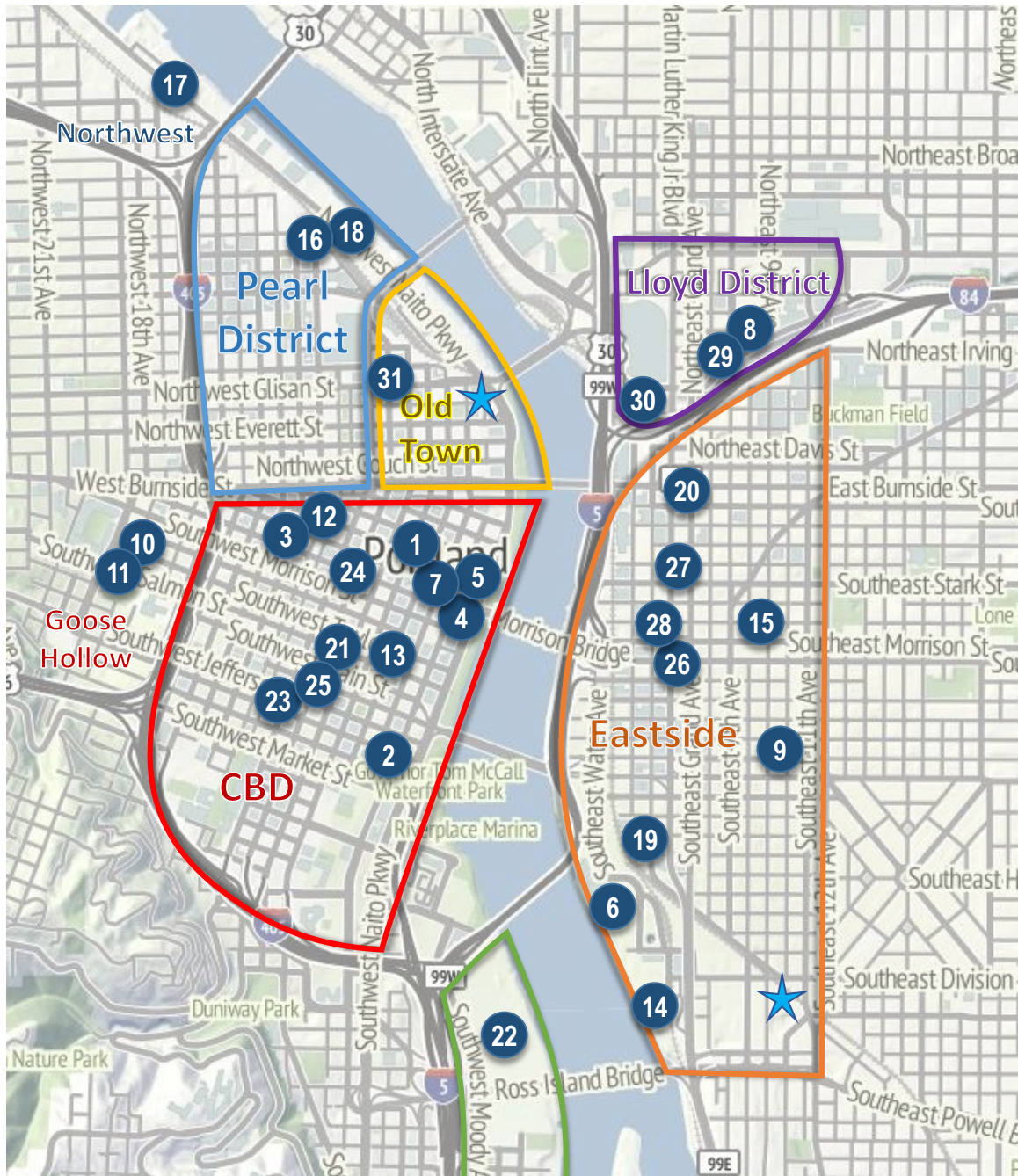
With the preliminary geographic focus from Phase 1 complete and a preliminary space need underway, the next step was to introduce the NW Natural headquarters office opportunity to the local marketplace to identify the full range of existing and planned buildings that could conceivably meet NW Natural's needs. To accomplish this, Cushman & Wakefield issued a request for information (RFI) on March 11, 2016 that was distributed to the Portland-area landlord and developer community. In order to cast as wide a net as possible, the RFI only provided very basic criteria such as the target move-in date (May 2020), space needs (approximately 160,000 square feet), and geographic focus (Portland's Central City, including both west and east sides of the Willamette River).

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In total, this initial RFI generated 33 responses, between March and August 2016 (including One Pacific Square and the Central Eastside site) that included mostly new developments, but also several existing buildings. Subsequently, a second RFI was sent to these respondents to gather additional information on critical criteria, including parking, accessibility by public transit, building size, and seismic resilience. As a result of that process, 22 responses were obtained for further consideration and analysis (the other sites declined to resubmit or were not actually able to accommodate the building size).

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Figure 2. Map of RFI Response Locations

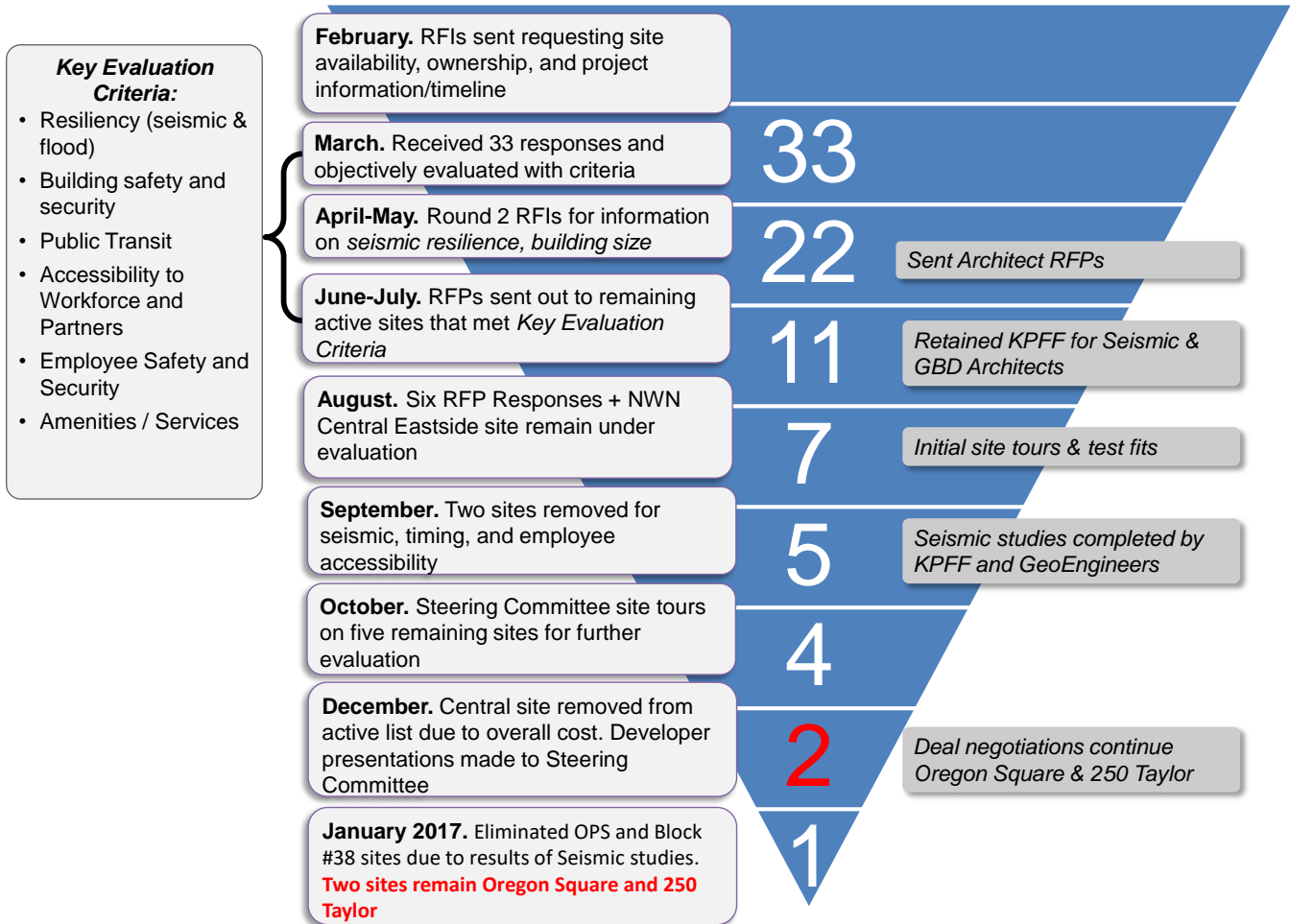


Source: Cushman & Wakefield

The 22 sites were then evaluated and prioritized using the criteria developed in Phase 1. This prioritization resulted in 11 sites for further consideration (10 proposed sites plus NW Natural's owned property in the Central Eastside). To this list of sites, a request for proposals (RFP) was sent that requested additional detail such as preliminary pricing, lease terms, and building details.

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Selection Process Overview (2016-2017)



The RFP was sent to 10 developers for a response due in early August. In addition to these properties, NW Natural’s own Central site located in Portland’s Central Eastside was carried forward for consideration as a headquarters site. NW Natural received six RFP responses from the following developments:

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Property	RFP Sent	Response	Comments
1. One Pacific Square	Yes	Yes	Eliminated due to building seismic requirements and expected accessibility challenges in the neighborhood after a major seismic event
2. 3 rd and Taylor	Yes	Yes	Continued to negotiate and reduced rental rates
3. Oregon Square	Yes	Yes	Continued negotiations but eliminated due to long-term construction of the super block, the need for further entitlements to allow for office development, and developer's inability to commit to deal terms.
4. Block 38	Yes	Yes	Eliminated due to high rental rates and potential risk with occupying a mixed-use building
5. U.S. Bancorp	Yes	Yes	Eliminated due to seismic retrofitting
6. 1100 SE MLK	Yes	Yes	Eliminated from further consideration due to distance from public transportation, lack of employee amenities, and safety.
7. Central Site	N/A	N/A	NW Natural-owned site. Eliminated due to its challenging environmental conditions (ongoing remediation needs), the high cost to construct a parking structure necessary to accommodate office development, relative lack of employee amenities in the surrounding area, and overall high cost to build.

Resulting from this phase of the screening, four sites remained:

- **One Pacific Square:** Although eliminated, it was deemed prudent for negotiation purposes to keep under consideration as a benchmark and potential fallback option.

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- **Block 38:** Scored highly on qualitative metrics. There were concerns about the site's proximity to the Morrison Bridge and the area's accessibility after a major earthquake.
- **Oregon Square:** The highest ranked on qualitative metrics, lowest seismic hazard
- **3rd and Taylor:** Scored highly on qualitative metrics, second lowest seismic hazard, lowest development risk and single-occupancy (allowing for security and operational control)

Test Fits

Over the next couple of months, test fits were conducted for these sites. The test fit process involved GBD Architects working with each developer to lay out the draft development program on each building utilizing the new workplace standards developed earlier. The purpose was to ensure that NW Natural's program could actually fit in each space and to identify key differences in terms of floor layout, departmental adjacencies, growth flexibility, space efficiency, and other factors.

Seismic Analysis

Over the spring and summer of 2016, the Steering Committee identified seismic resiliency as a continuing area of concern, recognizing that as a utility, it is essential that NW Natural remain operational throughout and immediately following a major earthquake, specifically a Cascadia Subduction Zone earthquake, which is a major offshore earthquake that many experts indicate is overdue in the region. While seismic stability was preliminarily considered during Phase 1, it was only done so using very general seismic mapping tools publicly available by the State of Oregon and the City of Portland since the focus of the effort was to narrow down geographic areas, but not identify or eliminate any particular sites. Now that specific sites and buildings were being considered, the committee determined that more detailed seismic analysis was merited.

To screen potential sites for seismic suitability, NW Natural retained GeoEngineers, Inc., a geologic engineering consulting company, to evaluate soil and geologic conditions in order to preliminarily assess the potential for each of the four remaining sites to be impacted by seismic hazards during a large subduction zone seismic event. A key aspect of the analysis was to understand not only the stability of the site itself (which could almost always be mitigated through engineering of the building in a new-build scenario), but also the potential impacts to the surrounding neighborhood. Since liquefaction or lateral spread of the soils surrounding a building could render an entire neighborhood inaccessible following an event (even if NW Natural's own building survived), understanding the seismic suitability of each site's surrounding area was of critical concern. The results of this analysis are detailed in the appendix. The analysis found that the Oregon Square site had the most stable soils and was at the lowest risk of liquefaction and lateral spread, meaning that this site had the lowest risk of access to the site being compromised after an earthquake. The site at 250 Taylor was ranked second in terms of lowest risk, followed by Block 38. NW Natural's current headquarters at One Pacific Square was deemed the highest seismic risk among the remaining sites.

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The results of this analysis was factored into the decision to shortlist the final two sites, as described later.

One Pacific Square Seismic Analysis

As an existing building built under now-obsolete building codes, NW Natural's existing building would need to be upgraded to make it operational following a seismic event. While the proposal for One Pacific Square included some seismic upgrades to achieve an operational status, it was difficult to compare it to a newly constructed building on an apples-to-apples basis since there were several seismic upgrades not included in the OPS proposal that would be incorporated in a new-build alternative. There were also significant concerns about the liquefaction and lateral spread in the surrounding neighborhood. Coupled with a high number of unreinforced masonry buildings, the area would potentially be inaccessible after a major earthquake, regardless of the stability of OPS itself.

Revised Developer RFP

Developers of the four sites were then asked to prepare a cost proposal (revised RFP) for each site to start the lease negotiation process. Developer interviews were held to learn more about each team's background, project vision, building specifics (parking, shell design, TI criteria), development timeline, and commitment to sustainability.

There were two site tours completed by Steering Committee members to walk each site for further evaluation. Each attendee was provided a tour booklet with a property description, checklist and summary matrix to score each site relative to one another.

Based on the financial information received in each proposal, a total cost analysis was prepared in order to compare the options. Throughout this process, the qualitative criteria were revisited to confirm the rankings and the additional criterion of developer risk was added. Developer risk incorporates factors that could impact a developer's ability to deliver the project on time such as confirmed financing, entitlements, and developer experience.

With the detailed seismic analysis of OPS and a preliminary financial analysis of each option complete, two sites emerged as higher ranked sites and were recommended to move forward for lease negotiations. These were:

- 3rd and Taylor
- Oregon Square

Based on the concerns noted above, OPS was eliminated from further consideration. Likewise, the total lease costs at Block 38 were the second highest. Combined with the fact that its location was potentially inaccessible after a major seismic event, it was also eliminated at this stage.

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Lease Negotiations

NW Natural initiated a negotiation process with each of the two remaining sites. From March through June of 2017, the negotiation team worked back and forth with both developers to refine the lease terms, building program, and other details in order to arrive at terms that were best for NW Natural and that indicated a clear winner.

Oregon Square scored better on the qualitative analysis and was the highest ranked for seismic safety. However, over the course of negotiations, several risks to the project emerged, including:

- The likely phasing of development of the multi-block project, meaning that NW Natural would potentially have several years of adjacent construction;
- This phasing also impacted the efficiency and cost of the shared parking structure;
- The developer was unwilling to guarantee in writing several terms that were initially promised.

Meanwhile, negotiations with the developer of 250 Taylor were productive, resulting in several pricing concessions and design improvements that made it a better financial decision in the end. Further, this building already had its land use entitlements and the developer was committed to breaking ground in 2017 with or without a lease, so it had a very high level of certainty with little risk that the timeline would not be met.

To further mitigate risk, NW Natural crafted its own lease rather than used the developer's template.

Conclusion

The multi-phase process outlined above was deliberative, transparent, and has allowed NW Natural to reach a prudent headquarters decision that:

- Ensures that NW Natural is fully operational following a major seismic event;
- Creates a work environment that supports employee productivity;
- Maintains a transit-served, central-city location that supports NW Natural's efforts to attract the most qualified employees;
- Optimizes lease terms for ratepayers.

Appendices

Appendix A: Architect RFQ

Appendix B: Developer RFI

Appendix C: Developer RFP

Appendix D: Seismic White Paper

Appendix E: Summary of Criteria Scores

Appendix F: Financial Analysis

Matthew C. Johnson
Senior Director

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Matt.Johnson@cushwake.com
cushmanwakefield.com



March 14, 2016

Firstname Surname

Address 1

Address 2

City Postcode

Country

RE: Request for Proposal for Architectural Services

Dear Name,

Cushman & Wakefield of Oregon, Inc. represents Northwest Natural ("NW Natural"), a utility company that currently occupies approximately 170,000 rentable square feet in the One Pacific Square Building, located at 220 NW 2nd Avenue, Portland, Oregon. The NW Natural lease is set to expire May 31, 2020. Through internal discussions between Cushman & Wakefield and our client, we have determined that [REDACTED] is one of four (4) firms we believe to be strong candidates to assist with space programming needs and help NW Natural further analyze building and space opportunities in the Portland market.

Project Overview:

The awarded firm will be a design partner to the project team and will work closely with the client, NW Natural, and the brokerage and workplace strategy team, Cushman & Wakefield. This firm will provide preliminary planning services to NW Natural for purposes of developing a real estate strategy. The selection of a firm to provide space planning services may not guaranty the same will deliver additional services as indicated below.

Three general scenarios have been identified as potential real estate strategy options:

1. NW Natural will stay in its current location and renovate occupied floors with potential seismic retrofitting of the building.
2. NW Natural will exit its current location and relocate to an existing building in Portland that can meet a June 1, 2020 timeframe.
3. NW Natural will work with a developer to build a building to house their multiple business lines and operational needs. In this scenario, a developer would have the option to hire the architect, or an alternative architect, to design a new core and shell facility.

Scope of Work:

You are invited to submit a proposal to provide architectural services for this project in (2) phases:

1.0 (Pre Lease): April 2016 – June 2017

- 1.1 Meet with Client representative to determine test fit programming data and assess the existing premises.



- 1.2 Physically inspect the proposed sites as required and review available architectural and engineering documents to become familiar with site conditions, identify deficiencies or remedial scope, and define planning and designing requirements of the Projects.
- 1.3 Prepare test fits which accommodate the spatial requirements. The test fits shall delineate the locations of full and partial height walls, doors, relites, casework, significant equipment, and furniture.
- 1.4 Present the test fits to the Client and identify required changes.
- 1.5 Provide one set of revisions to the test fits.
- 1.6 Prepare pricing plans (with information on finishes, walls, ceilings, floors, etc.) for the preliminary estimating of project costs.

2.0 (Lease Execution): July 2017 – May 2020

- a) *Design Development*
- b) *Construction Drawings*
- c) *FF&E Coordination*
- d) *Construction Administration*
- 2.1 Complete Design Development package, indicating all elements of fixed construction and locations of equipment for all areas of the project. Participate in value engineering exercises to meet the designated project budget.
- 2.2 Develop furniture specifications to bid to furniture dealers chosen by the Client for competitive furniture design and pricing. Lead the overall furniture procurement process.
- 2.3 Perform preliminary plan check and code compliance review work with the City Building Department and Fire Department, and revise documents as necessary for submission to Client for final review and approval.
- 2.4 Prepare a complete set of Construction Documents for the project defined by the selected real estate strategy direction. Coordinate with the appropriate design and specialty consultants as required by the scope of the project. Assume mechanical, electrical, plumbing, low voltage, fire protection and access control are design-build.
- 2.5 Provide general construction observation services including, but not limited to: regular participation in construction meetings, on-site review of major architectural elements, and issuing necessary field clarifications.
- 2.6 Lead punch walk activities and coordinate with Contractor to obtain field sets of as-built information to be provided to Client.



Proposal Format:

If your firm is interested in participating in this process, we would kindly ask that you respond to the following items with a written proposal along with any data that you believe is relevant to your capabilities and qualifications by April 1, 2016. It is our intention to interview your firm’s project team at a time to be determined during the first week of April.

1. General information on your firm (i.e., how long have you been in business, number of architects and designers, etc.)
2. Services and resources available to NW Natural to assist them with analyzing buildings and spaces in the Portland CBD.
3. Qualifications of the team members who would be working directly on the project and past experience on similar projects.
4. General approach to the project including recommendations on phases and timelines.
5. Fees. Please provide NW Natural with a phased approach and a menu of fees associated with each phase of the process in the following format:

Provide a fee structure to complete the project per phase:

Phase 1.0 (Pre-Lease): Test fits with pricing detail \$ _____

Fee to be paid by Landlord at a market rate of \$0.15 per RSF

Phase 2.0 (Lease Execution): DD, CD, FF&E, Construction \$ _____

We understand that the current scope for Phase 2 is not clearly defined, as such, we are asking for a ROM fee (for phase 2) to inform budgeting efforts. Both the phase 2 scope / fee will be negotiated once a real estate strategy is determined.

- a) Identify mark-up associated with the assignment of engineers or consultants with in your scope
- b) Identify all exclusions, qualifications, or exceptions to your proposal or the Scope of Services noted; specify any non-standard or optional services and indicate associated costs as alternates
- c) Identify reimbursable expenses

Provide the aforementioned information in a 25 page (maximum) PDF file.

Scoring will be based on the following schedule:

Relevant / translatable experience	20%
Individual / Team qualifications	20%
Project Approach	20%
Scope of Services and associated fee	20%
Proven success with development community	15%
References	5%



Contract:

The Client will enter into a contract with the selected architect for Phase 1.0 base scope of services to commence immediately. Phase 2.0 will be evaluated and decided upon as a change order to the base contract upon the finalizing a real estate strategy.

During this architectural and design selection process, please contact Matt Johnson at Cushman & Wakefield, matt.johnson@cushwake.com with any questions in a formal "Request for Information" submittal. Each submitted question and corresponding response will be distributed to all competing firms.

Sincerely,

Matthew Johnson
Senior Director

Matthew C. Johnson
Senior Director

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March 11, 2016

To Whom It May Concern:

On behalf of NW Natural, this letter shall serve as a Request for Information ("RFI") relating to its corporate headquarters. NW Natural is seeking information for potential projects, existing buildings or parcels of land that could accommodate its headquarters operations. Cushman & Wakefield has been retained by NW Natural to uncover and evaluate all potential real estate opportunities for lease or purchase in the Portland Metropolitan Area.

Pertinent information regarding NW Natural's Headquarters:

• Current Location:	One Pacific Square
• Size:	Estimated to be 140,000 to 180,000 RSF
• Lease Expiration:	May 31, 2020
• Location Preference:	CBD, Old Town/NW Triangle, Close-in Eastside, Lloyd District and South Waterfront

Please provide the following information in your response:

1. Site/Building Address
2. Ownership Structure
3. Project Information:
 - a. Total building size, if applicable
 - b. Scope of project (i.e., office, multifamily, retail, etc.)
 - c. Size of proposed site
 - d. Zoning
 - e. Brief description of project
4. Project timing and ability to meet the occupancy date

Submit general information requested above to Cushman & Wakefield along with building images, floor plans, and any additional information that would be helpful in evaluating the proposed project. Initial responses must be submitted via e-mail to matt.johnson@cushwake.com by close of business Friday, March 25th, 2016.

Best Regards,

Matthew C. Johnson
Senior Director

c: Mark A. Carnese, Cushman & Wakefield
Thomas J. Usher, Cushman & Wakefield

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[Date]

Via email: [email]

[Contact Name]

[Contact Role]

[Company]

[Address]

[City, State, Zip]

Re: NW NATURAL RFP – [Address]

Dear [Name]:

Thank you for your response to our RFI and your participation in this process. Cushman & Wakefield has been retained as NW Natural’s real estate advisor and is authorized to explore all options as it relates to their headquarters. NW Natural’s current lease expires May 31, 2020, and they have begun the process to evaluate their long-term tenancy options.

On behalf of NW Natural, we are pleased to present this Request for Proposal (“RFP”) that describes our client’s requirements.

1.	Tenant:	NW Natural
2.	Landlord:	Please state the name of the Landlord and Management Company. Please describe the structure of the building ownership.
3.	Lease Commencement:	The lease will commence no later than June 1, 2020.
4.	Term:	Please propose both a ten (10) and fifteen (15) year lease term.
5.	Beneficial Occupancy:	NW Natural shall have ten (10) weeks early access to the space prior to lease commencement, in order to complete the installation of furniture, telecom and other equipment and fixtures.
6.	Initial Premises:	NW Natural projects the initial space requirement to be approximately 190,000-210,000 rentable square feet. Please state the location and size of the floors proposed. Please include the RSF as well as the USF calculations. NW Natural will require a review of the floor plate with the proposal. If this is not available please describe, in detail, the rough dimensions of the floor plate as well as timing for completion of the floor plate design.

No warranty or representation, expressed or implied, is made as to the accuracy of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions, imposed by our principals.
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		All space measurements will need to conform to current BOMA standards.
7.	Rental Rates:	Please outline the proposed base rent, including rent abatement, on a rentable square foot basis for the initial term of the extension. The Base Rent should be based on the office floors, exclusive of the storage.
8.	Rental Adjustments:	<p>NW Natural will pay its proportionate share of increases in operating expenses (including taxes) over a base year, which shall be the first year of occupancy. Operating expenses and real estate taxes shall be calculated according to Generally Accepted Accounting Principles (GAAP). In no event shall NW Natural be charged for capital improvements. Landlord shall provide a yearly statement of expenses and NW Natural shall have the right to audit such statement. NW Natural requests a three percent (3%) non-cumulative cap on operating expenses.</p> <p>If the building does not have at least ninety-five percent (95%) of the rentable area occupied at any time during the Base Year, the base for Operating Expenses and Property Taxes may be increased to reflect what such costs would have been if they had been calculated on the basis of 95% building occupancy and full Property Tax Assessment.</p> <p>Landlord agrees that Landlord will not collect, or be entitled to collect, Operating Expenses from all of its tenants in an amount which is in excess of one hundred percent (100%) of the Operating Expenses actually paid by Landlord in connection with the operation of the Building and the Real Property.</p> <p>In the event Landlord increases the scope of services provided, the cost of any increased services, shall be added to the Base Year and only increases to the costs of adding such services shall be charged to NW Natural as an escalation.</p> <p>NW Natural will require audit rights within the lease.</p>
9.	Hold Space:	NW Natural shall have the right, by giving notice no later than six (6) months prior to the Commencement Date (as hereinafter defined), to increase or reduce the Initial Premises by up to approximately 20,000 RSF (the "Hold Space") on the same terms and conditions as those applicable to that portion of the Initial Premises described above.
10.	Storage Space:	NW Natural may require storage space in the building. Please indicate the amount of storage space available, as well as the location and rate.



11.	Option Space:	NW Natural seeks expansion within the building in half and full floor increments on the anniversary of the third, fifth, and seventh years. Please describe how expansion space can be accommodated.
12.	Right of First Refusal Space:	NW Natural shall have a Right of First Refusal on any space in the Building which is unencumbered as of the date of the lease, or which becomes available for lease subsequent to the date of the lease ("Refusal Space") at the rental rate and terms consistent with the then current rent. . This assumes a tenant improvement contribution from the Landlord proportionate to the Tenant Improvement Allowance provided to NW Natural under this extension and the remaining term on the lease extension. Please identify any other tenant's existing expansion rights.
13.	Termination Option:	NW Natural will require a right to terminate the lease at the end of the 10 th year with 270 days prior written notice. The termination penalty will equal the unamortized tenant improvement costs and leasing commissions calculated on a straight line basis. The termination fee will be paid at the date of termination rather than notice date.
14.	Contraction Option:	NW Natural shall have the right to reduce its occupancy in the Building (and surrender such space to the Landlord) by up to one floor at any time after the 5 th year of the lease term. NW Natural shall notify Landlord of its intent to reduce its occupancy no later than six (6) months prior to the effective date of such surrender and reduction in occupancy. NW Natural shall pay Landlord an amount equal to the unamortized (straight-line year amortization period, no interest) portion of the Tenant Improvement Allowance (as hereinafter defined) for the portion of the Premises so surrendered. Such payment shall be due prior to the end of the calendar month preceding the effective space reduction and surrender date.
15.	Purchase Option:	NW Natural will require a right to purchase the Building.



<p>16.</p>	<p>Tenant Improvement Allowance:</p>	<p>Please indicate a tenant improvement allowance for both the 10 and 15 year lease terms.</p> <p>Landlord will provide the Premises to NW Natural in a warm shell condition. Please provide a detailed description with this proposal.</p> <p>If NW Natural's cost of construction exceeds the Tenant Improvement Allowance, NW Natural may request that Landlord finance the excess costs at an interest rate fixed at the time the improvements in question are made at the lower of (i) the "prime rate" as announced by Bank of America, Portland, Oregon office or (ii) the rate payable by Landlord pursuant to any existing institutional mortgage financing then encumbering the Building. Any costs amortized by the Landlord shall be paid by NW Natural as additional rent in equal monthly installments during the Initial Term of the Lease.</p> <p>NW Natural shall have the right to use any portion of the Tenant Improvement Allowance for tenant improvements, architectural/construction management fees, engineering fees, construction fees, built-in and movable furniture, computer networks and telephone systems, demolition, security systems, relocation costs and any other use desired by NW Natural; and/or at NW Natural's election, convert such Tenant Improvement Allowance to rental abatement. NW Natural shall have the option of designating whether NW Natural or Landlord shall be responsible for controlling the tenant improvement construction. There shall be no fee for Landlord's supervision, Landlord's engineers or architects or otherwise in connection with design and construction, regardless of whether Landlord is chosen to be responsible for the tenant improvement construction. Landlord shall provide customary construction warranties for Landlord's work, and if Landlord is designated to control the tenant improvements, Landlord shall provide such warranties for such NW Natural work.</p> <p>Should Landlord be responsible for completing the improvements, then Landlord shall competitively bid the general contractors for the construction within NW Natural's space. NW Natural shall have the right to participate in the selection of a general contractor, including bid review, and the separate right to choose two (2) of the three (3) of the general contractors to submit bids on the project.</p>
<p>17.</p>	<p>Space Planning and Design:</p>	<p>Landlord will provide an allowance of fifteen cents (\$0.15) per rentable square foot plus reimbursable expenses to NW Natural's architect for this service. Such allowance shall be payable even if NW Natural does not ultimately select the Building.</p>



18.	Refurbishment Allowance:	NW Natural will require work to be done to the Premises every five (5) years. Please provide an allowance for NW Natural at the end of the fifth (5 th) year and tenth (10 th) year.
19.	Restoration:	Subject to Landlord's review and approval of future alterations. NW Natural will have no obligation to restore the leased Premises at the end of the lease term or extensions thereof should it vacate.
20.	Renewal Option:	NW Natural shall have three (3) Renewal Options of five (5) years to extend the Term with respect to all of the Premises, or with respect to any or all full floor portion(s) of the Premises by giving written notice to Landlord of its intention to exercise each such option no later than twelve (12) months prior to the expiration of the then-current term. The renewal rental rate will be at 95% of Fair Market Value to be defined in a lease agreement.
21.	Holdover:	NW Natural shall have the right to Holdover for up to six (6) months, at the then current lease rate. The Holdover rate will be increased to 125% after that time.
22.	Arbitration:	In addition to all of the legal rights and remedies that are available to NW Natural at law or in equity, in the event that any dispute or disagreement between Landlord or NW Natural arises under the Lease or any related document, the matter may, at NW Natural's sole election, be heard by judicial reference conducted in accordance with the State of Oregon Code of Civil procedure and Oregon Evidence Code, or by JAMS dispute arbitration. A decision rendered in any of the above proceedings shall be final and binding on Landlord and judgment thereon may be entered in any court of competent jurisdiction and be non-appealable.
23.	Right to Assign and Sublease:	NW Natural will require the continuing right to assign the lease or sublet all or any portion of the premises at any time during the primary term and all extensions thereof, with landlord's consent which shall not be unreasonably withheld or delayed, and to retain 100% of any rentals resulting from the sublease(s) or assignment(s). Subleases to any subsidiaries or affiliates shall not require landlord's consent.
24.	Use:	NW Natural shall be permitted to use the Premises for general office Use and any other legally permitted uses compatible with a first-class office building.
25.	Sustainability:	Please indicate Landlord's intentions in certifying the building (i.e. LEED, Green Globe, etc.).



26.	Parking:	<p>Parking is very important to NW Natural. Landlord to maximize the amount of on-site parking available and will assist NW Natural in achieving a ratio close to 2.5 per 1,000 RSF both onsite and nearby parking facilities. Please indicate the initial parking rate per stall per month. The parking cost will not increase more than 3% per annum on a cumulative basis.</p> <p>Please also indicate how many reserved stalls, and the associated cost, will be provided to NW Natural.</p>
27.	Bike Parking:	<p>Please describe in detail what the Building will provide in the way of secured bike storage, including the proximity of showers and lockers to the bike storage area.</p>
28.	Exercise Room:	<p>Please indicate if Landlord is willing to provide a building exercise room as a tenant amenity.</p>
29.	Building Signage:	<p>NW Natural shall be permitted Building identity which shall include NW Natural's logo and name prominently displayed on the Building, on any monuments in front of the Building, on the walls of the Building first floor lobby elevator bank, and in all elevators (elevator tags) that have access to the reception and service/delivery floors.</p> <p>The initial cost of NW Natural's signs shall be included as part of the Tenant Improvement Allowance. Maintenance, repair, restoration and removal of such signs shall be included in Operating Expenses. All NW Natural sign rights shall be transferable in whole or in part by NW Natural to a successor and/or permitted assignee. The Building name or address shall not be changed without NW Natural's prior approval.</p> <p>NW Natural will retain all signage rights so long as they maintain 75,000 RSF or more of occupancy.</p>
30.	Heating, Ventilating & Air Conditioning:	<p>NW Natural requires HVAC service to begin at 6 a.m. until 6 p.m. during weekdays and 8 a.m. until 1 p.m. local time on Saturdays, at no additional charge. NW Natural shall also be allowed to install supplemental air-conditioning units with a capacity of 40 tons of HVAC for its IT equipment room and other areas, which shall be allowed to operate 24 hours per day, 7 days per week, at no additional charge. Landlord shall not charge for hook-up, installation, or similar fees. Please describe any charges for after-hours HVAC and fan only service. Additional HVAC will be web based computer controlled to allow remote requests for system operation after hours.</p>



31.	Building Antenna:	NW Natural shall have a preferential right, without rental or other charge, to use a portion of the roof, to the extent reasonably practicable, to install, operate and maintain telecommunications antennas, microwave dishes and other communications equipment. Such use shall be subject to receipt of all required governmental approvals and shall not unreasonably interfere with the Building systems.												
32.	Property Management:	Please indicate the management company for the Building and the current property management fee structure. Also, indicate if the property management team is on-site.												
33.	Amenities/Building Renovations:	Please identify any Building amenities that will be available for NW Natural's use or planned for the Building.												
34.	Seismic:	<p>The premises shall meet the following seismic criteria for both structural and non-structural elements:</p> <table border="1" data-bbox="561 989 1414 1493"> <thead> <tr> <th data-bbox="561 989 967 1094"></th> <th data-bbox="967 989 1187 1094">BSE-1N Seismic Hazard</th> <th data-bbox="1187 989 1414 1094">BSE-2N Seismic Hazard</th> </tr> </thead> <tbody> <tr> <td data-bbox="561 1094 967 1199">Structural Performance Level (100% of building area)</td> <td data-bbox="967 1094 1187 1199">Immediate Occupancy</td> <td data-bbox="1187 1094 1414 1199">Life Safety</td> </tr> <tr> <td data-bbox="561 1199 967 1346">Non-Structural Performance Level (40% to 50% of building area)</td> <td data-bbox="967 1199 1187 1346">Operational</td> <td data-bbox="1187 1199 1414 1346">(Not Considered)</td> </tr> <tr> <td data-bbox="561 1346 967 1493">Non-Structural Performance Level (remainder of building area)</td> <td data-bbox="967 1346 1187 1493">Position Retention</td> <td data-bbox="1187 1346 1414 1493">(Not Considered)</td> </tr> </tbody> </table> <p>Seismic Hazard Levels, Structural Performance Levels, and Non-Structural Performance Levels shall be as defined in ASCE 41-13 "Seismic Evaluation and Retrofit of Existing Buildings."</p>		BSE-1N Seismic Hazard	BSE-2N Seismic Hazard	Structural Performance Level (100% of building area)	Immediate Occupancy	Life Safety	Non-Structural Performance Level (40% to 50% of building area)	Operational	(Not Considered)	Non-Structural Performance Level (remainder of building area)	Position Retention	(Not Considered)
	BSE-1N Seismic Hazard	BSE-2N Seismic Hazard												
Structural Performance Level (100% of building area)	Immediate Occupancy	Life Safety												
Non-Structural Performance Level (40% to 50% of building area)	Operational	(Not Considered)												
Non-Structural Performance Level (remainder of building area)	Position Retention	(Not Considered)												
35.	Emergency Generator Power/UPS:	<p>NW Natural requires emergency power back up for roughly 50% of their occupancy to be fully operational. Please specify what is available. If the building generator is not available, NW Natural requires the right to install a generator for their exclusive use. Describe both power and capacity available.</p> <p>NW Natural also requires installation of UPS system in premises. Please specify any limitations related to UPS install in the building.</p>												



36.	Structural (excluding Seismic) and Mechanical Elements:	<p>Please confirm that Landlord shall maintain, in a first class manner, weather tight, and in compliance with all appliance laws (including without limitation, the Americans with Disabilities Act), the Building's exterior envelope and any common areas, together with all structural elements of the Building and all HVAC, mechanical, electrical, lighting, plumbing, and life safety systems serving the Premises and any common areas.</p> <p>Base building envelope and roof shall be in watertight, structurally compliant, and in overall good condition and repair. If available, Owner to provide documentation of envelope and roof condition and/or permit Tenant to inspect and evaluate property condition to mitigate issues regarding water intrusion.</p> <p>Please confirm that the Landlord will represent and warrant to Tenant that all of the foregoing shall be in good working order as of Lease commencement and have a remaining useful life of at least the length of the initial Lease Term.</p> <p>Please provide written specifications for the Building's existing electrical system, including voltage service level and number of primary service feeds serving the Building, as well as the maximum live and dead floor loads of the Premises per RSF.</p>
37.	Most Favored Nation:	<p>With respect to overtime and above standard charges Tenant shall pay no more than the lowest amount paid by any other tenant of the Building now or in the future.</p>
38.	Interruption of Services:	<p>If Building services are interrupted for more than two (2) consecutive days and as a result of such circumstances any portion of the Premises is rendered untenable (including inability to access the Premises or the Building) then Base Rent and additional rent for operating expenses and real estate taxes shall abate in such interruption and continuing until the Premises is again tenantable.</p>
39.	Building Services/Hours of Operation:	<p>Please describe all of the services provided by Landlord and the standard hours of operation for the Building. Identify the after-hours charge for HVAC.</p>
40.	Non-Disturbance:	<p>Landlord shall secure and deliver to NW Natural a Non-Disturbance Agreement from the existing Lender at no charge to NW Natural. Any future subordination will be conditioned upon getting a Non-Disturbance agreement.</p>



41.	Compliance:	The Lease shall provide that Landlord shall be responsible for Compliance, at Landlord's sole cost and expense, with all statutes, rules, ordinances, orders, codes and regulations, and legal requirements, and standards issued thereunder, as the same may be enacted and amended from time to time, which are applicable to all or any part of the physical condition and occupancy of the Building or additions thereto.
42.	Hazardous Materials:	Landlord shall warrant and represent that there is no asbestos or other hazardous material in the Building. If such is discovered during the term of this Lease or any extensions thereof, Landlord shall immediately remove, or NW Natural may do so if Landlord fails to, and deduct the cost thereof from rental, or, at NW Natural's option, terminate this Lease.
43.	Americans with Disabilities Act (ADA):	Landlord shall warrant that the Building (including garages, elevator lobbies, elevator cabs, restrooms, and path of travel through the Building) and all common areas comply with the current American with Disabilities Act.
44.	Naming Rights:	NW Natural will be provided with naming rights for the project, assuming NW Natural is leasing a minimum of 75,000 rentable square feet.
45.	Non-personal Rights:	All of NW Natural's rights under the Lease (including, without limitation, NW Natural's rights to lease additional space, extend the Initial Term, reduce the Premises and/or elect to cancel the Lease) may be exercised by NW Natural or an assignee of NW Natural, and shall not be personal to NW Natural.
46.	Disclosure and Brokerage Agreement:	It is acknowledged that Cushman & Wakefield represents NW Natural in this transaction and both parties consent thereto. In the event a Lease is fully executed between the parties, Cushman & Wakefield shall be paid a market Brokerage Commission by Landlord pursuant to a separate agreement. Landlord agrees to pay to Tenant's broker a fee of five percent (5%) of the full service lease consideration for the first five (5) years of the Initial Term and two and one half percent (2.5%) thereafter. The commission payment will be due and payable upon lease execution.

The terms and conditions set forth above, which are subject to the NW Natural's Executive Committee approval, shall not be binding upon either Landlord or NW Natural until such time as the Lease and any other appropriate documents have been approved by the duly authorized representatives of both Landlord and NW Natural and then duly executed and delivered by both Landlord and NW Natural.



Landlord acknowledges that Landlord has been advised that NW Natural is simultaneously presenting requests for proposals to other potential landlords. NW Natural reserves the right at any time to accept any other proposal without further notice to Landlord.

Please deliver your proposal to the undersigned by no later than 5:00pm on Friday, July 22nd, 2016.

In the meantime, please call if you are need any clarification or additional information.

Sincerely,

Matt Johnson
Senior Director

cc: Mark Carnese
Wayne Pipes



Memorandum

Date February 9, 2017
To Wayne Pipes, NW Natural
From Chris Zahas, Leland Consulting Group
CC Matt Johnson, Cushman & Wakefield
Subject Seismic Impacts
Project NW Natural HQ Strategy

NW Natural has spent the past two years implementing a strategic planning process to develop criteria and evaluate options for a new headquarters office building. Based on this process, seismic resiliency emerged as an important factor in selecting an office location. This white paper summarizes the ways that seismic resiliency was evaluated during the process and how it resulted in the elimination of certain building locations as options.

The work to evaluate the seismic risk of potential locations involved several technical research tasks:

- Review of publicly-available seismic risk data and screening of potential geographic districts;
- Evaluation of 30 specific sites against potential seismic hazards;
- Detailed analysis of four short-listed sites; and
- Research and consultation with experts regarding access risk to downtown districts following an earthquake.

PHASE 1 RESEARCH

The Phase 1 process focused on developing evaluation criteria and using them to screen geographic areas in the central city to identify priority areas for a future building. NW Natural and its consultants used publicly-available seismic risk data provided on portlandmaps.com, the City of Portland's online GIS tool.

Generally, this research found that locations in Old Town, the Pearl District, and South Waterfront had the highest seismic risk. Locations in the Central Business District (CBD) varied depending on location, and eastside locations (Lloyd District and Central Eastside) had the lowest seismic risk.

At the conclusion of Phase 1, no geographic areas were eliminated from consideration outright, but several areas were identified for priority in the evaluation going forward.

PHASE 2 RESEARCH

In Phase 2, the headquarters location search moved from the district level to specific opportunity sites that were identified through outreach to landlords and developers. Over the course of Phase 2, these sites were evaluated against the Phase 1 criteria on a site-specific basis. At the same time, the evaluation criteria were refined and expanded based on new information and Oregon's evolving understanding of seismic risk – in particular, the risk from a Cascadia Subduction Zone earthquake, which is a major offshore earthquake that many experts indicate is overdue in the region.

Multiple Site Analysis

NW Natural identified potential headquarters sites through a request for information sent to landlords and developers in March 2016. From this process, 33 sites were presented for consideration. In April and May of 2016, a refined RFI narrowed the list of potential sites to 30 based on size and parking requirements. In order to screen these sites for seismic risk, NW Natural retained KPFF Consulting Engineers to evaluate each of these against several seismic and environmental criteria, including location in a liquefaction zone, the risk of lateral spreading, the presence of groundwater within 20 feet, and whether it is in a known flood hazard area. This research was based in part on KPFF's extensive understanding and history of analysis of properties throughout Portland's central city.

The results of this analysis helped NW Natural prioritize 10 sites to receive detailed RFPs, six of which submitted responses. Over the fall of 2016, two of these sites were further eliminated from consideration for seismic and other reasons, leaving four sites for consideration. The remaining four sites were:

- One Pacific Square – NW Natural's existing headquarters located in Old Town
- Oregon Square – A proposed building located in the Lloyd District
- Block 38 – A proposed mixed-use building located at the west end of the Morrison Bridge
- 250 Taylor – An office building to be built on SW Taylor between 2nd and 3rd avenues

Four Sites Analysis

With four sites remaining, NW Natural desired to understand the seismic risk of each of them. At this stage, they hired GeoEngineers to evaluate each one in order to better understand how subsurface soil conditions could impact NW Natural's ability to be operational following a seismic event. All four buildings were assumed to be able to be operational as structures, but it was still unknown whether there would be external conditions that might make access to these buildings problematic. From this analysis, it was determined that the Oregon Square site had the most stable soils and was at the lowest risk of liquefaction and lateral spread, meaning that this site had the lowest risk of access to the site being compromised after an earthquake. The site at 250 Taylor was ranked second in terms of lowest risk, followed by Block 38. NW Natural's current headquarters at One Pacific Square was deemed the highest seismic risk among the remaining sites.

OPS Seismic Retrofit Cost Estimating

While the proposal for One Pacific Square included some seismic upgrades to achieve an operational status, it was difficult to compare it to a newly constructed building on an apples-to-apples basis since there were several seismic upgrades not included in the OPS proposal that would be incorporated in a new-build alternative, namely retrofitting the building's curtain wall to stay intact after an earthquake.

DISTRICT IMPACTS OF AN EARTHQUAKE

A further level of analysis had to do with gaining a deeper understanding of what would happen to the CBD following a severe earthquake. The project team met with Peter Dusicka, Ph.D. of Portland State University. Dr. Dusicka is an associate professor in the Department of Civil and Environmental Engineering and is an expert on earthquakes. He referenced the experience of Christchurch, New Zealand after a series of earthquakes struck that



city in 2010 and 2011. A significant lesson learned from that city was how the presence of structurally unsound buildings impacted the accessibility to entire districts after an earthquake.

Christchurch, New Zealand Earthquake

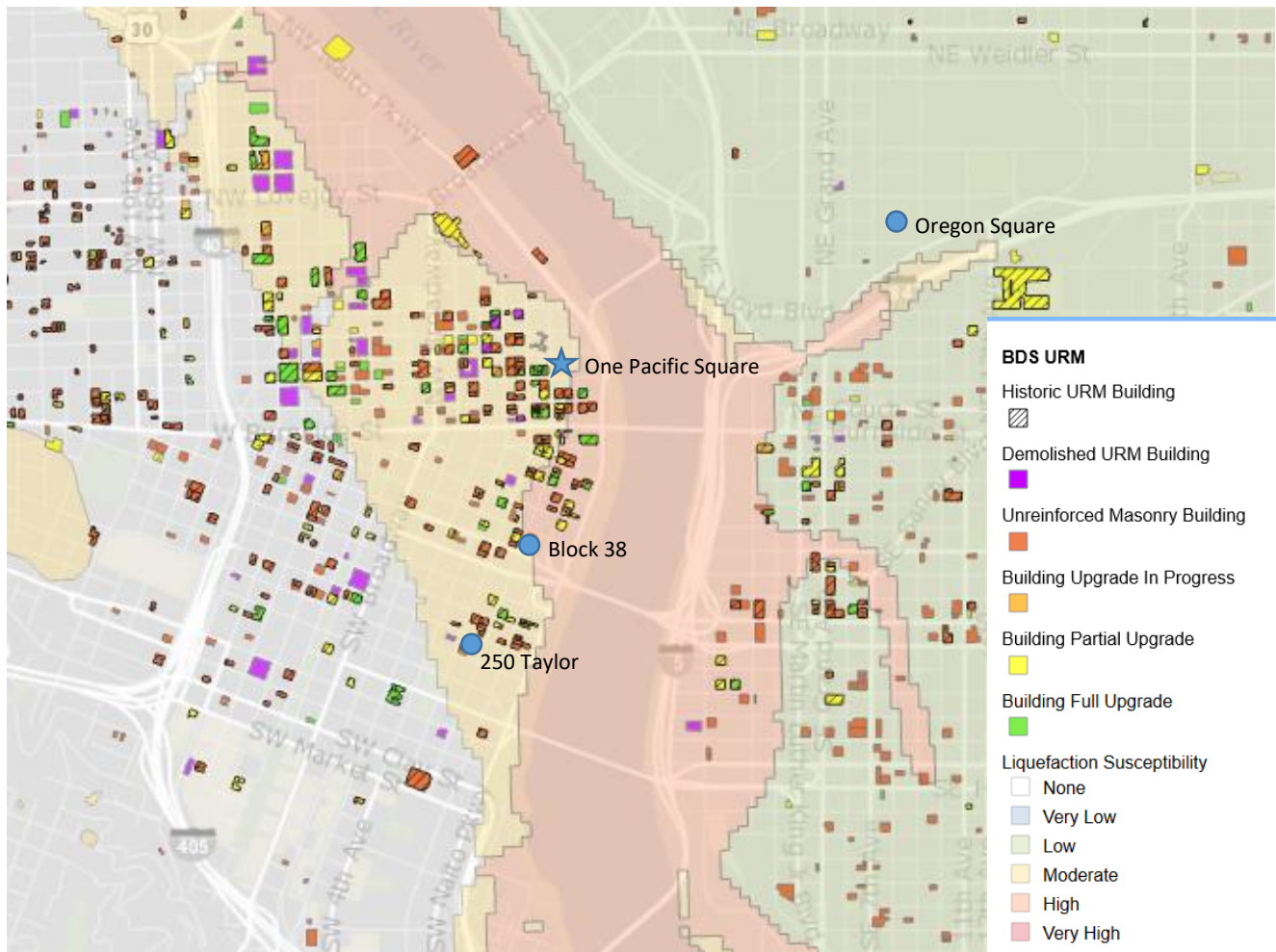
On February 22, 2011, Christchurch, New Zealand experienced a magnitude 6.3 earthquake, which followed on the heels of a magnitude 7.1 earthquake in September 2010 and a magnitude 4.7 earthquake in December 2010. The earthquake caused severe damage to Christchurch's CBD, which had numerous unreinforced masonry (URM) and other older buildings. It was estimated that up to half of the CBD's 2,000 buildings would ultimately have to be demolished.

As a result of the extensive damage, the authorities established a cordon around the entire CBD immediately following the earthquake. The cordon had a significant impact on businesses in the CBD, where approximately 50,000 workers were based. The primary reason for the cordon was to ensure the safety of the public and recovery personnel and to allow for recovery and assessment activities to proceed unimpeded. The use of a cordon to restrict access to an entire CBD was unprecedented before this event, but it was credited with providing safety and certainty to property and business owners during the recovery.¹ However, it presented a severe disruption to businesses, where affected businesses were not even allowed to retrieve important papers for a time.

The damage from the Christchurch earthquake was magnified by the presence of soils that were prone to liquefaction in a seismic event and by the presence of many URM buildings. Given the potential severity of a Cascadia Subduction Zone event, it is assumed that similar impacts would be possible in Portland's CBD. With the recent successful experience of using a cordon to restrict access to heavily damaged areas in Christchurch, it is likely that similar tactics would be utilized for heavily impacted areas in Portland should a major earthquake happen here. However, in Portland, the concentration of URM buildings and poor soils is not evenly distributed – there are areas that have few URM buildings and are located on more stable soil.

A map of known URM buildings and soil risk from the City of Portland is as follows:

¹ Chang, S. E., Taylor, J. E., Elwood, K. J., Seville, E., Brunson, D., & Gartner, M. (2014). Urban Disaster Recovery in Christchurch: The Central Business District Cordon and Other Critical Decisions. *Earthquake Spectra*. doi: 10.1193/022413EQS050M. <http://earthquakespectra.org/doi/abs/10.1193/022413EQS050M>



Note: Existing URM buildings on the 250 Taylor block are planned to be demolished or seismically retrofitted as part of the development.

CONCLUSION

Given the likelihood of a large earthquake in Portland in the next 50 years, the risk that large sections of downtown Portland may be designated as too dangerous for access appears to be a realistic possibility. Therefore, NW Natural has excluded from consideration properties that are on liquefiable soil and are proximate to URM buildings or in districts with a high concentration of such structures. The risk that staff would be denied access to the area, whether the building is standing, or not, presents a risk of a severe disruption to NW Natural’s business. Of the four sites under consideration, One Pacific Square has the highest risk of business disruption due to potential neighborhood access challenges.

APPENDIX E: SUMMARY OF CRITERIA SCORES

	OPS	250 Taylor	Block 38	Oregon Square
Seismic (Neighborhood)				
Seismic (Building)	●	●	●	●
Seismic (Risk of reaching seismic)	●	●	●	●
Employee Safety	●	●	●	●
Public Transit (Bus)	●	●	●	●
MAX Access	●	●	●	●
Parking Ratio (In Building)	●	●	●	●
Parking Access	●	●	●	●
Parking Cost	●	●	●	●
Impact on Commute (Drive Time)	●	●	●	●
Estimated Annual Rental Rate (+OpEx)	TBD	TBD	TBD	TBD
Amenities	●	●	●	●
Proximity to Community Partners	●	●	●	●
Developer Risk	●	●	●	●

9/18/2017

HQ LEASE FINANCIAL SUMMARY TABLE

Line	ASSUMPTIONS	Oregon Square	250 Taylor	250 Taylor - 20 Year Lease
1	<u>CAPITAL ASSUMPTIONS</u>			
2	Build Out \$ / Sq. Ft.	\$100.00	\$100.00	\$100.00
3	Build Out Landlord Allowance \$ / Sq. Ft.	(\$65.00)	(\$70.00)	(\$72.50)
4	Furniture, Fixtures & Equip. (F, F & E) \$ / Sq. Ft.	\$35.00	\$35.00	\$35.00
5	Future Add'l Refurbishment Allowance \$ / Sq. Ft.:			
6	Year 5	---	---	---
7	Year 10	---	---	---
8	<u>O&M ASSUMPTIONS (YR1 \$ / SQ. FT.)</u>			
9	Office Lease Expense	\$35.75	\$35.00	\$33.95
10	Storage Lease Expense	\$15.00	\$18.00	\$18.00
11	Tax & Operating Expenses	\$11.00	\$11.00	\$11.00
12	Annual Lease Rate Increase	3.0%	2.5%	2.5%
13	<u>RENTABLE SQ. FT. ASSUMPTIONS¹</u>			
14	Total Office Sq. Ft.	167,000	172,911	178,851
15	Storage Sq. Ft. (Print Room, Mail Room, or Storage)	4,000	834	834
16	Total Rentable Sq. Ft.	171,000	173,745	179,685
17	Utility Sq. Ft. Usage ²	168,144	171,765	159,679
18	Gas Storage Sq. Ft. Usage	2,856	1,980	1,980
19	Sublease Sq. Ft. Usage ³	-	-	18,026
20	Total Sq. Ft Usage	171,000	173,745	179,685
	<u>FINANCIAL RESULTS</u>	<u>Oregon Square</u>	<u>250 Taylor</u>	<u>250 Taylor - 20 Year Lease</u>
21	<u>15 YR. NWN CAPITAL COSTS</u>			
22	Initial Build Out ⁴	\$17,100,000	\$17,374,500	\$17,968,500
23	Less: Build Out Landlord Allowance	(\$11,115,000)	(\$12,162,150)	(\$13,027,163)
24	Less: Future Add'l Refurbishment Allowance	-	-	-
25	F, F & E	\$5,985,000	\$6,081,075	\$6,288,975
26	Seismic & Other Capital	-	-	-
27	TOTAL NWN CAPITAL COSTS	\$11,970,000	\$11,293,425	\$11,230,313
28	<u>15 YR. NWN O&M EXPENSE</u>			
29	Lease Expense	\$112,156,100	\$108,521,958	\$109,151,699
30	Tax & Operating Expense	\$34,166,205	\$35,375,525	\$36,590,778
31	TOTAL O&M EXPENSE	\$146,322,305	\$143,897,483	\$145,742,477
32	<u>PRESENT VALUE REV. REQUIREMENT (PVRR=COST TO CUSTOMERS)</u>			
33	15 YR. PVRR of Total Building	\$101,883,488	\$98,681,330	\$99,040,183
34	Less: Gas Storage Allocation	(\$1,725,382)	(\$1,143,528)	(\$1,109,575)
35	Less: Sublease Allocation ³	-	-	(\$10,101,613)
36	15 YR. PVRR Utility Building Lease Space	\$100,158,106	\$97,537,802	\$87,828,995
37	Add: Company Vehicle Parking Expense ⁵	\$1,128,607	\$2,136,292	\$2,136,292
38	Add: Employee Vehicle Parking Expense ⁵	\$6,884,502	\$6,884,502	\$6,884,502
39	Add: Truck Lot Proceeds ⁶	(\$8,500,000)	(\$8,500,000)	(\$8,500,000)
40	15 YR. PVRR Utility Lease Space w/ Parking	\$99,671,214	\$98,058,595	\$88,349,789

43 GLOBAL ASSUMPTIONS

- 44 -All scenarios unless specifically noted otherwise are 15 year leases beginning 6/1/2020
- 45 -Discount rate for PVRR and Rate of Return assumes the capital structure approved in the last General Oregon Rate Case (50% LTD and 50% equity) with a 6.06% LTD rate and a 9.5% return on equity. The Rate of Return (WACC) is therefore assumed at 7.78% before-tax or 6.59% after-tax.

FOOTNOTE

- ¹All options include sq. footage for both Gas Storage and future data center.
- ²Difference in utility sq. ft. needed in the two 250 Taylor options reflect new assumptions which assumes NWN rents entire building (+11k), reduced RSF from 15 year proposal (-4k), and allowed for better floor optimization allow potential to sublease entire floor (-18k)
- ³Assumes subleasing potential 18,026 sq. ft. of space.
- ⁴Data Center capital expense not included in any scenario.
- ⁵Assumes all company vehicle expense and \$140/month of employee parking expense
- ⁶Assumes Sale of Truck Lot in \$8M-\$9M range, all of which assumed to be net of book value.