Investigation of Natural Gas Infrastructure Expansion Docket UG-143616

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Current Policy

- NW Natural's existing tariff is designed to minimize cross-subsidization between existing ratepayers and new customers.
- A new customer must pay the difference between the average construction cost and an amount equal to five times the estimated annual margin.

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Policy Application

- If a residential consumer installs both natural gas space and water heating equipment, the five times margin allowance usually covers the cost of installing a standard service line, meter, and permit.
- Typically, the consumer must pay the entire cost of a main line extension if it is needed to provide gas service.
- Main line extension cost is a significant barrier to gas service because the up-front contribution from consumers is cost prohibitive.

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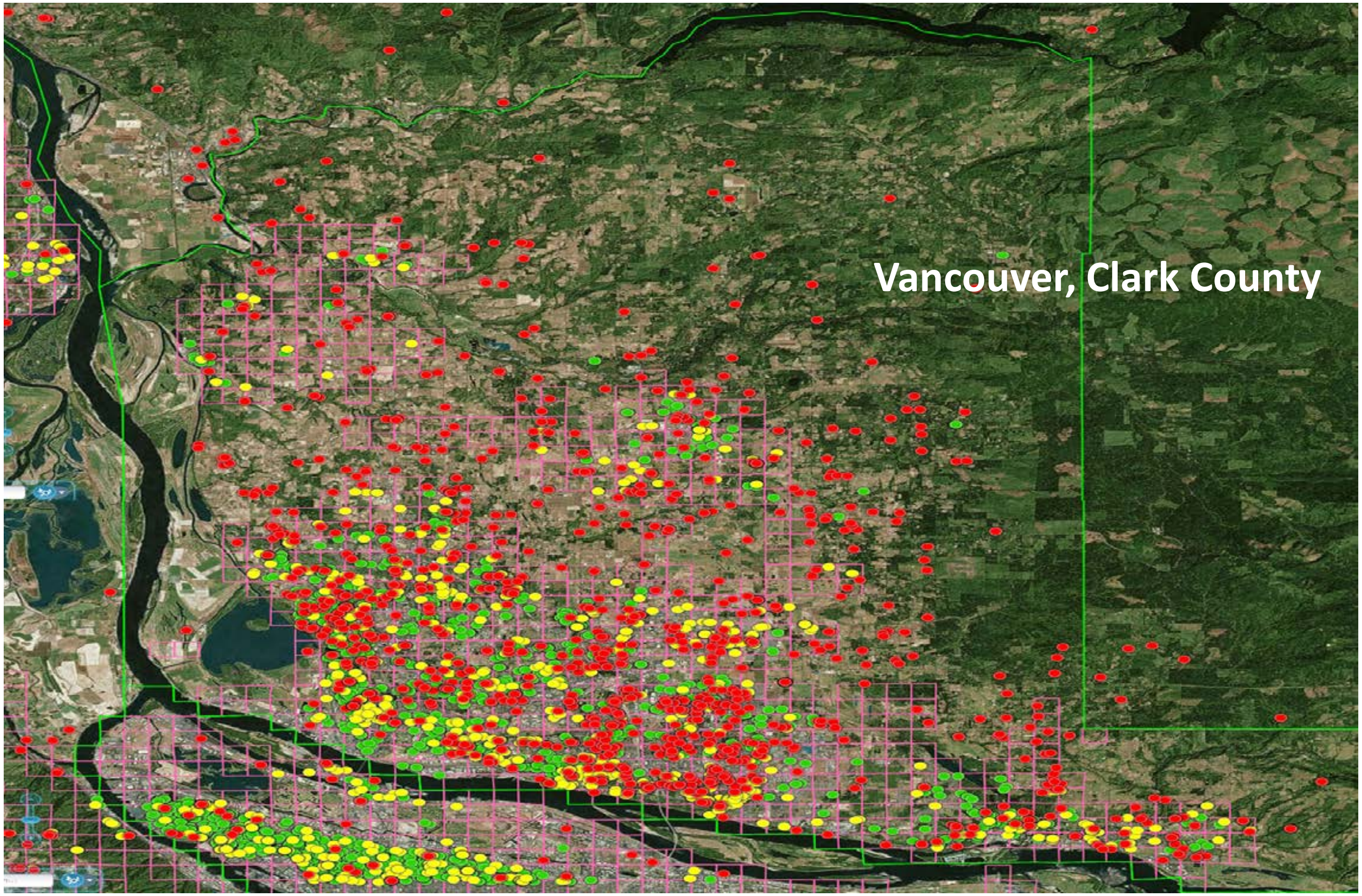
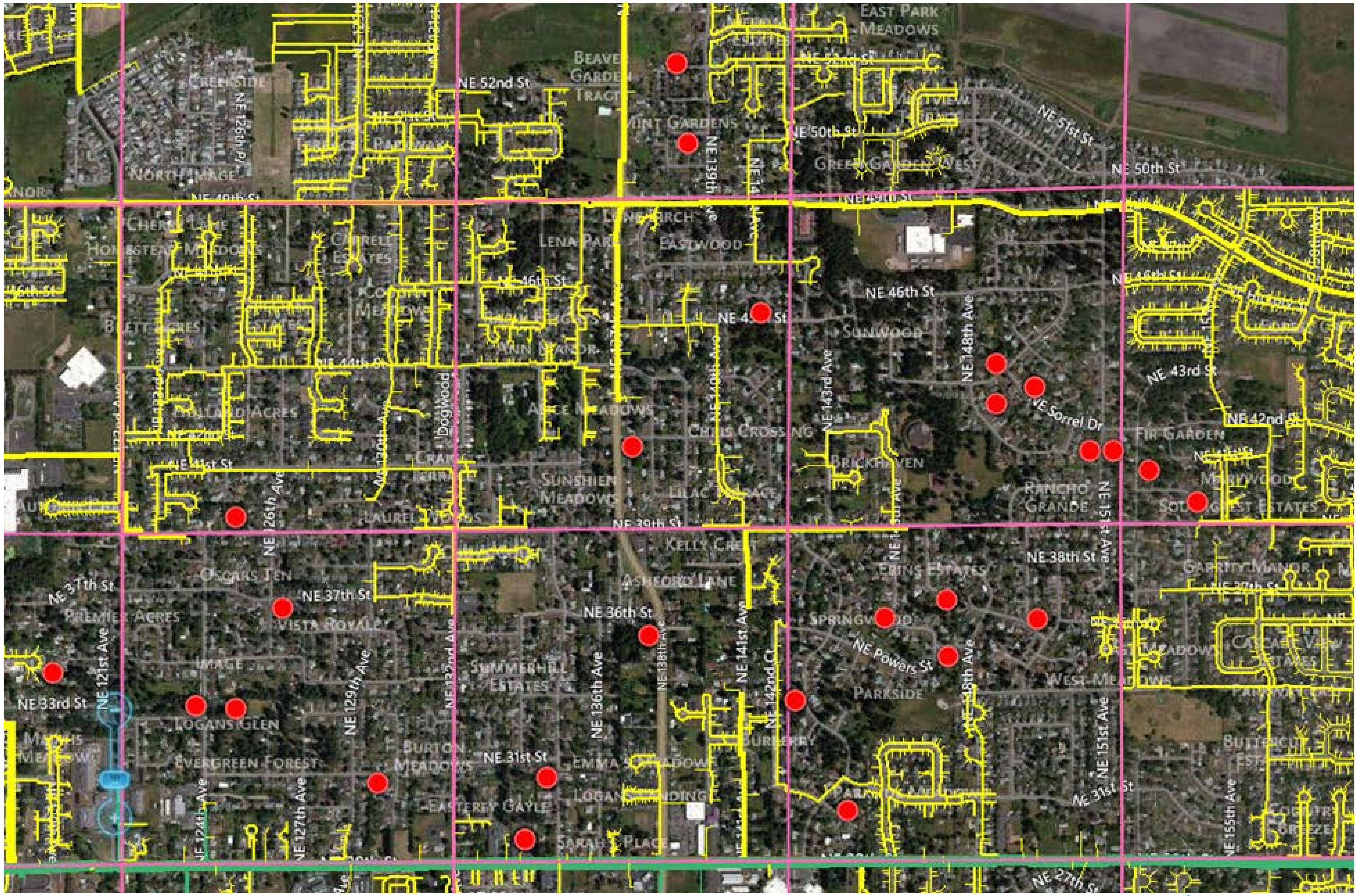
Consumer Interest is High



The Problem: Infrastructure Gaps



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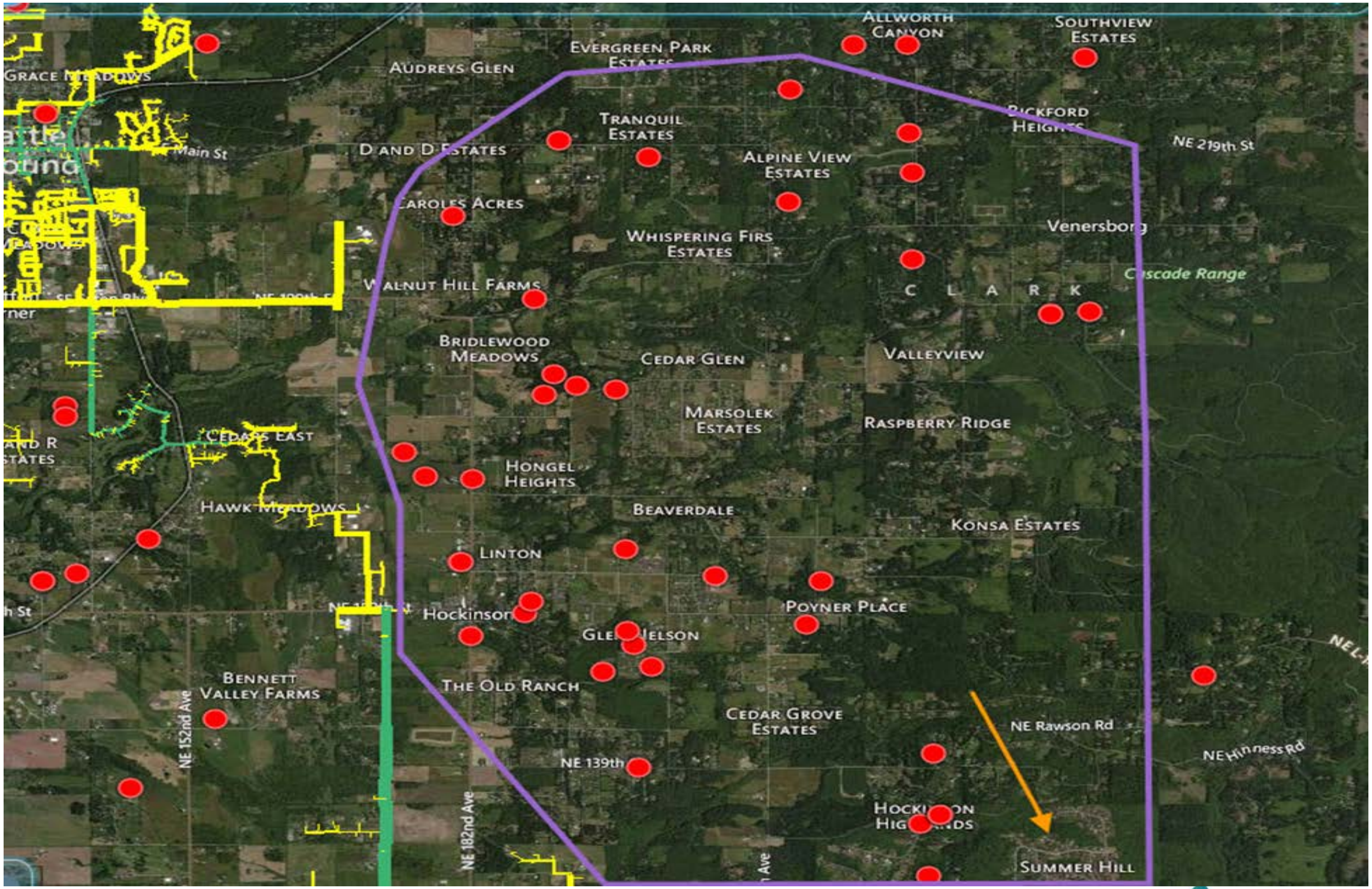
The Problem: Underserved Rural



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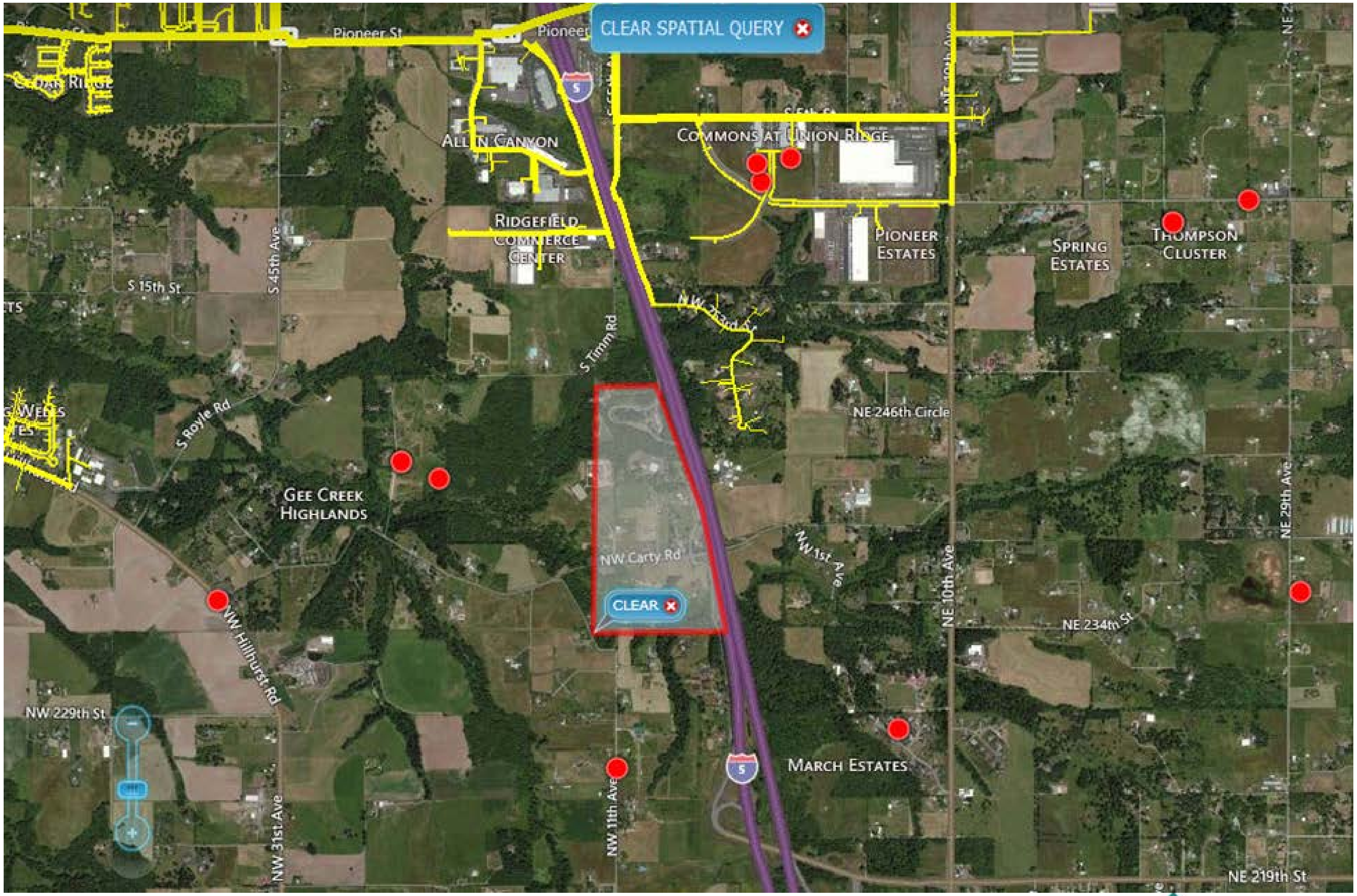
The Problem: Industrial Gaps



The Cost & Distance Issue

- Distance between homes is much further outside the urban core; interested consumers are too far from existing mains,
- This creates a reactive and costly inchworm approach,
- Required customer contributions can be prohibitive:

Distance from Main (ft)	Avg Feet	Avg MX Cost
100 or less	71	$2,274
101 - 500 feet	273	$8,744
over 500 feet	1092	$34,977

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The Investment Issue

- The Company's current Schedule E tariff allows for investment in a main line extension to a new customer based on an expectation of additional future customers on that main line.
- However, these investments entail greater risk because the incremental revenue from these additional customers may take longer than expected to develop; these investments could be disallowed.
- Rising construction and jurisdictional costs exacerbate this issue as it becomes more difficult for the Company to make these investments without a corresponding revenue stream.

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Clarification of Policies

Clarification of policies could encourage a shift from reactive to proactive main line extension investment:

- Definitions for metrics, investment timeframes, and the application of the used and useful test for construction of main line extensions in advance of large scale need.
- Clarity on the use of economic development and environmental benefits as supporting justification criteria for main extensions.

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Benefits of Proactive Main Extensions

A balanced proactive main extension investment policy could result in better long term planning and larger more cost effective projects.

- Reduction of permit, paving, and restoration costs associated with imposed jurisdictional requirements and moratoriums,
- Reduction of mobilization and labor costs by more effectively planning and batching work into larger projects,
- Opportunities for cost reductions by coordinating larger projects with municipalities.

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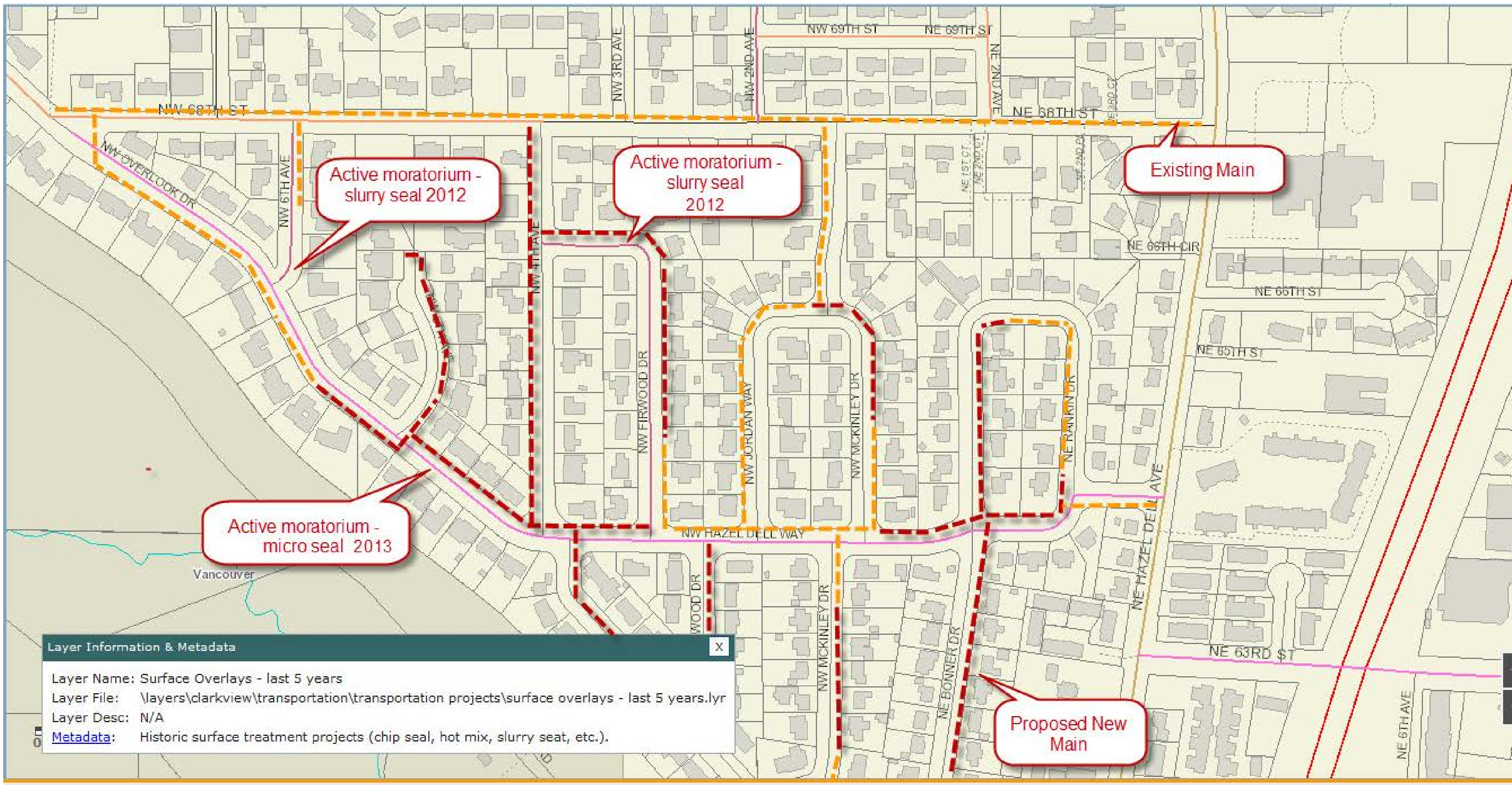
Moratorium Example



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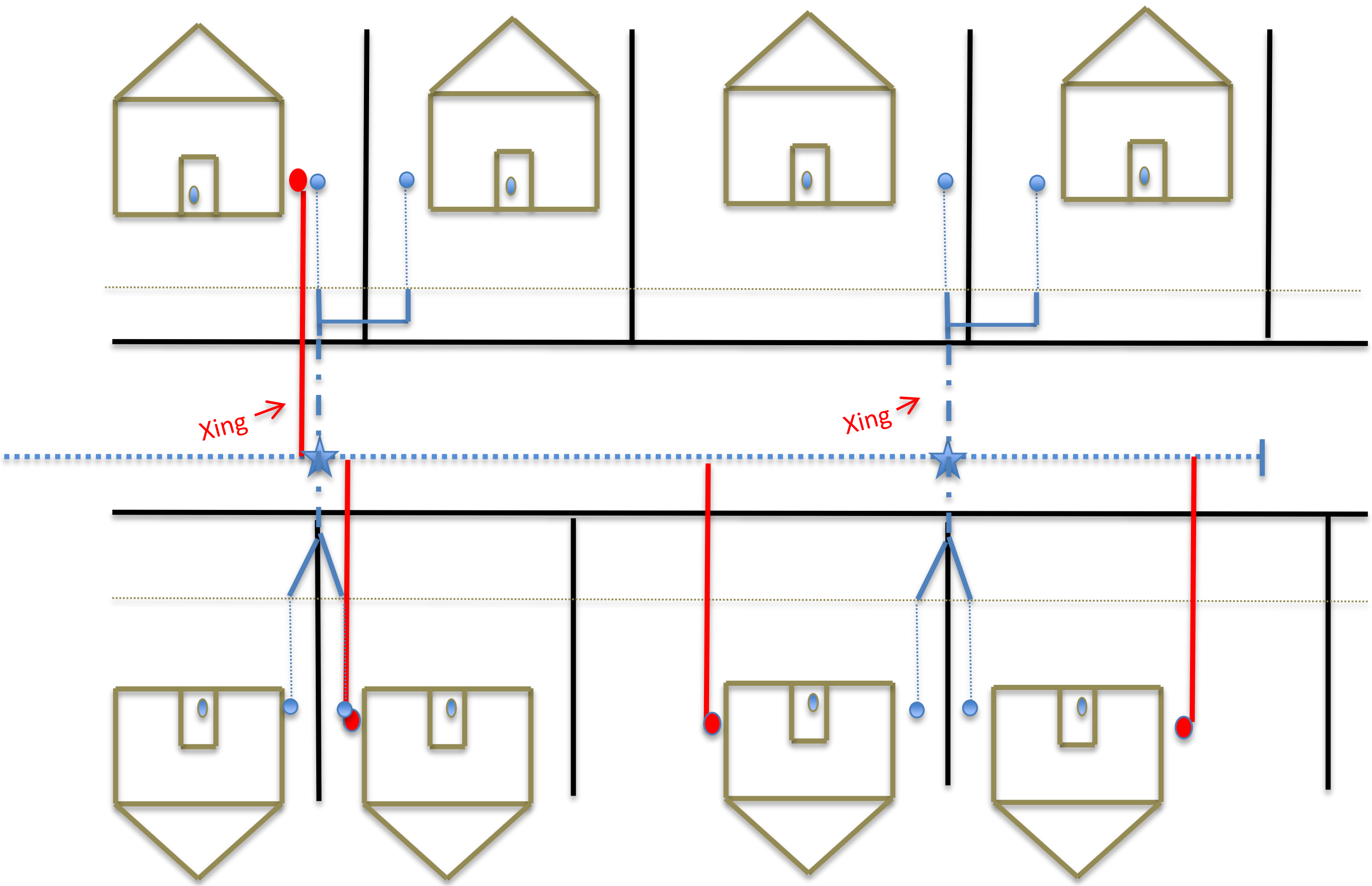
Proactive Main Construction



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Thank You