

NW Natural Water Community Partnership – Overview and Q&A

June 2021





Community Partnership – Summary

The Community Partnership offers the ability to transfer responsibility for planning, management, operation, maintenance and capital investment to an experienced company that will ensure your community has safe and adequate water and wastewater services ***without*** selling your system or committing to a long-term contract

Eligible systems include ***public or member-owned Community Water Systems*** with significant impending unfunded capital requirements including systems owned by municipalities, special districts, cooperatives and homeowner's associations.



Community Partnership – Customer Benefits

- Confidence that customers will have access to a safe and adequate water supply into the future to protect their health, the health of their families, and the viability and value of their homes, businesses and communities.
- Comfort that customer rates will accurately reflect the cost to provide water service.
- Peace of mind that water and wastewater system assets will be professionally managed and maintained by a company with:
 - A long-term commitment to and strategy for the water and wastewater business.
 - An experienced team of NW Natural Water-certified water operators who will provide 24/7 monitoring and operation of your system.
 - Financial resources to invest in your system as needed. This includes making capital investments to maintain existing water rights as well as to develop new water rights when the time comes.
 - Additional resources that can be dedicated to your system to respond to unexpected events or service territory requests.
 - Superior customer and community service that reflects a level of excellence acknowledged by NW Natural Gas customers in J.D. Power's surveys.
 - The ability to deliver regional solutions or combine systems when it provides rate stability or other efficiencies and advantages for the customer and greater community.

Community Partnership Concept - Q&A

Services, Ownership, and Capital Investments

| Question | Key Highlights |
|---|---|
| What services are provided? | NW Natural Water, through its regional subsidiaries will assume responsibilities for providing customers with safe and adequate drinking water and wastewater services. Contracting Systems will retain certain responsibilities for review and approve System Master Plan and customer rates but will have no financial, day-to-day operating or regulatory compliance responsibilities. NW Natural Water will assume all responsibilities for water and wastewater system planning, management, operation and maintenance including investment in system upgrades, maintenance and expansion as well as regulatory compliance and reporting. |
| Who owns the water and wastewater system assets? | <p>Contracting Systems would retain ownership of existing assets. NW Natural Water will be given an “equitable title” to existing assets. This means even though the Contracting System will still technically owns the existing system assets, NW Natural Water will have the permission and right to modify and manage for the contracted period of time.</p> <p>NW Natural Water will retain ownership of any new assets financed by NW Natural Water. At termination, the Contracting System will acquire all assets held by NW Natural Water to provide water and wastewater services to the Contracting System’s customers. The cost to acquire assets held by NW Natural Water will be defined in the contract but generally will be based on the undepreciated net book value. Should any existing assets require investment the title of those assets will pass to NW Natural Water at a transfer price of \$1 for the purpose of managing depreciation. At termination, the title will pass back to the Contracting System at \$1 plus the undepreciated book value of the additions.</p> |
| Who decides on necessary capital investments? | As part of the contract, NW Natural Water will prepare a System Master Plan for approval by the Department of Health and the governing body of the Contracting System. Once approved, the System Master Plan will direct investment in the Contracting Systems water and wastewater system. |

Community Partnership Concept - Q&A

Customer Rates

| Question | |
|---|---|
| Will the system be rate regulated? | <p>Water and wastewater systems will continue to be regulated by the Department of Health, the Department of Environmental Quality and other State and Federal agencies with oversight responsibilities.. While Contracting Systems will not be fully regulated by the State utility Commission, the Commission will review rate proposals referred by the Contracting Systems.</p> <p>Alternatively, Contracting Systems can petition to become regulated at any time and can again petition to return to an unregulated status at lease termination.</p> |
| How will customer rates be set? | <p>NW Natural Water will publish tariffs substantially similar to those of its regulated utility systems.</p> <p>NW Natural Water will propose rates developed using substantially the same methodology as established by the State regulatory Commission for its regulated systems. Rate proposals will be submitted to the Governing body of the Contracting System for review and approval. Requests that linger for longer than 60 days will be referred to the State utility Commission for approval, creating a hybrid regulatory model and an open forum for dialogue with customers regarding rates. NW Natural will evaluate the potential to freeze rates for a defined period depending on the circumstances of the Contracting System.</p> <p>Typically, regional rates that provide the benefit of spreading costs over a larger population are only available for owned systems or under a long-term contract as the fairness of regional rates depends on a long term view. There may, however, be opportunities to provide regional facilities (eg, treatment or storage) that could be shared.</p> |
| Who will approve customer rates? | <p>Governing body of Contracting System will approve proposed rates within set period. After set period, proposed rates will be referred for approval to State utility regulatory commission.</p> |

Community Partnership Concept - Q&A

Contract Questions

| Question | |
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| Will the Contracting System receive regular lease payments? | Lease payment “in-lieu of franchise fee” will affect rates and are, therefore, an optional term. |
| Who approves Community Partnership Agreement? | Agreements will be approved by the Contracting System as required by its enabling documents. |
| What is the standard initial term of a Community Partnership Agreement? | 5 Years |
| What happens to current employees of Contracting System? | Water and wastewater employees of Contracting System will become employees of NW Natural Water or one of its subsidiaries. |
| What happens to current reserve funds or other funds held in accounts for water and wastewater system expenses and investments? | Funds, if any, will be released back to Contracting System. |
| What happens if lease is terminated? | At lease termination, equitable title to Contracting System’s assets will be revoked, and all assets purchased by NW Natural Water during the term of the lease will be purchased by the Contracting System per terms set forth in the Agreement . Employees will return to Contracting System unless chose to pursue other opportunities within NW Natural Water or elsewhere. Responsibility for ongoing planning, management, operation, maintenance and investment will revert to Contracting System. |



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