

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2021**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____



**NW Natural
HOLDINGS™**

NORTHWEST NATURAL HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Commission file number **1-38681**
Oregon 82-4710680

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

250 SW Taylor Street

Portland Oregon 97204
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: **(503) 226-4211**



NW Natural®

NORTHWEST NATURAL GAS COMPANY

(Exact name of registrant as specified in its charter)

Commission file number **1-15973**
Oregon 93-0256722

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

250 SW Taylor Street

Portland Oregon 97204
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: **(503) 226-4211**

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Trading Symbol	Name of each exchange on which registered
NORTHWEST NATURAL HOLDING COMPANY	Common Stock	NWN	New York Stock Exchange
NORTHWEST NATURAL GAS COMPANY	None		

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

NORTHWEST NATURAL HOLDING COMPANY Yes ☒ No ☐ NORTHWEST NATURAL GAS COMPANY Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

NORTHWEST NATURAL HOLDING COMPANY Yes ☒ No ☐ NORTHWEST NATURAL GAS COMPANY Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

NORTHWEST NATURAL HOLDING COMPANY

Large Accelerated Filer ☒
Accelerated Filer ☐
Non-accelerated Filer ☐
Smaller Reporting Company ☐
Emerging Growth Company ☐

NORTHWEST NATURAL GAS COMPANY

Large Accelerated Filer ☐
Accelerated Filer ☐
Non-accelerated Filer ☒
Smaller Reporting Company ☐
Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

NORTHWEST NATURAL HOLDING COMPANY Yes ☐ No ☒ NORTHWEST NATURAL GAS COMPANY Yes ☐ No ☒

At October 27, 2021, 30,730,274 shares of Northwest Natural Holding Company's Common Stock (the only class of Common Stock) were outstanding. All shares of Northwest Natural Gas Company's Common Stock (the only class of Common Stock) outstanding were held by Northwest Natural Holding Company.

This combined Form 10-Q is separately filed by Northwest Natural Holding Company and Northwest Natural Gas Company. Information contained in this document relating to Northwest Natural Gas Company is filed by Northwest Natural Holding Company and separately by Northwest Natural Gas Company. Northwest Natural Gas Company makes no representation as to information relating to Northwest Natural Holding Company or its subsidiaries, except as it may relate to Northwest Natural Gas Company and its subsidiaries.

NORTHWEST NATURAL GAS COMPANY NORTHWEST NATURAL HOLDING COMPANY

For the Quarterly Period Ended September 30, 2021

TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION	Page
<u>Forward-Looking Statements</u>	<u>4</u>
Item 1. Unaudited Financial Statements:	
<u>Consolidated Statements of Comprehensive Income of Northwest Natural Holding Company for the three and nine months ended September 30, 2021 and 2020</u>	<u>6</u>
<u>Consolidated Balance Sheets of Northwest Natural Holding Company at September 30, 2021 and 2020 and December 31, 2020</u>	<u>7</u>
<u>Consolidated Statements of Shareholders' Equity of Northwest Natural Holding Company for the three and nine months ended September 30, 2021 and 2020</u>	<u>9</u>
<u>Consolidated Statements of Cash Flows of Northwest Natural Holding Company for the nine months ended September 30, 2021 and 2020</u>	<u>10</u>
<u>Consolidated Statements of Comprehensive Income of Northwest Natural Gas Company for the three and nine months ended September 30, 2021 and 2020</u>	<u>11</u>
<u>Consolidated Balance Sheets of Northwest Natural Gas Company at September 30, 2021 and 2020 and December 31, 2020</u>	<u>12</u>
<u>Consolidated Statements of Shareholder's Equity of Northwest Natural Gas Company for the three and nine months ended September 30, 2021 and 2020</u>	<u>14</u>
<u>Consolidated Statements of Cash Flows of Northwest Natural Gas Company for the nine months ended September 30, 2021 and 2020</u>	<u>15</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>16</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>42</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>66</u>
Item 4. Controls and Procedures	<u>66</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>67</u>
Item 1A. Risk Factors	<u>67</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>67</u>
Item 5. Other Information	<u>67</u>
Item 6. Exhibits	<u>68</u>
Signature	<u>71</u>

PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to the safe harbors created by such Act. All statements in this report other than statements of historical facts could be forward looking statements. Forward-looking statements may be identified by words such as anticipates, assumes, intends, may, plans, seeks, believes, estimates, expects, will and similar references (including the negatives thereof) to future periods, although not all forward-looking statements contain these identifying words. Examples of forward-looking statements include, but are not limited to, statements regarding the following:

- plans, projections and predictions;
- objectives, goals, visions or strategies;
- assumptions, generalizations and estimates;
- ongoing continuation of past practices or patterns;
- future events or performance;
- trends;
- risks;
- uncertainties;
- timing and cyclicalities;
- economic conditions;
- earnings and dividends;
- capital expenditures and allocation;
- capital markets or access to capital;
- capital or organizational structure;
- matters related to climate change and our role in a low-carbon, renewable-energy future;
- renewable natural gas and hydrogen;
- our strategy to reduce greenhouse gas emissions;
- the policies and priorities of the current presidential administration and U.S. Congress;
- growth;
- customer rates;
- pandemic and related illness or quarantine;
- labor relations and workforce succession;
- commodity costs;
- desirability and cost competitiveness of natural gas;
- gas reserves;
- operational performance and costs;
- energy policy, infrastructure and preferences;
- public policy approach and involvement;
- efficacy of derivatives and hedges;
- liquidity, financial positions, and planned securities issuances;
- valuations;
- project and program development, expansion, or investment;
- business development efforts, including acquisitions and integration thereof;
- implementation and execution of our water strategy;
- pipeline capacity, demand, location, and reliability;
- adequacy of property rights and operations center development;
- technology implementation and cybersecurity practices;
- competition;
- procurement and development of gas (including renewable natural gas) and water supplies;
- estimated expenditures, supply chain and third party availability and impairment;
- costs of compliance;
- customers bypassing our infrastructure;
- credit exposures;
- uncollectible account amounts;
- rate or regulatory outcomes, recovery or refunds, and the availability of public utility commissions to take action;
- impacts or changes of executive orders, laws, rules and regulations;
- tax liabilities or refunds, including effects of tax legislation;
- levels and pricing of gas storage contracts and gas storage markets;
- outcomes, timing and effects of potential claims, litigation, regulatory actions, and other administrative matters;
- projected obligations, expectations and treatment with respect to, and the impact of new legislation on, retirement plans;
- accuracy of projections related to, and our ability to mitigate the effects of, the novel coronavirus (COVID-19), variants thereof, such as the Delta variant, and the economic conditions resulting therefrom, the timing of our return to normal business practices, potential future shutdowns and the recognition of late and disconnection fee revenue, as well as the timing, extent and impact of COVID-19 vaccine campaigns on our workforce and customers;
- disruptions caused by social unrest, including related protests or disturbances;

- availability, adequacy, and shift in mix, of gas and water supplies;
- effects of new or anticipated changes in critical accounting policies or estimates;
- approval and adequacy of regulatory deferrals;
- effects and efficacy of regulatory mechanisms; and
- environmental, regulatory, litigation and insurance costs and recoveries, and timing thereof.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in NW Holdings' and NW Natural's 2020 Annual Report on Form 10-K, Part I, Item 1A "*Risk Factors*" and Part II, Item 7 and Item 7A, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Quantitative and Qualitative Disclosures about Market Risk*," and in Part I, Items 2 and 3, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Quantitative and Qualitative Disclosures About Market Risk*", respectively, of Part II of this report.

Any forward-looking statement made in this report speaks only as of the date on which it is made. Factors or events that could cause actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>In thousands, except per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating revenues	\$ 101,447	\$ 93,284	\$ 566,310	\$ 513,406
Operating expenses:				
Cost of gas	25,266	23,741	178,669	173,489
Operations and maintenance	47,329	41,352	149,567	134,256
Environmental remediation	806	867	6,092	6,494
General taxes	9,061	8,656	29,344	26,924
Revenue taxes	3,891	3,555	22,226	19,752
Depreciation and amortization	28,438	25,934	84,679	76,445
Other operating expenses	1,047	767	2,794	2,246
Total operating expenses	115,838	104,872	473,371	439,606
Income (loss) from operations	(14,391)	(11,588)	92,939	73,800
Other income (expense), net	(2,216)	(3,287)	(8,355)	(9,902)
Interest expense, net	11,175	9,165	33,329	32,339
Income (loss) before income taxes	(27,782)	(24,040)	51,255	31,559
Income tax expense (benefit)	(7,127)	(5,363)	13,117	7,092
Net income (loss) from continuing operations	(20,655)	(18,677)	38,138	24,467
Income from discontinued operations, net of tax	—	765	—	267
Net income (loss)	(20,655)	(17,912)	38,138	24,734
Other comprehensive income:				
Amortization of non-qualified employee benefit plan liability, net of taxes of \$80 and \$66 for the three months ended and \$240 and \$182 for the nine months ended September 30, 2021 and 2020, respectively	234	186	676	506
Comprehensive income (loss)	\$ (20,421)	\$ (17,726)	\$ 38,814	\$ 25,240
Average common shares outstanding:				
Basic	30,696	30,555	30,659	30,528
Diluted	30,696	30,555	30,708	30,575
Earnings (loss) from continuing operations per share of common stock:				
Basic	\$ (0.67)	\$ (0.61)	\$ 1.24	\$ 0.80
Diluted	(0.67)	(0.61)	1.24	0.80
Earnings from discontinued operations per share of common stock:				
Basic	\$ —	\$ 0.02	\$ —	\$ 0.01
Diluted	—	0.02	—	0.01
Earnings (loss) per share of common stock:				
Basic	\$ (0.67)	\$ (0.59)	\$ 1.24	\$ 0.81
Diluted	(0.67)	(0.59)	1.24	0.81

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands</i>	September 30, 2021	September 30, 2020	December 31, 2020
Assets:			
Current assets:			
Cash and cash equivalents	\$ 19,502	\$ 35,926	\$ 30,168
Accounts receivable	39,209	40,278	88,083
Accrued unbilled revenue	16,809	14,787	57,949
Allowance for uncollectible accounts	(2,702)	(1,786)	(3,219)
Regulatory assets	80,638	29,740	31,745
Derivative instruments	105,175	24,094	13,678
Inventories	59,997	45,082	42,691
Gas reserves	6,266	12,265	11,409
Income taxes receivable	—	—	6,000
Other current assets	33,285	25,534	44,741
Discontinued operations - current assets (Note 18)	—	16,928	—
Total current assets	358,179	242,848	323,245
Non-current assets:			
Property, plant, and equipment	3,919,096	3,680,872	3,734,039
Less: Accumulated depreciation	1,112,734	1,073,623	1,079,269
Total property, plant, and equipment, net	2,806,362	2,607,249	2,654,770
Gas reserves	28,021	37,696	34,484
Regulatory assets	325,071	324,176	348,927
Derivative instruments	24,555	12,921	6,135
Other investments	48,006	48,963	49,259
Operating lease right of use asset, net	75,634	78,036	77,446
Assets under sales-type leases	140,189	144,971	143,759
Goodwill	69,789	70,292	69,225
Other non-current assets	53,419	50,945	49,129
Total non-current assets	3,571,046	3,375,249	3,433,134
Total assets	\$ 3,929,225	\$ 3,618,097	\$ 3,756,379

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands, including share information</i>	September 30, 2021	September 30, 2020	December 31, 2020
Liabilities and equity:			
Current liabilities:			
Short-term debt	\$ 399,500	\$ 223,000	\$ 304,525
Current maturities of long-term debt	278	95,173	95,344
Accounts payable	94,897	83,813	97,966
Taxes accrued	16,558	13,772	13,812
Interest accrued	9,315	9,645	7,441
Regulatory liabilities	164,168	59,236	50,362
Derivative instruments	9,818	1,784	4,198
Operating lease liabilities	1,213	1,081	1,105
Other current liabilities	39,218	49,870	52,330
Discontinued operations - current liabilities (Note 18)	—	13,922	—
Total current liabilities	734,965	551,296	627,083
Long-term debt	916,026	860,235	860,081
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	323,925	296,516	319,292
Regulatory liabilities	665,390	649,521	639,663
Pension and other postretirement benefit liabilities	202,287	202,938	217,287
Derivative instruments	268	921	2,852
Operating lease liabilities	79,789	80,854	80,621
Other non-current liabilities	115,114	123,041	120,767
Total deferred credits and other non-current liabilities	1,386,773	1,353,791	1,380,482
Commitments and contingencies (Note 17)			
Equity:			
Common stock - no par value; authorized 100,000 shares; issued and outstanding 30,730, 30,565, and 30,589 at September 30, 2021 and 2020, and December 31, 2020, respectively	573,578	563,852	565,112
Retained earnings	330,109	299,150	336,523
Accumulated other comprehensive loss	(12,226)	(10,227)	(12,902)
Total equity	891,461	852,775	888,733
Total liabilities and equity	\$ 3,929,225	\$ 3,618,097	\$ 3,756,379

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

<i>In thousands, except per share amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total shareholders' equity, beginning balances	\$ 922,826	\$ 884,001	\$ 888,733	\$ 865,999
Common stock:				
Beginning balances	569,785	562,766	565,112	558,282
Stock-based compensation	527	459	2,973	4,085
Shares issued pursuant to equity-based plans, net of shares withheld for taxes	1,159	627	3,386	1,485
Issuances of common stock, net of issuance costs	2,107	—	2,107	—
Ending balances	573,578	563,852	573,578	563,852
Retained earnings:				
Beginning balances	365,501	331,648	336,523	318,450
Net income (loss)	(20,655)	(17,912)	38,138	24,734
Dividends on common stock	(14,737)	(14,586)	(44,552)	(44,034)
Ending balances	330,109	299,150	330,109	299,150
Accumulated other comprehensive income (loss):				
Beginning balances	(12,460)	(10,413)	(12,902)	(10,733)
Other comprehensive income	234	186	676	506
Ending balances	(12,226)	(10,227)	(12,226)	(10,227)
Total shareholders' equity, ending balances	\$ 891,461	\$ 852,775	\$ 891,461	\$ 852,775
Dividends per share of common stock	\$ 0.4800	\$ 0.4775	\$ 1.4400	\$ 1.4325

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>In thousands</i>	Nine Months Ended September 30,	
	2021	2020
Operating activities:		
Net income	\$ 38,138	\$ 24,734
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	84,679	76,445
Regulatory amortization of gas reserves	11,606	13,711
Deferred income taxes	2,748	(390)
Qualified defined benefit pension plan expense	12,075	13,800
Contributions to qualified defined benefit pension plans	(9,590)	(23,670)
Deferred environmental expenditures, net	(14,952)	(16,469)
Amortization of environmental remediation	6,092	6,494
Other	5,815	(4,483)
Changes in assets and liabilities:		
Receivables, net	83,826	77,236
Inventories	(17,307)	(1,126)
Income and other taxes	19,620	12,038
Accounts payable	(18,057)	(20,311)
Deferred gas costs	(33,379)	(2,472)
Asset optimization revenue sharing	41,407	(9,695)
Decoupling mechanism	(9,172)	4,175
Other, net	(21,825)	74
Discontinued operations	—	706
Cash provided by operating activities	181,724	150,797
Investing activities:		
Capital expenditures	(212,376)	(193,336)
Acquisitions, net of cash acquired	(375)	(38,078)
Leasehold improvement expenditures	(570)	(7,827)
Proceeds from the sale of assets	2,712	8,003
Proceeds from sale of equity method investment	7,000	7,000
Other	88	(240)
Discontinued operations	—	(2,287)
Cash used in investing activities	(203,521)	(226,765)
Financing activities:		
Proceeds from common stock issued, net	2,107	68
Long-term debt issued	55,000	150,000
Long-term debt retired	(95,000)	(75,000)
Proceeds from term loan due within one year	100,000	150,000
Repayments of commercial paper, maturities greater than three months	(195,025)	—
Change in other short-term debt, net	190,000	(76,100)
Cash dividend payments on common stock	(41,827)	(41,508)
Other	(1,240)	(2,957)
Cash provided by financing activities	14,015	104,503
Increase (decrease) in cash, cash equivalents and restricted cash	(7,782)	28,535
Cash, cash equivalents and restricted cash, beginning of period	35,454	12,636
Cash, cash equivalents and restricted cash, end of period	\$ 27,672	\$ 41,171
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalization	\$ 30,910	\$ 29,829
Income taxes paid, net of refunds	6,980	9,344

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating revenues	\$ 96,036	\$ 88,367	\$ 552,965	\$ 502,053
Operating expenses:				
Cost of gas	25,322	23,797	178,837	173,657
Operations and maintenance	43,768	38,657	137,894	126,111
Environmental remediation	806	867	6,092	6,494
General taxes	8,999	8,554	29,041	26,564
Revenue taxes	3,838	3,555	22,143	19,752
Depreciation and amortization	27,719	25,681	82,418	74,857
Other operating expenses	669	725	2,368	2,167
Total operating expenses	111,121	101,836	458,793	429,602
Income (loss) from operations	(15,085)	(13,469)	94,172	72,451
Other income (expense), net	(2,295)	(4,002)	(8,526)	(10,744)
Interest expense, net	10,850	8,806	32,336	30,518
Income (loss) before income taxes	(28,230)	(26,277)	53,310	31,189
Income tax expense (benefit)	(7,212)	(6,057)	13,628	6,942
Net income (loss)	(21,018)	(20,220)	39,682	24,247
Other comprehensive income:				
Amortization of non-qualified employee benefit plan liability, net of taxes of \$80 and \$66 for the three months ended and \$240 and \$182 for the nine months ended September 30, 2021 and 2020, respectively	234	186	676	506
Comprehensive income (loss)	\$ (20,784)	\$ (20,034)	\$ 40,358	\$ 24,753

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands</i>	September 30, 2021	September 30, 2020	December 31, 2020
Assets:			
Current assets:			
Cash and cash equivalents	\$ 9,697	\$ 27,133	\$ 10,453
Accounts receivable	37,328	31,659	80,035
Accrued unbilled revenue	16,702	14,709	57,890
Receivables from affiliates	628	641	660
Allowance for uncollectible accounts	(2,658)	(1,784)	(3,107)
Regulatory assets	80,638	29,740	31,745
Derivative instruments	105,175	24,094	13,678
Inventories	59,641	44,709	42,325
Gas reserves	6,266	12,265	11,409
Other current assets	22,809	20,236	37,909
Total current assets	336,226	203,402	282,997
Non-current assets:			
Property, plant, and equipment	3,857,652	3,633,570	3,683,776
Less: Accumulated depreciation	1,106,901	1,070,405	1,075,446
Total property, plant, and equipment, net	2,750,751	2,563,165	2,608,330
Gas reserves	28,021	37,696	34,484
Regulatory assets	325,031	324,136	348,887
Derivative instruments	24,555	12,921	6,135
Other investments	47,970	48,929	49,242
Operating lease right of use asset, net	75,565	77,949	77,328
Assets under sales-type leases	140,189	144,972	143,759
Other non-current assets	52,653	50,197	48,174
Total non-current assets	3,444,735	3,259,965	3,316,339
Total assets	\$ 3,780,961	\$ 3,463,367	\$ 3,599,336

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands</i>	September 30, 2021	September 30, 2020	December 31, 2020
Liabilities and equity:			
Current liabilities:			
Short-term debt	\$ 370,500	\$ 150,000	\$ 231,525
Current maturities of long-term debt	—	59,940	59,955
Accounts payable	91,947	82,582	95,170
Payables to affiliates	2,568	11,134	13,820
Taxes accrued	16,472	13,604	13,724
Interest accrued	9,258	9,552	7,338
Regulatory liabilities	164,168	59,236	50,362
Derivative instruments	9,818	1,784	4,198
Operating lease liabilities	1,184	1,020	1,054
Other current liabilities	38,642	48,555	51,907
Total current liabilities	704,557	437,407	529,053
Long-term debt	857,760	857,174	857,265
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	321,636	307,257	318,034
Regulatory liabilities	664,521	648,651	638,793
Pension and other postretirement benefit liabilities	202,287	202,938	217,287
Derivative instruments	268	921	2,852
Operating lease liabilities	79,752	80,830	80,559
Other non-current liabilities	114,438	122,684	120,309
Total deferred credits and other non-current liabilities	1,382,902	1,363,281	1,377,834
Commitments and contingencies (Note 17)			
Equity:			
Common stock	321,641	319,557	319,506
Retained earnings	526,327	496,175	528,580
Accumulated other comprehensive loss	(12,226)	(10,227)	(12,902)
Total equity	835,742	805,505	835,184
Total liabilities and equity	\$ 3,780,961	\$ 3,463,367	\$ 3,599,336

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (UNAUDITED)

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total shareholder's equity, beginning balances	\$ 868,391	\$ 839,369	\$ 835,184	\$ 822,196
Common stock:				
Beginning balances	319,506	319,557	319,506	319,557
Capital contributions from parent	2,135	—	2,135	—
Common stock	321,641	319,557	321,641	319,557
Retained earnings:				
Beginning balances	561,345	530,225	528,580	513,372
Net income (loss)	(21,018)	(20,220)	39,682	24,247
Dividends on common stock	(14,000)	(13,830)	(41,935)	(41,444)
Ending balances	526,327	496,175	526,327	496,175
Accumulated other comprehensive income (loss):				
Beginning balances	(12,460)	(10,413)	(12,902)	(10,733)
Other comprehensive income	234	186	676	506
Ending balances	(12,226)	(10,227)	(12,226)	(10,227)
Total shareholder's equity, ending balances	\$ 835,742	\$ 805,505	\$ 835,742	\$ 805,505

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>In thousands</i>	Nine Months Ended September 30,	
	2021	2020
Operating activities:		
Net income	\$ 39,682	\$ 24,247
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	82,418	74,857
Regulatory amortization of gas reserves	11,606	13,711
Deferred income taxes	1,687	(2,407)
Qualified defined benefit pension plan expense	12,075	13,800
Contributions to qualified defined benefit pension plans	(9,590)	(23,670)
Deferred environmental expenditures, net	(14,952)	(16,469)
Amortization of environmental remediation	6,092	6,494
Other	4,675	(4,410)
Changes in assets and liabilities:		
Receivables, net	84,726	78,217
Inventories	(17,317)	(842)
Income and other taxes	5,175	22,104
Accounts payable	(22,929)	(22,703)
Deferred gas costs	(33,379)	(2,472)
Asset optimization revenue sharing	41,407	(9,695)
Decoupling mechanism	(9,172)	4,175
Other, net	(20,376)	2,033
Cash provided by operating activities	161,828	156,970
Investing activities:		
Capital expenditures	(199,399)	(188,553)
Leasehold improvement expenditures	(570)	(7,827)
Proceeds from the sale of assets	2,712	8,003
Other	88	(234)
Cash used in investing activities	(197,169)	(188,611)
Financing activities:		
Capital contributions from parent	2,135	—
Long-term debt issued	—	150,000
Long-term debt retired	(60,000)	(75,000)
Proceeds from term loan due within one year	100,000	150,000
Repayments of commercial paper, maturities greater than three months	(195,025)	—
Change in other short-term debt, net	234,000	(125,100)
Cash dividend payments on common stock	(41,935)	(41,444)
Other	(1,706)	(3,344)
Cash provided by financing activities	37,469	55,112
Increase in cash, cash equivalents and restricted cash	2,128	23,471
Cash, cash equivalents and restricted cash, beginning of period	15,739	8,907
Cash, cash equivalents and restricted cash, end of period	<u>\$ 17,867</u>	<u>\$ 32,378</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalization	\$ 29,920	\$ 28,139
Income taxes paid, net of refunds	23,035	950

See Notes to Unaudited Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements represent the respective, consolidated financial results of NW Holdings and NW Natural and all respective companies that each registrant directly or indirectly controls, either through majority ownership or otherwise. This is a combined report of NW Holdings and NW Natural, which includes separate consolidated financial statements for each registrant.

NW Natural's regulated natural gas distribution activities are reported in the natural gas distribution (NGD) segment. The NGD segment is NW Natural's core operating business and serves residential, commercial, and industrial customers in Oregon and southwest Washington. The NGD segment is the only reportable segment for NW Holdings and NW Natural. All other activities, water businesses, and other investments are aggregated and reported as other at their respective registrant.

Investments in corporate joint ventures and partnerships that NW Holdings does not directly or indirectly control, and for which it is not the primary beneficiary, include NNG Financial's investment in Kelso-Beaver Pipeline, which is accounted for under the equity method, and NWN Energy's investment in Trail West Holdings, LLC (TWH), which was accounted for under the equity method through August 6, 2020. See Note 14 for activity related to TWH. NW Holdings and its direct and indirect subsidiaries are collectively referred to herein as NW Holdings, and NW Natural and its direct and indirect subsidiaries are collectively referred to herein as NW Natural. The consolidated financial statements of NW Holdings and NW Natural are presented after elimination of all intercompany balances and transactions.

Information presented in these interim consolidated financial statements is unaudited, but includes all material adjustments management considers necessary for a fair statement of the results for each period reported including normal recurring accruals. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in NW Holdings' and NW Natural's combined 2020 Annual Report on Form 10-K (2020 Form 10-K). A significant part of NW Holdings' and NW Natural's business is of a seasonal nature; therefore, NW Holdings and NW Natural results of operations for interim periods are not necessarily indicative of full year results. Seasonality affects the comparability of the results of other operations across quarters but not across years.

In June 2018, NWN Gas Storage, a wholly-owned subsidiary of NW Natural at the time and now a wholly-owned subsidiary of NW Holdings, entered into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in its wholly-owned subsidiary, Gill Ranch. We concluded that the sale of Gill Ranch qualified as assets and liabilities held for sale and discontinued operations. As such, the results of Gill Ranch were presented as a discontinued operation for NW Holdings for all periods presented on the consolidated statements of comprehensive income and cash flows, and the assets and liabilities associated with Gill Ranch were classified as discontinued operations assets and liabilities on the NW Holdings consolidated balance sheet. The sale closed on December 4, 2020. See Note 18 for additional information.

Notes to the consolidated financial statements reflect the activity of continuing operations for both NW Holdings and NW Natural for all periods presented, unless otherwise noted. Certain reclassifications have been made to conform prior period information to the current presentation. The reclassifications did not have a material effect on our consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described in Note 2 of the 2020 Form 10-K. There were no material changes to those accounting policies during the nine months ended September 30, 2021 other than those set forth in this Note 2. The following are current updates to certain critical accounting policy estimates and new accounting standards.

Industry Regulation

In applying regulatory accounting principles, NW Holdings and NW Natural capitalize or defer certain costs and revenues as regulatory assets and liabilities pursuant to orders of the Oregon Public Utilities Commission (OPUC), Washington Utilities and Transportation Commission (WUTC), Idaho Public Utilities Commission (IPUC) or Public Utility Commission of Texas (PUCT), as applicable, which provide for the recovery of revenues or expenses from, or refunds to, utility customers in future periods, including a return or a carrying charge in certain cases.

Amounts deferred as regulatory assets and liabilities for NW Holdings and NW Natural were as follows:

<i>In thousands</i>	Regulatory Assets		
	September 30, 2021	2020	December 31, 2020
NW Natural:			
Current:			
Unrealized loss on derivatives ⁽¹⁾	\$ 9,818	\$ 1,459	\$ 4,198
Gas costs	39,622	5,207	1,979
Environmental costs ⁽²⁾	7,068	4,440	4,992
Decoupling ⁽³⁾	1,628	155	361
Pension balancing ⁽⁴⁾	7,131	7,131	7,131
Income taxes	2,939	2,208	3,484
Other ⁽⁵⁾	12,432	9,140	9,600
Total current	<u>\$ 80,638</u>	<u>\$ 29,740</u>	<u>\$ 31,745</u>
Non-current:			
Unrealized loss on derivatives ⁽¹⁾	\$ 268	\$ 921	\$ 2,852
Pension balancing ⁽⁴⁾	40,176	45,203	43,383
Income taxes	13,912	16,792	15,368
Pension and other postretirement benefit liabilities	155,077	159,207	170,812
Environmental costs ⁽²⁾	83,969	84,567	90,623
Gas costs	2,858	110	3,925
Decoupling ⁽³⁾	118	6	1,031
Other ⁽⁵⁾	28,653	17,330	20,893
Total non-current	<u>\$ 325,031</u>	<u>\$ 324,136</u>	<u>\$ 348,887</u>
Other (NW Holdings)	<u>40</u>	<u>40</u>	<u>40</u>
Total non-current - NW Holdings	<u>\$ 325,071</u>	<u>\$ 324,176</u>	<u>\$ 348,927</u>
<i>In thousands</i>	Regulatory Liabilities		
	September 30, 2021	2020	December 31, 2020
NW Natural:			
Current:			
Gas costs	\$ 847	\$ 1,625	\$ 1,118
Unrealized gain on derivatives ⁽¹⁾	105,175	23,738	13,674
Decoupling ⁽³⁾	4,484	12,702	11,793
Income taxes	8,217	6,900	8,217
Asset optimization revenue sharing	43,883	9,020	10,298
Other ⁽⁵⁾	1,562	5,251	5,262
Total current	<u>\$ 164,168</u>	<u>\$ 59,236</u>	<u>\$ 50,362</u>
Non-current:			
Gas costs	\$ —	\$ 69	\$ 314
Unrealized gain on derivatives ⁽¹⁾	24,555	12,921	6,135
Decoupling ⁽³⁾	214	874	1,723
Income taxes ⁽⁶⁾	186,429	196,558	189,587
Accrued asset removal costs ⁽⁷⁾	440,410	421,353	427,960
Asset optimization revenue sharing	—	58	1,231
Other ⁽⁵⁾	12,913	16,818	11,843
Total non-current - NW Natural	<u>\$ 664,521</u>	<u>\$ 648,651</u>	<u>\$ 638,793</u>
Other (NW Holdings)	<u>869</u>	<u>870</u>	<u>870</u>
Total non-current - NW Holdings	<u>\$ 665,390</u>	<u>\$ 649,521</u>	<u>\$ 639,663</u>

(1) Unrealized gains or losses on derivatives are non-cash items and therefore do not earn a rate of return or a carrying charge. These amounts are recoverable through NGD rates as part of the annual Purchased Gas Adjustment (PGA) mechanism when realized at settlement.

(2) Refer to footnote (3) of the Deferred Regulatory Asset table in Note 17 for a description of environmental costs.

(3) This deferral represents the margin adjustment resulting from differences between actual and expected volumes.

(4) Balance represents deferred net periodic benefit costs as approved by the OPUC.

- (5) Balances consist of deferrals and amortizations under approved regulatory mechanisms and typically earn a rate of return or carrying charge.
- (6) Balance represents excess deferred income tax benefits subject to regulatory flow-through.
- (7) Estimated costs of removal on certain regulated properties are collected through rates.

We believe all costs incurred and deferred at September 30, 2021 are prudent. All regulatory assets and liabilities are reviewed annually for recoverability, or more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then NW Holdings and NW Natural would be required to write-off the net unrecoverable balances in the period such determination is made.

Supplemental Cash Flow Information

Restricted cash is primarily comprised of funds from public purpose charges for programs that assist low-income customers with bill payments or energy efficiency. Prior period amounts have been reclassified to conform prior period information to the current presentation.

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances at NW Holdings as of September 30, 2021 and 2020 and December 31, 2020:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
Cash and cash equivalents	\$ 19,502	\$ 35,926	\$ 30,168
Restricted cash included in other current assets	8,170	5,245	5,286
Cash, cash equivalents and restricted cash	<u>\$ 27,672</u>	<u>\$ 41,171</u>	<u>\$ 35,454</u>

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances at NW Natural as of September 30, 2021 and 2020 and December 31, 2020:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
Cash and cash equivalents	\$ 9,697	\$ 27,133	\$ 10,453
Restricted cash included in other current assets	8,170	5,245	5,286
Cash, cash equivalents and restricted cash	<u>\$ 17,867</u>	<u>\$ 32,378</u>	<u>\$ 15,739</u>

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consist primarily of amounts due for natural gas sales and transportation services to NGD customers, plus amounts due for gas storage services. NW Holdings and NW Natural establish allowances for uncollectible accounts (allowance) for trade receivables, including accrued unbilled revenue, based on the aging of receivables, collection experience of past due account balances including payment plans, and historical trends of write-offs as a percent of revenues. A specific allowance is established and recorded for large individual customer receivables when amounts are identified as unlikely to be partially or fully recovered. Inactive accounts are written-off against the allowance after they are 120 days past due or when deemed uncollectible. Differences between the estimated allowance and actual write-offs will occur based on a number of factors, including changes in economic conditions, customer creditworthiness, and natural gas prices. The allowance for uncollectible accounts is adjusted quarterly, as necessary, based on information currently available.

Allowance for Trade Receivables

Accounts receivable consist primarily of amounts due for natural gas sales and transportation services to NGD customers and amounts due for gas storage services. The payment term of these receivables is generally 15 days. For these short-term receivables, it is not expected that forecasted economic conditions would significantly affect the loss estimates under stable economic conditions. For extreme situations like a financial crisis, natural disaster, and the economic slowdown caused by the COVID-19 pandemic, we enhance our review and analysis.

After considering the significant exposure to COVID-19 related job losses in Oregon and Washington state, NW Holdings and NW Natural expanded our standard review procedures for our allowance for uncollectible accounts calculation, including analyzing the unemployment rate and comparing it to historic economic data during the 2007-2009 time period when the country experienced an economic recession. We are also considering other qualitative information including recent customer interactions related to payment plans and credit issues, statistics from our website related to credit inquiries, and bill assistance programs including the arrearage management program. Our provision calculation for residential accounts is estimated based on the factors noted above including a review of percentage of delinquent accounts. For the residential allowance calculation, we consider the funds applied or granted to customers through a variety of assistance programs including the COVID arrearage management programs in Oregon and Washington. During the third quarter of 2021, the normal collection process for residential accounts resumed and the percentage of accounts disconnected for non-payment was also considered in the provision. For commercial accounts, we have resumed normal collection processes and our provision is based on historical write-off trends and current information on delinquent accounts. For industrial accounts, we continue to analyze those accounts on an account-by-account basis with specific reserves taken as necessary.

The following table presents the activity related to the NW Holdings provision for uncollectible accounts by pool, substantially all of which is related to NW Natural's accounts receivable:

	As of December 31, 2020	Nine Months Ended September 30, 2021		As of September 30, 2021
<i>In thousands</i>	Beginning Balance	Provision recorded, net of adjustments	Write-offs recognized, net of recoveries	Ending Balance
Allowance for uncollectible accounts:				
Residential	\$ 2,153	\$ 1,322	\$ (1,111)	\$ 2,364
Commercial	704	(337)	(303)	64
Industrial	142	(106)	5	41
Accrued unbilled and other	220	96	(83)	233
Total	\$ 3,219	\$ 975	\$ (1,492)	\$ 2,702

Allowance for Net Investments in Sales-Type Leases

NW Natural currently holds two net investments in sales-type leases, with substantially all of the net investment balance related to the North Mist natural gas storage agreement with Portland General Electric (PGE) which is billed under an OPUC-approved rate schedule. See Note 7 for more information on the North Mist lease. Due to the nature of this service, PGE may recover the costs of the lease through general rate cases. Therefore, we expect the risk of loss due to the credit of this lessee to be remote. As such, no allowance for uncollectability was recorded for our sales-type lease receivables. NW Natural will continue monitoring the credit health of the lessees and the overall economic environment, including the economic factors closely tied to the financial health of our current and future lessees.

COVID-19 Impact

During 2020, our regulated utilities received approval in their respective jurisdictions to defer certain financial impacts associated with COVID-19 such as bad debt expense, financing costs to secure liquidity, lost revenues related to late fees, and other COVID-19 related costs, net of offsetting direct expense reductions associated with COVID-19. As of September 30, 2021, we deferred to a regulatory asset approximately \$7.4 million for incurred costs associated with COVID-19 that we believe are recoverable.

New Accounting Standards

We consider the applicability and impact of all accounting standards updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on NW Holdings' or NW Natural's consolidated financial position or results of operations.

Recently Adopted Accounting Pronouncements

INCOME TAXES. On December 18, 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The purpose of the amendment is to reduce cost and complexity related to accounting for income taxes by removing certain exceptions to the general principles and improving consistent application for other areas in Topic 740. The amendments in this ASU were effective beginning January 1, 2021. The amended presentation and disclosure guidance was applied retrospectively. The adoption did not materially affect the financial statements and disclosures of NW Holdings or NW Natural.

REFERENCE RATE REFORM. On March 12, 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The purpose of the amendment is to provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference London Inter-Bank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform.

On January 7, 2021, the FASB issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." The purpose of the amendment is to clarify guidance on reference rate reform activities, specifically related to accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting, margining, and contract price alignment (the "discounting transition"). The amendments in ASUs 2020-04 and 2021-01 are effective for all entities as of March 12, 2020 through December 31, 2022. We do not expect the ASUs to materially affect the financial statements and disclosures of NW Holdings or NW Natural.

3. EARNINGS PER SHARE

Basic earnings per share are computed using NW Holdings' net income and the weighted average number of common shares outstanding for each period presented. Diluted earnings per share are computed in the same manner, except using the weighted average number of common shares outstanding plus the effects of the assumed exercise of stock options and the payment of estimated stock awards from other stock-based compensation plans that are outstanding at the end of each period presented. Anti-dilutive stock awards are excluded from the calculation of diluted earnings per common share.

NW Holdings' diluted earnings or loss per share are calculated as follows:

<i>In thousands, except per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss) from continuing operations	\$ (20,655)	\$ (18,677)	\$ 38,138	\$ 24,467
Income from discontinued operations, net of tax	—	765	—	267
Net income (loss)	<u>\$ (20,655)</u>	<u>\$ (17,912)</u>	<u>\$ 38,138</u>	<u>\$ 24,734</u>
Average common shares outstanding - basic	30,696	30,555	30,659	30,528
Additional shares for stock-based compensation plans (See Note 8)	—	—	49	47
Average common shares outstanding - diluted	<u>30,696</u>	<u>30,555</u>	<u>30,708</u>	<u>30,575</u>
Earnings (loss) from continuing operations per share of common stock:				
Basic	\$ (0.67)	\$ (0.61)	\$ 1.24	\$ 0.80
Diluted	\$ (0.67)	\$ (0.61)	\$ 1.24	\$ 0.80
Earnings from discontinued operations per share of common stock:				
Basic	\$ —	\$ 0.02	\$ —	\$ 0.01
Diluted	\$ —	\$ 0.02	\$ —	\$ 0.01
Earnings (loss) per share of common stock:				
Basic	\$ (0.67)	\$ (0.59)	\$ 1.24	\$ 0.81
Diluted	\$ (0.67)	\$ (0.59)	\$ 1.24	\$ 0.81
Additional information:				
Anti-dilutive shares	51	47	6	1

4. SEGMENT INFORMATION

We primarily operate in one reportable business segment, which is NW Natural's local gas distribution business and is referred to as the NGD segment. NW Natural and NW Holdings also have investments and business activities not specifically related to the NGD, which are aggregated and reported as other and described below for each entity.

Natural Gas Distribution

NW Natural's local gas distribution segment is a regulated utility principally engaged in the purchase, sale, and delivery of natural gas and related services to customers in Oregon and southwest Washington. In addition to NW Natural's local gas distribution business, the NGD segment also includes the portion of the Mist underground storage facility used to serve NGD customers, the North Mist gas storage expansion, NWN Gas Reserves, which is a wholly-owned subsidiary of Energy Corp, and NW Natural RNG Holding Company, LLC, a holding company established to invest in the development and procurement of renewable natural gas.

NW Natural

NW Natural's activities in Other include Interstate Storage Services and third-party asset management service for NW Natural's contracted interstate pipeline and storage capacity, appliance retail center operations, and corporate operating and non-operating revenues and expenses that cannot be allocated to NGD operations.

Earnings from third party asset management include earnings from the management of upstream interstate pipeline and storage capacity when not needed to serve NGD customers. Under the Oregon sharing mechanism, NW Natural retains 80% of the pre-tax income from these services when the costs of the capacity were not included in NGD rates, or 10% of the pre-tax income when the costs have been included in these rates. The remaining 20% and 90%, respectively, are recorded in a deferred regulatory account for prospective NGD customer billing credits.

NW Holdings

NW Holdings' activities in Other include all remaining activities not associated with NW Natural, specifically: NWN Water, which consolidates the water and wastewater utility operations and is pursuing other investments in the water sector through itself and wholly-owned subsidiaries; NWN Gas Storage, a wholly-owned subsidiary of NWN Energy; NWN Energy's equity investment in TWH through August 6, 2020; and other pipeline assets in NNG Financial. For more information on the sale of TWH, see Note 14. Other also includes corporate revenues and expenses that cannot be allocated to other operations, including certain business development activities.

Segment Information Summary

Inter-segment transactions were immaterial for the periods presented. The following table presents summary financial information concerning the reportable segment and other of continuing operations. See Note 18 for information regarding discontinued operations for NW Holdings.

<i>In thousands</i>	Three Months Ended September 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2021					
Operating revenues	\$ 91,042	\$ 4,994	\$ 96,036	\$ 5,411	\$ 101,447
Depreciation and amortization	27,462	257	27,719	719	28,438
Income (loss) from operations	(18,288)	3,203	(15,085)	694	(14,391)
Net income (loss) from continuing operations	(23,297)	2,279	(21,018)	363	(20,655)
Capital expenditures	72,822	1,410	74,232	8,036	82,268
2020					
Operating revenues	\$ 83,761	\$ 4,606	\$ 88,367	\$ 4,917	\$ 93,284
Depreciation and amortization	25,433	248	25,681	253	25,934
Income (loss) from operations	(16,196)	2,727	(13,469)	1,881	(11,588)
Net income (loss) from continuing operations	(22,120)	1,900	(20,220)	1,543	(18,677)
Capital expenditures	69,213	1,113	70,326	728	71,054

<i>In thousands</i>	Nine Months Ended September 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2021					
Operating revenues	\$ 531,994	\$ 20,971	\$ 552,965	\$ 13,345	\$ 566,310
Depreciation and amortization	81,648	770	82,418	2,261	84,679
Income (loss) from operations	79,530	14,642	94,172	(1,233)	92,939
Net income (loss) from continuing operations	29,247	10,435	39,682	(1,544)	38,138
Capital expenditures	197,190	2,209	199,399	12,977	212,376
Total assets at September 30, 2021	3,730,595	50,366	3,780,961	148,264	3,929,225
2020					
Operating revenues	\$ 489,240	\$ 12,813	\$ 502,053	\$ 11,353	\$ 513,406
Depreciation and amortization	74,117	740	74,857	1,588	76,445
Income (loss) from operations	65,496	6,955	72,451	1,349	73,800
Net income (loss) from continuing operations	19,476	4,771	24,247	220	24,467
Capital expenditures	186,842	1,711	188,553	4,783	193,336
Total assets at September 30, 2020 ⁽¹⁾	3,451,771	11,596	3,463,367	137,802	3,601,169
Total assets at December 31, 2020	3,549,868	49,468	3,599,336	157,043	3,756,379

⁽¹⁾ Total assets for NW Holdings exclude assets related to discontinued operations of \$16.9 million as of September 30, 2020.

Natural Gas Distribution Margin

NGD margin is a financial measure used by the Chief Operating Decision Maker (CODM), consisting of NGD operating revenues, reduced by the associated cost of gas, environmental remediation expense, and revenue taxes. The cost of gas purchased for NGD customers is generally a pass-through cost in the amount of revenues billed to regulated NGD customers. Environmental remediation expense represents collections received from customers through the environmental recovery mechanism in Oregon as well as adjustments for the environmental earnings test when applicable. This is offset by environmental remediation expense presented in operating expenses. Revenue taxes are collected from NGD customers and remitted to taxing authorities. The collections from customers are offset by the expense recognition of the obligation to the taxing authority. By subtracting cost of gas, environmental remediation expense, and revenue taxes from NGD operating revenues, NGD margin provides a key metric used by the CODM in assessing the performance of the NGD segment.

The following table presents additional segment information concerning NGD margin:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
NGD margin calculation:				
NGD distribution revenues	\$ 86,271	\$ 79,357	\$ 517,673	\$ 474,989
Other regulated services	4,771	4,404	14,321	14,251
Total NGD operating revenues	91,042	83,761	531,994	489,240
Less: NGD cost of gas	25,322	23,797	178,837	173,657
Environmental remediation	806	867	6,092	6,494
Revenue taxes	3,838	3,555	22,143	19,752
NGD margin	<u>\$ 61,076</u>	<u>\$ 55,542</u>	<u>\$ 324,922</u>	<u>\$ 289,337</u>

5. COMMON STOCK

In August 2021, NW Holdings initiated an at-the-market (ATM) equity program by entering into an equity distribution agreement under which NW Holdings may issue and sell from time to time shares of common stock, no par value, having an aggregate gross sales price of up to \$200 million. NW Holdings is under no obligation to offer and sell common stock under the ATM equity program, which expires in August 2024. Any shares of common stock offered under the ATM equity program are registered on NW Holdings' universal shelf registration statement filed with the SEC. During the quarter ended September 30, 2021, NW Holdings issued and sold 41,421 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$2.1 million, net of fees and commissions paid to agents of \$22 thousand. As of September 30, 2021, NW Holdings had issued and sold 41,421 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$2.1 million, net of fees and commissions paid to agents of \$22 thousand. The ATM equity program was initiated to raise funds for general corporate purposes, including for NW Holdings' subsidiaries, that are reflected as equity transfers on occurrence. Contributions received by NW Natural may also be used, in part, to repay short-term indebtedness.

6. REVENUE

The following tables present disaggregated revenue from continuing operations:

<i>In thousands</i>	Three Months Ended September 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2021					
Natural gas sales	\$ 83,947	\$ —	\$ 83,947	\$ —	\$ 83,947
Gas storage revenue, net	—	2,794	2,794	—	2,794
Asset management revenue, net	—	1,012	1,012	—	1,012
Appliance retail center revenue	—	1,188	1,188	—	1,188
Other revenue	403	—	403	5,411	5,814
Revenue from contracts with customers	84,350	4,994	89,344	5,411	94,755
Alternative revenue	2,307	—	2,307	—	2,307
Leasing revenue	4,385	—	4,385	—	4,385
Total operating revenues	<u>\$ 91,042</u>	<u>\$ 4,994</u>	<u>\$ 96,036</u>	<u>\$ 5,411</u>	<u>\$ 101,447</u>
2020					
Natural gas sales	\$ 78,427	\$ —	\$ 78,427	\$ —	\$ 78,427
Gas storage revenue, net	—	2,482	2,482	—	2,482
Asset management revenue, net	—	939	939	—	939
Appliance retail center revenue	—	1,185	1,185	—	1,185
Other revenue	333	—	333	4,917	5,250
Revenue from contracts with customers	78,760	4,606	83,366	4,917	88,283
Alternative revenue	395	—	395	—	395
Leasing revenue	4,606	—	4,606	—	4,606
Total operating revenues	<u>\$ 83,761</u>	<u>\$ 4,606</u>	<u>\$ 88,367</u>	<u>\$ 4,917</u>	<u>\$ 93,284</u>

<i>In thousands</i>	Nine Months Ended September 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2021					
Natural gas sales	\$ 503,769	\$ —	\$ 503,769	\$ —	\$ 503,769
Gas storage revenue, net	—	8,094	8,094	—	8,094
Asset management revenue, net	—	8,757	8,757	—	8,757
Appliance retail center revenue	—	4,120	4,120	—	4,120
Other revenue	1,217	—	1,217	13,345	14,562
Revenue from contracts with customers	504,986	20,971	525,957	13,345	539,302
Alternative revenue	13,843	—	13,843	—	13,843
Leasing revenue	13,165	—	13,165	—	13,165
Total operating revenues	<u>\$ 531,994</u>	<u>\$ 20,971</u>	<u>\$ 552,965</u>	<u>\$ 13,345</u>	<u>\$ 566,310</u>
2020					
Natural gas sales	\$ 469,113	\$ —	\$ 469,113	\$ —	\$ 469,113
Gas storage revenue, net	—	7,267	7,267	—	7,267
Asset management revenue, net	—	1,999	1,999	—	1,999
Appliance retail center revenue	—	3,547	3,547	—	3,547
Other revenue	1,002	—	1,002	11,353	12,355
Revenue from contracts with customers	470,115	12,813	482,928	11,353	494,281
Alternative revenue	5,288	—	5,288	—	5,288
Leasing revenue	13,837	—	13,837	—	13,837
Total operating revenues	<u>\$ 489,240</u>	<u>\$ 12,813</u>	<u>\$ 502,053</u>	<u>\$ 11,353</u>	<u>\$ 513,406</u>

NW Natural's revenue represents substantially all of NW Holdings' revenue and is recognized for both registrants when the obligation to customers is satisfied and in the amount expected to be received in exchange for transferring goods or providing services. Revenue from contracts with customers contains one performance obligation that is generally satisfied over time, using the output method based on time elapsed, due to the continuous nature of the service provided. The transaction price is determined by a set price agreed upon in the contract or dependent on regulatory tariffs. Customer accounts are settled on a monthly basis or paid at time of sale and based on historical experience. It is probable that we will collect substantially all of the consideration to which we are entitled. We evaluated the probability of collection in accordance with the current expected credit losses standard.

NW Holdings and NW Natural do not have any material contract assets, as net accounts receivable and accrued unbilled revenue balances are unconditional and only involve the passage of time until such balances are billed and collected. NW Holdings and NW Natural do not have any material contract liabilities.

Revenue taxes are included in operating revenues with an offsetting expense recognized in operating expense in the consolidated statements of comprehensive income. Revenue-based taxes are primarily franchise taxes, which are collected from customers and remitted to taxing authorities.

Natural Gas Distribution

Natural Gas Sales

NW Natural's primary source of revenue is providing natural gas to customers in the NGD service territory, which includes residential, commercial, industrial and transportation customers. NGD revenue is generally recognized over time upon delivery of the gas commodity or service to the customer, and the amount of consideration received and recognized as revenue is dependent on the Oregon and Washington tariffs. Customer accounts are to be paid in full each month, and there is no right of return or warranty for services provided. Revenues include firm and interruptible sales and transportation services, franchise taxes recovered from the customer, late payment fees, service fees, and accruals for gas delivered but not yet billed (accrued unbilled revenue). The accrued unbilled revenue balance is based on estimates of deliveries during the period from the last meter reading and management judgment is required for a number of factors used in this calculation, including customer use and weather factors.

We applied the significant financing practical expedient and have not adjusted the consideration NW Natural expects to receive from NGD customers for the effects of a significant financing component as all payment arrangements are settled annually. Due to the election of the right to invoice practical expedient, we do not disclose the value of unsatisfied performance obligations.

Alternative Revenue

Weather normalization (WARM) and decoupling mechanisms are considered to be alternative revenue programs. Alternative revenue programs are considered to be contracts between NW Natural and its regulator and are excluded from revenue from contracts with customers.

Leasing Revenue

Leasing revenue primarily consists of revenues from NW Natural's North Mist Storage contract with Portland General Electric (PGE) in support of PGE's gas-fired electric power generation facilities under an initial 30-year contract with options to extend, totaling up to an additional 50 years upon mutual agreement of the parties. The facility is accounted for as a sales-type lease with regulatory accounting deferral treatment. The investment is included in rate base under an established cost-of-service tariff schedule, with revenues recognized according to the tariff schedule and as such, profit upon commencement was deferred and will be amortized over the lease term. Leasing revenue also contains rental revenue from small leases of property owned by NW Natural to third parties. The majority of these transactions are accounted for as operating leases and the revenue is recognized over the term of the lease agreement. Lease revenue is excluded from revenue from contracts with customers. See Note 7 for additional information.

NW Natural Other

Gas Storage Revenue

NW Natural's other revenue includes gas storage activity, which includes Interstate Storage Services used to store natural gas for customers. Gas storage revenue is generally recognized over time as the gas storage service is provided to the customer and the amount of consideration received and recognized as revenue is dependent on set rates defined per the storage agreements. Noncash consideration in the form of dekatherms of natural gas is received as consideration for providing gas injection services to gas storage customers. This noncash consideration is measured at fair value using the average spot rate. Customer accounts are generally paid in full each month, and there is no right of return or warranty for services provided. Revenues include firm and interruptible storage services, net of the profit sharing amount refunded to NGD customers.

Asset Management Revenue

Revenues include the optimization of third-party storage assets and pipeline capacity and are provided net of the profit sharing amount refunded to NGD customers. Certain asset management revenues received are recognized over time using a straight-line approach over the term of each contract, and the amount of consideration received and recognized as revenue is dependent on a variable pricing model. Variable revenues earned above guaranteed amounts are estimated and recognized at the end of each period using the most likely amount approach. Additionally, other asset management revenues may be based on a fixed rate. Generally, asset management accounts are settled on a monthly basis.

As of September 30, 2021, unrecognized revenue for the fixed component of the transaction price related to gas storage and asset management revenue was approximately \$103.3 million. Of this amount, approximately \$4.9 million will be recognized during the remainder of 2021, \$19.7 million in 2022, \$18.1 million in 2023, \$15.7 million in 2024, \$13.5 million in 2025 and \$31.4 million thereafter. The amounts presented here are calculated using current contracted rates.

Appliance Retail Center Revenue

NW Natural owns and operates an appliance store that is open to the public, where customers can purchase natural gas home appliances. Revenue from the sale of appliances is recognized at the point in time in which the appliance is transferred to the third party responsible for delivery and installation services and when the customer has legal title to the appliance. It is required that the sale be paid for in full prior to transfer of legal title. The amount of consideration received and recognized as revenue varies with changes in marketing incentives and discounts offered to customers.

NW Holdings Other

NW Holdings' primary source of other revenue is providing water and wastewater services to customers. Water and wastewater service revenue is generally recognized over time upon delivery of the water commodity or service to the customer, and the amount of consideration received and recognized as revenue is dependent on the tariffs established in the state we operate. Customer accounts are to be paid in full each month, and there is no right of return or warranty for services provided.

We applied the significant financing practical expedient and have not adjusted the consideration we expect to receive from water distribution customers for the effects of a significant financing component as all payment arrangements are settled annually. Due to the election of the right to invoice practical expedient, we do not disclose the value of unsatisfied performance obligations.

7. LEASES

Lease Revenue

Leasing revenue primarily consists of NW Natural's North Mist natural gas storage agreement with Portland General Electric (PGE), which is billed under an OPUC-approved rate schedule and includes an initial 30-year term with options to extend, totaling up to an additional 50 years upon mutual agreement of the parties. Under U.S. GAAP, this agreement is classified as a sales-type lease and qualifies for regulatory accounting deferral treatment. The investment in the storage facility is included in rate base under a separately established cost-of-service tariff, with revenues recognized according to the tariff schedule. As such, the selling profit that was calculated upon commencement as part of the sale-type lease recognition was deferred and will

be amortized over the lease term. Billing rates under the cost-of-service tariff will be updated annually to reflect current information including depreciable asset levels, forecasted operating expenses, and the results of regulatory proceedings, as applicable, and revenue received under this agreement is recognized as operating revenue on the consolidated statements of comprehensive income. There are no variable payments or residual value guarantees. The lease does not contain an option to purchase the underlying assets.

NW Natural also maintains a sales-type lease for specialized compressor facilities to provide high pressure compressed natural gas (CNG) services. Lease payments are outlined in an OPUC-approved rate schedule over a 10-year term. There are no variable payments or residual value guarantees. The selling profit computed upon lease commencement was not significant.

Our lessor portfolio also contains small leases of property owned by NW Natural and NW Holdings to third parties. These transactions are accounted for as operating leases and the revenue is recognized over the term of the lease agreement.

The components of lease revenue at NW Natural were as follows:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Lease revenue				
Operating leases	\$ 18	\$ 18	\$ 61	\$ 71
Sales-type leases	4,367	4,588	13,104	13,766
Total lease revenue	<u>\$ 4,385</u>	<u>\$ 4,606</u>	<u>\$ 13,165</u>	<u>\$ 13,837</u>

Additionally, lease revenue of \$0.1 million was recognized for the three months ended September 30, 2021 and 2020 and lease revenue of \$0.4 million was recognized for the nine months ended September 30, 2021 and 2020 related to operating leases associated with non-utility property rentals. Lease revenue related to these leases was presented in other income (expense), net on the consolidated statements of comprehensive income as it is non-operating income.

Total future minimum lease payments to be received under non-cancellable leases at September 30, 2021 are as follows:

<i>In thousands</i>	Operating	Sales-Type	Total
NW Natural:			
Remainder of 2021	\$ 138	\$ 4,338	\$ 4,476
2022	551	17,026	17,577
2023	74	16,557	16,631
2024	74	15,867	15,941
2025	66	15,306	15,372
Thereafter	58	251,721	251,779
Total minimum lease payments	<u>\$ 961</u>	<u>\$ 320,815</u>	<u>\$ 321,776</u>
Less: imputed interest		180,198	
Total leases receivable		<u>\$ 140,617</u>	
Other (NW Holdings):			
Remainder of 2021	\$ 12	\$ —	\$ 12
2022	50	—	50
2023	51	—	51
2024	52	—	52
2025	53	—	53
Thereafter	970	—	970
Total minimum lease payments	<u>\$ 1,188</u>	<u>\$ —</u>	<u>\$ 1,188</u>
NW Holdings:			
Remainder of 2021	\$ 150	\$ 4,338	\$ 4,488
2022	601	17,026	17,627
2023	125	16,557	16,682
2024	126	15,867	15,993
2025	119	15,306	15,425
Thereafter	1,028	251,721	252,749
Total minimum lease payments	<u>\$ 2,149</u>	<u>\$ 320,815</u>	<u>\$ 322,964</u>
Less: imputed interest		180,198	
Total leases receivable		<u>\$ 140,617</u>	

The total leases receivable above is reported under the NGD segment and the short- and long-term portions are included within other current assets and assets under sales-type leases on the consolidated balance sheets, respectively. The total amount of unguaranteed residual assets was \$4.6 million, \$4.2 million and \$4.3 million at September 30, 2021 and 2020 and December 31, 2020, respectively, and is included in assets under sales-type leases on the consolidated balance sheets. Additionally, under regulatory accounting, the revenues and expenses associated with these agreements are presented on the consolidated statements of comprehensive income such that their presentation aligns with similar regulated activities at NW Natural.

Lease Expense

Operating Leases

We have operating leases for land, buildings and equipment. Our primary lease is for NW Natural's corporate operations center. Our leases have remaining lease terms of three months to 19 years. Many of our lease agreements include options to extend the lease, which we do not include in our minimum lease terms unless they are reasonably certain to be exercised. Short-term leases with a term of 12 months or less are not recorded on the balance sheet. As most of our leases do not provide an implicit rate and are entered into by NW Natural, we use an estimated discount rate representing the rate we would have incurred to finance the funds necessary to purchase the leased asset and is based on information available at the lease commencement date in determining the present value of lease payments.

The components of lease expense, a portion of which is capitalized, were as follows:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
NW Natural:				
Operating lease expense	\$ 1,735	\$ 746	\$ 5,123	\$ 2,862
Short-term lease expense	\$ 499	\$ 300	\$ 1,068	\$ 783
Other (NW Holdings):				
Operating lease expense	\$ 14	\$ 17	\$ 50	\$ 109
NW Holdings:				
Operating lease expense	\$ 1,749	\$ 763	\$ 5,173	\$ 2,971
Short-term lease expense	\$ 499	\$ 300	\$ 1,068	\$ 783

Supplemental balance sheet information related to operating leases as of September 30, 2021 is as follows:

<i>In thousands</i>	September 30,		December 31,	
	2021	2020	2020	
NW Natural:				
Operating lease right of use asset	\$ 75,565	\$ 77,949	\$ 77,328	
Operating lease liabilities - current liabilities	\$ 1,184	\$ 1,020	\$ 1,054	
Operating lease liabilities - non-current liabilities	79,752	80,830	80,559	
Total operating lease liabilities	\$ 80,936	\$ 81,850	\$ 81,613	
Other (NW Holdings):				
Operating lease right of use asset	\$ 69	\$ 87	\$ 118	
Operating lease liabilities - current liabilities	\$ 29	\$ 61	\$ 51	
Operating lease liabilities - non-current liabilities	37	24	62	
Total operating lease liabilities	\$ 66	\$ 85	\$ 113	
NW Holdings:				
Operating lease right of use asset	\$ 75,634	\$ 78,036	\$ 77,446	
Operating lease liabilities - current liabilities	\$ 1,213	\$ 1,081	\$ 1,105	
Operating lease liabilities - non-current liabilities	79,789	80,854	80,621	
Total operating lease liabilities	\$ 81,002	\$ 81,935	\$ 81,726	

The weighted-average remaining lease terms and weighted-average discount rates for the operating leases at NW Natural were as follows:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
Weighted-average remaining lease term (years)	18.4	19.4	19.2
Weighted-average discount rate	7.2 %	7.2 %	7.2 %

Corporate Operations Center Lease

NW Natural commenced a 20-year operating lease agreement in March 2020 for a new corporate operations center in Portland, Oregon. Total estimated base rent payments over the life of the lease are \$159.4 million. There is an option to extend the term of the lease for two additional periods of seven years.

There is a material timing difference between the minimum lease payments and expense recognition as calculated under operating lease accounting rules. OPUC issued an order allowing us to align our expense recognition with cash payments for ratemaking purposes. We recorded the difference between the minimum lease payments and the aggregate of the imputed interest on the finance lease obligation and amortization of the right-of-use asset as a deferred regulatory asset on our balance sheet. The balance of the regulatory asset was \$5.3 million, \$3.7 million and \$4.2 million as of September 30, 2021 and 2020 and December 31, 2020, respectively.

Maturities of operating lease liabilities at September 30, 2021 were as follows:

<i>In thousands</i>	NW Natural	Other (NW Holdings)	NW Holdings
Remainder of 2021	\$ 1,727	\$ 6	\$ 1,733
2022	6,968	24	6,992
2023	7,013	6	7,019
2024	7,150	6	7,156
2025	7,185	6	7,191
Thereafter	123,784	24	123,808
Total lease payments	153,827	72	153,899
Less: imputed interest	72,891	6	72,897
Total lease obligations	80,936	66	81,002
Less: current obligations	1,184	29	1,213
Long-term lease obligations	\$ 79,752	\$ 37	\$ 79,789

As of September 30, 2021, finance lease liabilities with maturities of less than one year were \$0.1 million at NW Natural.

Supplemental cash flow information related to leases was as follows:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
NW Natural:				
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 1,727	\$ 673	\$ 5,113	\$ 2,800
Finance cash flows from finance leases	\$ 123	\$ 215	\$ 801	\$ 672
Right of use assets obtained in exchange for lease obligations				
Operating leases	\$ —	\$ 106	\$ 154	\$ 78,539
Finance leases	\$ 75	\$ 676	\$ 169	\$ 1,386
Other (NW Holdings):				
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 18	\$ 18	\$ 51	\$ 109
NW Holdings:				
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 1,745	\$ 691	\$ 5,164	\$ 2,909
Finance cash flows from finance leases	\$ 123	\$ 215	\$ 801	\$ 672
Right of use assets obtained in exchange for lease obligations				
Operating leases	\$ —	\$ 106	\$ 154	\$ 78,539
Finance leases	\$ 75	\$ 676	\$ 169	\$ 1,386

Finance Leases

NW Natural also leases building storage spaces for use as a gas meter room in order to provide natural gas to multifamily or mixed use developments. These contracts are accounted for as finance leases and typically involve a one-time upfront payment with no remaining liability. The right of use assets for finance leases were \$1.9 million, \$1.8 million and \$1.8 million at September 30, 2021 and 2020 and at December 31, 2020, respectively.

8. STOCK-BASED COMPENSATION

Stock-based compensation plans are designed to promote stock ownership in NW Holdings by employees and officers. These compensation plans include a Long Term Incentive Plan (LTIP), an Employee Stock Purchase Plan (ESPP), and a Restated Stock Option Plan. For additional information on stock-based compensation plans, see Note 8 in the 2020 Form 10-K and the updates provided below.

Long Term Incentive Plan

Performance Shares

LTIP performance shares incorporate a combination of market, performance, and service-based factors. During the nine months ended September 30, 2021, the final performance factor under the 2019 LTIP was approved and 29,492 performance-based shares were granted under the 2019 LTIP for accounting purposes. As such, NW Natural and other subsidiaries began recognizing compensation expense. In February 2020 and 2021, LTIP shares were awarded to participants; however, the agreements allow for one of the performance factors to remain variable until the first quarter of the third year of the award period. As the performance factor will not be approved until the first quarters of 2022 and 2023, respectively, there is not a mutual understanding of the awards' key terms and conditions between NW Holdings and the participants as of September 30, 2021, and therefore, no expense was recognized for the 2020 and 2021 awards. NW Holdings will calculate the grant date fair value and NW Natural will recognize expense over the remaining service period for each award once the final performance factor has been approved.

For the 2020 and 2021 LTIP awards, share payouts range from a threshold of 0% to a maximum of 200% based on achievement of pre-established goals. The performance criteria for the 2020 and 2021 performance shares consists of a three-year Return on Invested Capital (ROIC) threshold that must be satisfied and a cumulative EPS factor, which can be modified by a total shareholder return factor (TSR modifier) relative to the performance of peer group companies over the performance period of

three years for each respective award. If the targets were achieved for the 2020 and 2021 awards, NW Holdings would grant for accounting purposes 31,830 and 56,335 shares in the first quarters of 2022 and 2023, respectively.

As of September 30, 2021, there was \$0.1 million of unrecognized compensation cost associated with the 2019 LTIP grants, which is expected to be recognized through 2021.

Restricted Stock Units

During the nine months ended September 30, 2021, 37,576 RSUs were granted under the LTIP with a weighted-average grant date fair value of \$49.16 per share. Generally, the RSUs are forfeitable and include a performance-based threshold as well as a vesting period of four years from the grant date. The majority of our RSU grants obligate NW Holdings, upon vesting, to issue the RSU holder one share of common stock. The grant may also include a cash payment equal to the total amount of dividends paid per share between the grant date and vesting date of that portion of the RSU depending on the structure of the award agreement. The fair value of an RSU is equal to the closing market price of common stock on the grant date. As of September 30, 2021, there was \$3.8 million of unrecognized compensation cost from grants of RSUs, which is expected to be recognized by NW Natural and other subsidiaries over a period extending through 2025.

Restated Stock Option Plan

The Restated Stock Option Plan (Restated SOP) was terminated with respect to new grants in 2012; however, options granted before the Restated SOP was terminated remained outstanding until the earlier of their expiration, forfeiture, or exercise. Options were exercisable for shares of NW Holdings common stock. As of September 30, 2021 there were no options exercisable or outstanding.

9. DEBT

Short-Term Debt

In June 2021, NW Natural entered into a \$100.0 million 364-Day Term Loan Credit Agreement (Term Loan) and borrowed the full amount. All principal and unpaid interest under the Term Loan is due and payable in June 2022. The Term Loan requires NW Natural to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Natural was in compliance with this covenant at September 30, 2021, with a consolidated indebtedness to total capitalization ratio of 59.5%.

At September 30, 2021, NW Holdings and NW Natural had short-term debt outstanding of \$399.5 million and \$370.5 million, respectively. NW Holdings' short-term debt consisted of \$29.0 million in revolving credit agreement loans at NW Holdings, \$270.5 million of commercial paper outstanding at NW Natural, and the aforementioned \$100.0 million Term Loan. The weighted average interest rate on the revolving credit agreement at September 30, 2021 was 1.1% at NW Holdings. The weighted average interest rate of commercial paper and the Term Loan outstanding at September 30, 2021 was 0.2% and 0.7%, respectively, at NW Natural. At September 30, 2021, NW Natural's commercial paper had a maximum remaining maturity of 63 days and an average remaining maturity of 34 days.

Long-Term Debt

At September 30, 2021, NW Holdings and NW Natural had long-term debt outstanding of \$916.3 million and \$857.8 million, respectively, which included \$7.1 million and \$6.9 million of unamortized debt issuance costs at NW Holdings and NW Natural, respectively. NW Natural's long-term debt consists of first mortgage bonds (FMBs) with maturity dates ranging from 2023 through 2050, interest rates ranging from 2.8% to 7.9%, and a weighted average interest rate of 4.5%.

In August 2021, NW Natural retired \$10.0 million of FMBs with an interest rate of 9.1%. In September 2021, NW Natural retired \$50.0 million of FMBs with an interest rate of 3.2%. No other long-term debt is scheduled to mature over the next twelve months following September 30, 2021.

In June 2019, NW Natural Water, a wholly-owned subsidiary of NW Holdings, entered into a two-year term loan agreement for \$35.0 million. The loan was repaid in June 2021 upon its maturity date.

In June 2021, NW Natural Water entered into a five-year term loan credit agreement for \$55.0 million and borrowed the full amount. The loan carried an interest rate of 0.9% at September 30, 2021, which is based upon the one-month LIBOR rate plus a spread. The loan is guaranteed by NW Holdings and requires NW Holdings to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Holdings was in compliance with this covenant at September 30, 2021, with a consolidated indebtedness to total capitalization ratio of 59.6%.

Fair Value of Long-Term Debt

NW Holdings' and NW Natural's outstanding debt does not trade in active markets. The fair value of long-term debt is estimated using the value of outstanding debt at natural gas distribution companies with similar credit ratings, terms, and remaining maturities to NW Holdings' and NW Natural's debt that actively trade in public markets. Substantially all outstanding debt at NW Holdings is comprised of NW Natural debt. These valuations are based on Level 2 inputs as defined in the fair value hierarchy. See Note 2 in the 2020 Form 10-K for a description of the fair value hierarchy.

The following table provides an estimate of the fair value of long-term debt, including current maturities of long-term debt, using market prices in effect on the valuation date:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
NW Natural:			
Gross long-term debt	\$ 864,700	\$ 924,700	\$ 924,700
Unamortized debt issuance costs	(6,940)	(7,586)	(7,480)
Carrying amount	\$ 857,760	\$ 917,114	\$ 917,220
Estimated fair value ⁽¹⁾	\$ 978,613	\$ 1,080,663	\$ 1,097,348
NW Holdings:			
Gross long-term debt	\$ 923,355	\$ 962,994	\$ 962,905
Unamortized debt issuance costs	(7,051)	(7,586)	(7,480)
Carrying amount	\$ 916,304	\$ 955,408	\$ 955,425
Estimated fair value ⁽¹⁾	\$ 1,042,705	\$ 1,118,565	\$ 1,136,311

⁽¹⁾ Estimated fair value does not include unamortized debt issuance costs.

10. PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS

NW Natural maintains a qualified non-contributory defined benefit pension plan (Pension Plan), non-qualified supplemental pension plans for eligible executive officers and other key employees, and other postretirement employee benefit plans. NW Natural also has a qualified defined contribution plan (Retirement K Savings Plan) for all eligible employees. The Pension Plan and Retirement K Savings Plan have plan assets, which are held in qualified trusts to fund retirement benefits.

The service cost component of net periodic benefit cost for NW Natural pension and other postretirement benefit plans is recognized in operations and maintenance expense in the consolidated statements of comprehensive income. The other non-service cost components are recognized in other income (expense), net in the consolidated statements of comprehensive income.

The following table provides the components of net periodic benefit cost for the pension and other postretirement benefit plans:

<i>In thousands</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020	2021	2020	2021	2020
Service cost	\$ 1,717	\$ 1,673	\$ 69	\$ 67	\$ 5,145	\$ 4,988	\$ 180	\$ 195
Interest cost	3,316	4,071	180	229	10,001	12,093	510	675
Expected return on plan assets	(5,802)	(5,358)	—	—	(18,000)	(16,350)	—	—
Amortization of prior service credit	—	—	(119)	(119)	—	—	(353)	(353)
Amortization of net actuarial loss	5,515	5,082	226	173	16,516	14,638	488	458
Net periodic benefit cost	4,746	5,468	356	350	13,662	15,369	825	975
Amount allocated to construction	(759)	(695)	(27)	(25)	(2,228)	(2,043)	(70)	(71)
Net periodic benefit cost charged to expense	3,987	4,773	329	325	11,434	13,326	755	904
Amortization of regulatory balancing account	675	675	—	—	4,757	4,757	—	—
Net amount charged to expense	\$ 4,662	\$ 5,448	\$ 329	\$ 325	\$ 16,191	\$ 18,083	\$ 755	\$ 904

Net periodic benefit costs are reduced by amounts capitalized to NGD plant. In addition, net periodic benefit costs were recorded to a regulatory balancing account as approved by the OPUC and amortized accordingly.

The following table presents amounts recognized in accumulated other comprehensive loss (AOCL) and the changes in AOCL related to non-qualified employee benefit plans:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Beginning balance	\$ (12,460)	\$ (10,413)	\$ (12,902)	\$ (10,733)
Amounts reclassified from AOCL:				
Amortization of actuarial losses	314	252	916	688
Total reclassifications before tax	314	252	916	688
Tax benefit	(80)	(66)	(240)	(182)
Total reclassifications for the period	234	186	676	506
Ending balance	\$ (12,226)	\$ (10,227)	\$ (12,226)	\$ (10,227)

Employer Contributions to Company-Sponsored Defined Benefit Pension Plans

For the nine months ended September 30, 2021, NW Natural made cash contributions totaling \$9.6 million to qualified defined benefit pension plans. The American Rescue Plan, which was signed into law on March 11, 2021, includes a provision for pension relief that extends the amortization period for required contributions from 7 to 15 years and provides for the stabilization of interest rates used to calculate future required contributions. As a result, NW Natural does not expect to make any further plan contributions during the remainder of 2021.

Defined Contribution Plan

The Retirement K Savings Plan is a qualified defined contribution plan under Internal Revenue Code Sections 401(a) and 401(k). Employer contributions totaled \$6.7 million and \$6.2 million for the nine months ended September 30, 2021 and 2020, respectively.

See Note 10 in the 2020 Form 10-K for more information concerning these retirement and other postretirement benefit plans.

11. INCOME TAX

An estimate of annual income tax expense is made each interim period using estimates for annual pre-tax income, regulatory flow-through adjustments, tax credits, and other items. The estimated annual effective tax rate is applied to year-to-date, pre-tax income to determine income tax expense for the interim period consistent with the annual estimate. Discrete events are recorded in the interim period in which they occur or become known.

The effective income tax rate varied from the federal statutory rate due to the following:

<i>In thousands</i>	Three Months Ended September 30,			
	NW Holdings		NW Natural	
	2021	2020	2021	2020
Income tax at statutory rate (federal)	\$ (5,834)	\$ (5,048)	\$ (5,928)	\$ (5,518)
State income tax	(2,599)	(1,452)	(2,618)	(1,595)
Increase (decrease):				
Differences required to be flowed-through by regulatory commissions	1,318	1,051	1,318	1,051
Other, net	(12)	86	16	5
Total benefit for income taxes on continuing operations	\$ (7,127)	\$ (5,363)	\$ (7,212)	\$ (6,057)
Effective income tax rate for continuing operations	25.7 %	22.3 %	25.5 %	23.1 %

<i>In thousands</i>	Nine Months Ended September 30,			
	NW Holdings		NW Natural	
	2021	2020	2021	2020
Income tax at statutory rate (federal)	\$ 10,764	\$ 6,628	\$ 11,195	\$ 6,550
State income tax	4,660	1,892	4,748	1,861
Increase (decrease):				
Differences required to be flowed-through by regulatory commissions	(2,266)	(1,301)	(2,266)	(1,301)
Other, net	(41)	(127)	(49)	(168)
Total provision for income taxes on continuing operations	\$ 13,117	\$ 7,092	\$ 13,628	\$ 6,942
Effective income tax rate for continuing operations	25.6 %	22.5 %	25.6 %	22.3 %

The NW Holdings and NW Natural effective income tax rates for the nine months ended September 30, 2021 compared to the same period in 2020 changed primarily as a result of changes in pre-tax income, Oregon's Corporate Activity Tax (CAT), and regulatory amortization of deferred Tax Cuts and Jobs Act (TCJA) benefits. See Note 11 in the 2020 Form 10-K for more detail on income taxes and effective tax rates.

The IRS Compliance Assurance Process (CAP) examination of the 2019 tax year was completed during the first quarter of 2021. There were no material changes to the return as filed. The 2020 and 2021 tax years are subject to examination under CAP.

12. PROPERTY, PLANT, AND EQUIPMENT

The following table sets forth the major classifications of property, plant, and equipment and accumulated depreciation of continuing operations:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
NW Natural:			
NGD plant in service	\$ 3,663,699	\$ 3,441,301	\$ 3,548,543
NGD work in progress	120,412	120,722	63,901
Less: Accumulated depreciation	1,086,510	1,051,018	1,055,809
NGD plant, net	2,697,601	2,511,005	2,556,635
Other plant in service	66,314	65,103	66,300
Other construction work in progress	7,228	6,444	5,032
Less: Accumulated depreciation	20,392	19,387	19,637
Other plant, net	53,150	52,160	51,695
Total property, plant, and equipment, net	\$ 2,750,751	\$ 2,563,165	\$ 2,608,330
Other (NW Holdings):			
Other plant in service	\$ 61,443	\$ 47,302	\$ 50,263
Less: Accumulated depreciation	5,832	3,218	3,823
Other plant, net	\$ 55,611	\$ 44,084	\$ 46,440
NW Holdings:			
Total property, plant, and equipment, net	\$ 2,806,362	\$ 2,607,249	\$ 2,654,770
NW Natural:			
Capital expenditures in accrued liabilities	\$ 33,968	\$ 37,236	\$ 25,129
NW Holdings:			
Capital expenditures in accrued liabilities	\$ 35,955	\$ 37,236	\$ 25,129

NW Holdings

Other plant balances include long-lived assets associated with water and wastewater utility operations and non-regulated activities not held by NW Natural or its subsidiaries.

NW Natural

Other plant balances primarily include non-utility gas storage assets at the Mist facility and other long-lived assets not related to NGD.

13. GAS RESERVES

NW Natural has invested \$188 million through the gas reserves program in the Jonah Field located in Wyoming as of September 30, 2021. Gas reserves are stated at cost, net of regulatory amortization, with the associated deferred tax benefits recorded as liabilities in the consolidated balance sheets. The investment in gas reserves provides long-term price protection for NGD customers through the original agreement with Encana Oil & Gas (USA) Inc. under which NW Natural invested \$178 million and the amended agreement with Jonah Energy LLC under which an additional \$10 million was invested.

The cost of gas, including a carrying cost for the rate base investment, is included in the annual Oregon PGA filing, which allows NW Natural to recover these costs through customer rates. The investment under the original agreement, less accumulated amortization and deferred taxes, earns a rate of return. See Note 13 in the 2020 Form 10-K.

Gas produced from the additional wells is included in the Oregon PGA at a fixed rate of \$0.4725 per therm, which approximates the 10-year hedge rate plus financing costs at the inception of the investment.

The following table outlines NW Natural's net gas reserves investment:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
Gas reserves, current	\$ 6,266	\$ 12,265	\$ 11,409
Gas reserves, non-current	181,041	175,042	175,898
Less: Accumulated amortization	153,020	137,346	141,414
Total gas reserves ⁽¹⁾	34,287	49,961	45,893
Less: Deferred taxes on gas reserves	7,768	11,972	10,572
Net investment in gas reserves	\$ 26,519	\$ 37,989	\$ 35,321

⁽¹⁾ The net investment in additional wells included in total gas reserves was \$2.5 million, \$3.2 million and \$3.0 million at September 30, 2021 and 2020 and December 31, 2020, respectively.

NW Natural's investment is included in NW Holdings' and NW Natural's consolidated balance sheets under gas reserves with the maximum loss exposure limited to the investment balance.

14. INVESTMENTS

Investment in Life Insurance Policies

Other investments include financial investments in life insurance policies, which are accounted for at cash surrender value, net of policy loans. See Note 14 in the 2020 Form 10-K.

Investments in Gas Pipeline

On August 6, 2020, NWN Energy completed the sale of 100% of its interest in Trail West Holdings, LLC (TWH) to an unrelated third party for a purchase price of \$14.0 million, \$7.0 million of which was paid upon closing the transaction, and \$7.0 million which was paid upon the one-year anniversary of the close date. The completion of the sale resulted in an after-tax gain of approximately \$0.5 million for the year ended December 31, 2020.

TWH was a variable interest entity reported under equity method accounting through its sale. The investment in TWH did not meet the criteria to be classified as held for sale or discontinued operations. See Note 14 in the 2020 Form 10-K.

15. BUSINESS COMBINATIONS

2021 Business Combinations

During the nine months ended September 30, 2021, NWN Water completed three acquisitions qualifying as business combinations. The aggregate fair value of the preliminary consideration transferred for these acquisitions were not material and are not significant to NW Holdings' results of operations.

2020 Business Combinations

During 2020, NWN Water and its subsidiaries completed two significant acquisitions qualifying as business combinations. The aggregate fair value of the total cash consideration transferred for these acquisitions was \$38.1 million, most of which was allocated to property, plant and equipment and goodwill. These transactions align with NW Holdings' water sector strategy as it continues to expand its water services territories in the Pacific Northwest and beyond and included:

- Suncadia Water Company, LLC and Suncadia Environmental Company, LLC which were acquired by NWN Water of Washington on January 31, 2020, and
- T&W Water Service Company which was acquired by NWN Water of Texas on March 2, 2020.

As each of these acquisitions met the criteria of a business combination, a preliminary allocation of the consideration to the acquired net assets based on their estimated fair value as of the acquisition date was performed. In accordance with U.S. GAAP,

the fair value determination involves management judgment in determining the significant estimates and assumptions used and was made using existing regulatory conditions for net assets associated with Suncadia Water Company, LLC and T&W Water Service Company.

Final goodwill of \$18.2 million was recognized from the acquisitions described above. No intangible assets aside from goodwill were acquired. The goodwill recognized is attributable to the regulated water utility service territories, experienced workforces, and the strategic benefits from both the water and wastewater utilities expected from growth in their service territories. The total amount of goodwill that is expected to be deductible for income tax purposes is approximately \$16.5 million. The acquisition costs associated with each business combination were expensed as incurred. The results of these business combinations were not material to the consolidated financial results of NW Holdings.

Other Business Combinations

During 2020, NWN Water completed three additional acquisitions, comprised of four water systems and one wastewater system, which qualified as business combinations. The aggregate fair value of the preliminary consideration transferred for these acquisitions was approximately \$1.5 million. These business combinations were not significant to NW Holdings' results of operations.

Goodwill

NW Holdings allocates goodwill to reporting units based on the expected benefit from the business combination. We perform an annual impairment assessment of goodwill at the reporting unit level, or more frequently if events and circumstances indicate that goodwill might be impaired. An impairment loss is recognized if the carrying value of a reporting unit's goodwill exceeds its fair value.

As a result of all acquisitions completed, total goodwill was \$69.8 million, \$70.3 million and \$69.2 million as of September 30, 2021, September 30, 2020 and December 31, 2020, respectively. The decrease in the goodwill balance from the third quarter of 2020 is primarily due to a measurement period adjustment that occurred in the fourth quarter of 2020, partially offset by acquisitions in the water sector. The increase in the goodwill balance from the fourth quarter of 2020 is primarily due to additions associated with our acquisitions in the water sector. All of our goodwill is related to water and wastewater acquisitions and is included in the other category for segment reporting purposes. The annual impairment assessment of goodwill occurs in the fourth quarter of each year. There have been no impairments recognized to date.

16. DERIVATIVE INSTRUMENTS

NW Natural enters into financial derivative contracts to hedge a portion of the NGD segment's natural gas sales requirements. These contracts include swaps, options, and combinations of option contracts. These derivative financial instruments are primarily used to manage commodity price variability. A small portion of NW Natural's derivative hedging strategy involves foreign currency exchange contracts.

NW Natural enters into these financial derivatives, up to prescribed limits, primarily to hedge price variability related to physical gas supply contracts as well as to hedge spot purchases of natural gas. The foreign currency forward contracts are used to hedge the fluctuation in foreign currency exchange rates for pipeline demand charges paid in Canadian dollars.

In the normal course of business, NW Natural also enters into indexed-price physical forward natural gas commodity purchase contracts and options to meet the requirements of NGD customers. These contracts qualify for regulatory deferral accounting treatment.

NW Natural also enters into exchange contracts related to the third-party asset management of its gas portfolio, some of which are derivatives that do not qualify for hedge accounting or regulatory deferral, but are subject to NW Natural's regulatory sharing agreement. These derivatives are recognized in operating revenues, net of amounts shared with NGD customers.

Notional Amounts

The following table presents the absolute notional amounts related to open positions on NW Natural derivative instruments:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
Natural gas (in therms):			
Financial	749,595	860,400	784,400
Physical	613,524	706,592	457,593
Foreign exchange	\$ 6,299	\$ 6,754	\$ 5,896

Purchased Gas Adjustment (PGA)

Derivatives entered into by NW Natural for the procurement or hedging of natural gas for future gas years generally receive regulatory deferral accounting treatment. In general, commodity hedging for the current gas year is completed prior to the start of the gas year, and hedge prices are reflected in the weighted-average cost of gas in the PGA filing. Rates and hedging approaches may vary between states due to different rate structures and mechanisms. Hedge contracts entered into after the start of the PGA period are subject to the PGA incentive sharing mechanism in Oregon. NW Natural entered the 2021-22 and 2020-21 gas years with forecasted sales volumes hedged at 53% and 51% in financial swap and option contracts, and 17% and 17% in physical gas supplies, respectively. Hedge contracts entered into prior to the PGA filing in September 2021 were included in the PGA for the 2020-21 gas year. Hedge contracts entered into after the PGA filing, and related to subsequent gas years, may be included in future PGA filings and qualify for regulatory deferral.

Unrealized and Realized Gain/Loss

The following table reflects the income statement presentation for the unrealized gains and losses from NW Natural's derivative instruments, which also represents all derivative instruments at NW Holdings:

	Three Months Ended September 30,			
	2021		2020	
	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
<i>In thousands</i>				
Benefit (expense) to cost of gas	\$ 69,239	\$ (106)	\$ 28,122	\$ 136
Operating revenues (expense)	—	—	658	—
Amounts deferred to regulatory accounts on balance sheet	(69,239)	106	(28,684)	(136)
Total gain (loss) in pre-tax earnings	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 96</u>	<u>\$ —</u>

	Nine Months Ended September 30,			
	2021		2020	
	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
<i>In thousands</i>				
Benefit (expense) to cost of gas	\$ 106,044	\$ (74)	\$ 28,271	\$ 129
Operating revenues (expense)	(26)	—	(1,021)	—
Amounts deferred to regulatory accounts on balance sheet	(106,022)	74	(27,398)	(129)
Total gain (loss) in pre-tax earnings	<u>\$ (4)</u>	<u>\$ —</u>	<u>\$ (148)</u>	<u>\$ —</u>

Unrealized Gain/Loss

Outstanding derivative instruments related to regulated NGD operations are deferred in accordance with regulatory accounting standards. The cost of foreign currency forward and natural gas derivative contracts are recognized immediately in the cost of gas; however, costs above or below the amount embedded in the current year PGA are subject to a regulatory deferral tariff and therefore, are recorded as a regulatory asset or liability.

Realized Gain/Loss

NW Natural realized net gains of \$6.1 million and \$15.4 million for the three and nine months ended September 30, 2021 from the settlement of natural gas financial derivative contracts, whereas, net losses of \$3.2 million were realized for the nine months ended September 30, 2020. There were no net gains or losses realized for the three months ended September 30, 2020. Realized gains and losses offset the higher or lower cost of gas purchased, resulting in no incremental amounts to collect or refund to customers.

Credit Risk Management of Financial Derivatives Instruments

No collateral was posted with or by NW Natural counterparties as of September 30, 2021 or 2020. NW Natural attempts to minimize the potential exposure to collateral calls by diversifying counterparties to manage liquidity risk. Counterparties generally allow a certain credit limit threshold before requiring NW Natural to post collateral against loss positions. Given NW Natural's counterparty credit limits and portfolio diversification, it was not subject to collateral calls in 2021 or 2020. The collateral call exposure is set forth under credit support agreements, which generally contain credit limits.

NW Natural could also be subject to collateral call exposure where it has agreed to provide adequate assurance, which is not specific as to the amount of credit limit allowed, but could potentially require additional collateral in the event of a material adverse change. If credit-risk related contingent features within these contracts were triggered as of September 30, 2021, assuming current gas prices and a credit rating downgrade to a speculative level, we would not be required to post collateral calls, including estimates for adequate assurance.

NW Natural's financial derivative instruments are subject to master netting arrangements; however, they are presented on a gross basis in the consolidated balance sheets. NW Natural and its counterparties have the ability to set-off obligations to each

other under specified circumstances. Such circumstances may include a defaulting party, a credit change due to a merger affecting either party, or any other termination event.

NW Natural's current commodity financial swap and option contracts outstanding reflect unrealized gains of \$132.2 million and \$34.1 million at September 30, 2021 and 2020, respectively. If netted by counterparty, NW Natural's physical and financial derivative position would result in an asset of \$124.5 million and a liability of \$4.9 million as of September 30, 2021, an asset of \$35.6 million and a liability of \$1.3 million as of September 30, 2020, and an asset of \$14.1 million and a liability of \$1.3 million as of December 31, 2020.

NW Natural is exposed to derivative credit and liquidity risk primarily through securing fixed price natural gas commodity swaps with financial counterparties. NW Natural utilizes master netting arrangements through International Swaps and Derivatives Association contracts to minimize this risk along with collateral support agreements with counterparties based on their credit ratings. In certain cases, NW Natural requires guarantees or letters of credit from counterparties to meet its minimum credit requirement standards. See Note 16 in the 2020 Form 10-K for additional information.

Fair Value

In accordance with fair value accounting, NW Natural includes non-performance risk in calculating fair value adjustments. This includes a credit risk adjustment based on the credit spreads of NW Natural counterparties when in an unrealized gain position, or on NW Natural's own credit spread when in an unrealized loss position. The inputs in our valuation models include natural gas futures, volatility, credit default swap spreads and interest rates. Additionally, the assessment of non-performance risk is generally derived from the credit default swap market and from bond market credit spreads. The impact of the credit risk adjustments for all outstanding derivatives was immaterial to the fair value calculation at September 30, 2021. Using significant other observable or Level 2 inputs, the net fair value was an asset of \$119.6 million, an asset of \$34.3 million, and an asset of \$12.8 million as of September 30, 2021 and 2020, and December 31, 2020, respectively. No Level 3 inputs were used in our derivative valuations during the nine months ended September 30, 2021 and 2020. See Note 2 in the 2020 Form 10-K.

17. ENVIRONMENTAL MATTERS

NW Natural owns, or previously owned, properties that may require environmental remediation or action. The range of loss for environmental liabilities is estimated based on current remediation technology, enacted laws and regulations, industry experience gained at similar sites, and an assessment of the probable level of involvement and financial condition of other potentially responsible parties (PRPs). When amounts are prudently expended related to site remediation of those sites described herein, NW Natural has recovery mechanisms in place to collect 96.7% of remediation costs allocable to Oregon customers and 3.3% of costs allocable to Washington customers.

These sites are subject to the remediation process prescribed by the Environmental Protection Agency (EPA) and the Oregon Department of Environmental Quality (ODEQ). The process begins with a remedial investigation (RI) to determine the nature and extent of contamination and then a risk assessment (RA) to establish whether the contamination at the site poses unacceptable risks to humans and the environment. Next, a feasibility study (FS) or an engineering evaluation/cost analysis (EE/CA) evaluates various remedial alternatives. It is at this point in the process when NW Natural is able to estimate a range of remediation costs and record a reasonable potential remediation liability, or make an adjustment to the existing liability. From this study, the regulatory agency selects a remedy and issues a Record of Decision (ROD). After a ROD is issued, NW Natural would seek to negotiate a consent decree or consent judgment for designing and implementing the remedy. NW Natural would have the ability to further refine estimates of remediation liabilities at that time.

Remediation may include treatment of contaminated media such as sediment, soil and groundwater, removal and disposal of media, institutional controls such as legal restrictions on future property use, or natural recovery. Following construction of the remedy, the EPA and ODEQ also have requirements for ongoing maintenance, monitoring and other post-remediation care that may continue for many years. Where appropriate and reasonably known, NW Natural will provide for these costs in the remediation liabilities described below.

Due to the numerous uncertainties surrounding the course of environmental remediation and the ongoing nature of several site investigations and studies, in some cases, NW Natural may not be able to reasonably estimate the high end of the range of possible loss. In those cases, the nature of the possible loss has been disclosed, as has the fact that the high end of the range cannot be reasonably estimated where a range of potential loss is available. Unless there is an estimate within the range of possible losses that is more likely than other cost estimates within that range, NW Natural records the liability at the low end of this range. It is likely changes in these estimates and ranges will occur throughout the remediation process for each of these sites due to the continued evaluation and clarification concerning responsibility, the complexity of environmental laws and regulations and the determination by regulators of remediation alternatives. In addition to remediation costs, NW Natural could also be subject to Natural Resource Damages (NRD) claims. NW Natural will assess the likelihood and probability of each claim and recognize a liability if deemed appropriate. Refer to "*Other Portland Harbor*" below.

Environmental Sites

The following table summarizes information regarding liabilities related to environmental sites, which are recorded in other current liabilities and other noncurrent liabilities in NW Natural's balance sheet:

<i>In thousands</i>	Current Liabilities			Non-Current Liabilities		
	September 30,		December 31,	September 30,		December 31,
	2021	2020	2020	2021	2020	2020
Portland Harbor site:						
Gasco/Siltronic Sediments	\$ 6,925	\$ 8,338	\$ 7,596	\$ 40,929	\$ 43,509	\$ 43,725
Other Portland Harbor	2,392	2,760	1,942	6,222	5,882	7,020
Gasco/Siltronic Upland site	9,720	8,775	14,887	37,408	41,515	40,250
Front Street site	1,002	10,610	3,816	893	1,044	1,107
Oregon Steel Mills	—	—	—	179	179	179
Total	<u>\$ 20,039</u>	<u>\$ 30,483</u>	<u>\$ 28,241</u>	<u>\$ 85,631</u>	<u>\$ 92,129</u>	<u>\$ 92,281</u>

Portland Harbor Site

The Portland Harbor is an EPA listed Superfund site that is approximately 10 miles long on the Willamette River and is adjacent to NW Natural's Gasco uplands site. NW Natural is one of over one hundred PRPs, each jointly and severally liable, at the Superfund site. In January 2017, the EPA issued its Record of Decision, which selects the remedy for the clean-up of the Portland Harbor site (Portland Harbor ROD). The Portland Harbor ROD estimates the present value total cost at approximately \$1.05 billion with an accuracy between -30% and +50% of actual costs.

NW Natural's potential liability is a portion of the costs of the remedy for the entire Portland Harbor Superfund site. The cost of that remedy is expected to be allocated among more than one hundred PRPs. NW Natural is participating in a non-binding allocation process with the other PRPs in an effort to resolve its potential liability. The Portland Harbor ROD does not provide any additional clarification around allocation of costs among PRPs; accordingly, NW Natural has not modified any of the recorded liabilities at this time as a result of the issuance of the Portland Harbor ROD.

NW Natural manages its liability related to the Superfund site as two distinct remediation projects: the Gasco/Siltronic Sediments and Other Portland Harbor projects.

GASCO/SILTRONIC SEDIMENTS. In 2009, NW Natural and Siltronic Corporation entered into a separate Administrative Order on Consent with the EPA to evaluate and design specific remedies for sediments adjacent to the Gasco uplands and Siltronic uplands sites. NW Natural submitted a draft EE/CA to the EPA in May 2012 to provide the estimated cost of potential remedial alternatives for this site. In March 2020, NW Natural and the EPA amended the Administrative Order on Consent to include additional remedial design activities downstream of the Gasco sediments site and in the navigation channel. Siltronic Corporation is not a party to the amended order. In the second quarter of 2021, NW Natural began preliminary design discussions with the EPA for the Gasco sediments site. These preliminary design discussions did not include a cost estimate for remedial actions. None of the alternatives in the EE/CA are more likely than others at this time, and NW Natural expects further design discussion and iteration with the EPA.

The estimated costs for the various sediment remedy alternatives in the draft EE/CA, for the additional studies and design work needed before the cleanup can occur, and for regulatory oversight throughout the cleanup range from \$47.9 million to \$350 million. NW Natural has recorded a liability of \$47.9 million for the Gasco sediment clean-up, which reflects the low end of the range. At this time, we believe sediments at the Gasco sediments site represent the largest portion of NW Natural's liability related to the Portland Harbor site discussed above.

OTHER PORTLAND HARBOR. While we believe liabilities associated with the Gasco/Siltronic sediments site represent NW Natural's largest exposure, there are other potential exposures associated with the Portland Harbor ROD, including NRD costs and harborwide remedial design and cleanup costs (including downstream petroleum contamination), for which allocations among the PRPs have not yet been determined.

NW Natural and other parties have signed a cooperative agreement with the Portland Harbor Natural Resource Trustee council to participate in a phased NRD assessment to estimate liabilities to support an early restoration-based settlement of NRD claims. One member of this Trustee council, the Yakama Nation, withdrew from the council in 2009, and in 2017, filed suit against NW Natural and 29 other parties seeking remedial costs and NRD assessment costs associated with the Portland Harbor site, set forth in the complaint. The complaint seeks recovery of alleged costs totaling \$0.3 million in connection with the selection of a remedial action for the Portland Harbor site as well as declaratory judgment for unspecified future remedial action costs and for costs to assess the injury, loss or destruction of natural resources resulting from the release of hazardous substances at and from the Portland Harbor site. The Yakama Nation has filed two amended complaints addressing certain pleading defects and dismissing the State of Oregon. On the motion of NW Natural and certain other defendants, the federal court has stayed the case pending the outcome of the non-binding allocation proceeding discussed above. NW Natural has recorded a liability for NRD

claims which is at the low end of the range of the potential liability; the high end of the range cannot be reasonably estimated at this time. The NRD liability is not included in the aforementioned range of costs provided in the Portland Harbor ROD.

Gasco Uplands Site

A predecessor of NW Natural, Portland Gas and Coke Company, owned a former gas manufacturing plant that was closed in 1958 (Gasco site) and is adjacent to the Portland Harbor site described above. The Gasco site has been under investigation by NW Natural for environmental contamination under the ODEQ Voluntary Cleanup Program (VCP). It is not included in the range of remedial costs for the Portland Harbor site noted above. The Gasco site is managed in two parts, the uplands portion and the groundwater source control action portion.

NW Natural submitted a revised Remedial Investigation Report for the uplands to ODEQ in May 2007. In March 2015, ODEQ approved Remedial Assessment (RA) for this site, enabling commencement of work on the FS in 2016. NW Natural has recognized a liability for the remediation of the uplands portion of the site which is at the low end of the range of potential liability; the high end of the range cannot be reasonably estimated at this time.

In October 2016, ODEQ and NW Natural agreed to amend their VCP agreement to incorporate a portion of the Siltronic property adjacent to the Gasco site formerly owned by Portland Gas & Coke between 1939 and 1960 into the Gasco RA and FS, excluding the uplands for Siltronic. Previously, NW Natural was conducting an investigation of manufactured gas plant constituents on the entire Siltronic uplands for ODEQ. Siltronic will be working with ODEQ directly on environmental impacts to the remainder of its property.

In September 2013, NW Natural completed construction of a groundwater source control system, including a water treatment station, at the Gasco site. NW Natural has estimated the cost associated with the ongoing operation of the system and has recognized a liability which is at the low end of the range of potential cost. NW Natural cannot estimate the high end of the range at this time due to the uncertainty associated with the duration of running the water treatment station, which is highly dependent on the remedy determined for both the upland portion as well as the final remedy for Gasco sediment exposure.

Other Sites

In addition to those sites above, NW Natural has environmental exposures at three other sites: Central Service Center, Front Street and Oregon Steel Mills. NW Natural may have exposure at other sites that have not been identified at this time. Due to the uncertainty of the design of remediation, regulation, timing of the remediation and in the case of the Oregon Steel Mills site, pending litigation, liabilities for each of these sites have been recognized at their respective low end of the range of potential liability; the high end of the range could not be reasonably estimated at this time.

FRONT STREET SITE. The Front Street site was the former location of a gas manufacturing plant NW Natural operated (the former Portland Gas Manufacturing site, or PGM). At ODEQ's request, NW Natural conducted a sediment and source control investigation and provided findings to ODEQ. In December 2015, an FS on the former Portland Gas Manufacturing site was completed.

In July 2017, ODEQ issued the PGM ROD. The ROD specifies the selected remedy, which requires a combination of dredging, capping, treatment, and natural recovery. In addition, the selected remedy also requires institutional controls and long-term inspection and maintenance. Construction of the remedy began in early July 2020 and was completed in October 2020. NW Natural has recognized an additional liability of \$1.9 million for long term monitoring, regulatory and permitting issues, and post-construction work.

OREGON STEEL MILLS SITE. Refer to "*Legal Proceedings*" below.

Environmental Cost Deferral and Recovery

NW Natural has authorizations in Oregon and Washington to defer costs related to remediation of properties that are owned or were previously owned by NW Natural. In Oregon, a Site Remediation and Recovery Mechanism (SRRM) is currently in place to recover prudently incurred costs allocable to Oregon customers, subject to an earnings test. On October 21, 2019, the WUTC authorized an Environmental Cost Recovery Mechanism (ECRM) for recovery of prudently incurred costs allocable to Washington customers beginning November 1, 2019. See Note 18 in the 2020 Form 10-K for a description of SRRM and ECRM collection processes.

The following table presents information regarding the total regulatory asset deferred:

<i>In thousands</i>	September 30,		December 31,
	2021	2020	2020
Deferred costs and interest ⁽¹⁾	\$ 45,019	\$ 35,919	\$ 44,516
Accrued site liabilities ⁽²⁾	105,607	122,226	120,352
Insurance proceeds and interest	(59,589)	(69,138)	(69,253)
Total regulatory asset deferral ⁽¹⁾	\$ 91,037	\$ 89,007	\$ 95,615
Current regulatory assets ⁽³⁾	7,068	4,440	4,992
Long-term regulatory assets ⁽³⁾	83,969	84,567	90,623

⁽¹⁾ Includes pre-review and post-review deferred costs, amounts currently in amortization, and interest, net of amounts collected from customers.

⁽²⁾ Excludes 3.3% of the Front Street site liability as the OPUC only allows recovery of 96.7% of costs for those sites allocable to Oregon, including those that historically served only Oregon customers. Amounts excluded from regulatory assets were \$0.1 million at September 30, 2021, \$0.4 million at September 30, 2020, and \$0.2 million at December 31, 2020.

⁽³⁾ Environmental costs relate to specific sites approved for regulatory deferral by the OPUC and WUTC. In Oregon, NW Natural earns a carrying charge on cash amounts paid, whereas amounts accrued but not yet paid do not earn a carrying charge until expended. It also accrues a carrying charge on insurance proceeds for amounts owed to customers. In Washington, neither the cash paid nor insurance proceeds received accrue a carrying charge. Current environmental costs represent remediation costs management expects to collect from customers in the next 12 months. Amounts included in this estimate are still subject to a prudence and earnings test review by the OPUC and do not include the \$5.0 million tariff rider. The amounts allocable to Oregon are recoverable through NGD rates, subject to an earnings test.

Environmental Earnings Test

To the extent NW Natural earns at or below its authorized Return on Equity (ROE) as defined by the SRRM, remediation expenses and interest in excess of the \$5.0 million tariff rider and \$5.0 million insurance proceeds are recoverable through the SRRM. To the extent NW Natural earns more than its authorized ROE in a year, it is required to cover environmental expenses and interest on expenses greater than the \$10.0 million with those earnings that exceed its authorized ROE.

Legal Proceedings

NW Holdings is not currently party to any direct claims or litigation, though in the future it may be subject to claims and litigation arising in the ordinary course of business.

NW Natural is subject to claims and litigation arising in the ordinary course of business including the matters discussed above and ordinary course claims and litigation noted below. Although the final outcome of any of these legal proceedings cannot be predicted with certainty, including the matter relating to the Oregon Steel Mills site described below, NW Natural and NW Holdings do not expect that the ultimate disposition of any of these matters will have a material effect on their financial condition, results of operations or cash flows. See also Part II, Item 1, "Legal Proceedings".

Oregon Steel Mills Site

See Note 18 in the 2020 Form 10-K.

For additional information regarding other commitments and contingencies, see Note 17 in the 2020 Form 10-K.

18. DISCONTINUED OPERATIONS

NW Holdings

On June 20, 2018, NWN Gas Storage, then a wholly-owned subsidiary of NW Natural, entered into a Purchase and Sale Agreement (the Agreement) that provided for the sale by NWN Gas Storage of all of the membership interests in Gill Ranch. Gill Ranch owns a 75% interest in the natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility.

On December 4, 2020, NWN Gas Storage closed the sale of all of the membership interests in Gill Ranch and received payment of the initial cash purchase price of \$13.5 million less the \$1.0 million deposit previously paid. Furthermore, additional payments to NWN Gas Storage may be made subject to a maximum amount of \$15.0 million in the aggregate (subject to a working capital adjustment) based on the economic performance of Gill Ranch for each full gas storage year (April 1 of one year through March 31 of the following year) occurring after the closing and the remaining portion of the 2020-2021 gas storage year and will continue until such time as the maximum amount has been paid. The fair value of this arrangement at the closing date was zero based on a discounted cash flow forecast. Subsequent changes in the fair value will be recorded in earnings. The completion of the sale resulted in an after-tax gain of \$5.9 million for the year ended December 31, 2020.

As a result of the disposition of the membership interests in Gill Ranch, there were no assets or liabilities classified as held for sale at September 30, 2021 or December 31, 2020 and there was no activity in the consolidated statement of comprehensive income for the three and nine months ended September 30, 2021. The assets and liabilities of the discontinued operations classified as held for sale in the consolidated balance sheet at September 30, 2020 include the following:

	NW Holdings Discontinued Operations	
<i>In thousands</i>	September 30, 2020	
Assets:		
Accounts receivable	\$	1,106
Inventories		730
Other current assets		64
Property, plant, and equipment, net		14,663
Operating lease right of use asset		118
Other non-current assets		247
Total discontinued operations assets - current assets ⁽¹⁾	\$	16,928
Liabilities:		
Accounts payable	\$	1,747
Other current liabilities		796
Operating lease liabilities		113
Other non-current liabilities		11,266
Total discontinued operations liabilities - current liabilities ⁽¹⁾	\$	13,922

⁽¹⁾ The total assets and liabilities of Gill Ranch were classified as current because it was probable that the sale would be completed within one year.

The following table presents the operating results of Gill Ranch and is presented net of tax on the consolidated statements of comprehensive income:

	NW Holdings Discontinued Operations	
	Three Months Ended September 30,	Nine Months Ended September 30,
	2020	2020
<i>In thousands, except per share data</i>		
Revenues	\$ 3,584	\$ 7,866
Expenses:		
Operations and maintenance	2,148	6,332
General taxes	61	161
Depreciation and amortization	105	317
Other expenses and interest	229	688
Total expenses	2,543	7,498
Income from discontinued operations before income taxes	1,041	368
Income tax expense	276	101
Income from discontinued operations, net of tax	\$ 765	\$ 267
Earnings from discontinued operations per share of common stock:		
Basic	\$ 0.02	\$ 0.01
Diluted	\$ 0.02	\$ 0.01

19. SUBSEQUENT EVENTS

Credit Agreements

On November 3, 2021, NW Holdings entered into an amended and restated \$200 million credit agreement with a maturity date of November 3, 2026 and an available extension of commitments for two additional one-year periods, subject to lender approval (Amended NW Holdings Credit Agreement). The prior NW Holdings credit agreement was terminated upon closing of this new agreement. The Amended NW Holdings Credit Agreement permits the issuance of letters of credit in an aggregate amount of up to \$40 million.

On November 3, 2021, NW Natural entered into a \$400 million credit agreement with a maturity date of November 3, 2026 and an available extension of commitments for two additional one-year periods, subject to lender approval (Amended NW Natural Credit Agreement). The prior NW Natural credit agreement was terminated upon closing of this new agreement. The Amended NW Natural Credit Agreement permits the issuance of letters of credit in an aggregate amount of up to \$60 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's assessment of NW Holdings' and NW Natural's financial condition, including the principal factors that affect results of operations. The discussion refers to the consolidated results from continuing operations for the three and nine months ended September 30, 2021 and 2020 of NW Holdings, the substantial majority of which consist of the operating results of NW Natural. When significant activity exists at NW Holdings that does not exist at NW Natural, additional disclosure has been provided. References in this discussion to "Notes" are to the Notes to Unaudited Consolidated Financial Statements in this report. A significant portion of the business results are seasonal in nature, and, as such, the results of operations for the three month period is not necessarily indicative of expected fiscal year results. Therefore, this discussion should be read in conjunction with NW Holdings' and NW Natural's 2020 Annual Report on Form 10-K, as applicable (2020 Form 10-K).

NW Natural's natural gas distribution activities are reported in the natural gas distribution (NGD) segment. The NGD segment includes our NW Natural local gas distribution business, NWN Gas Reserves, which is a wholly owned subsidiary of Energy Corp, the NGD-portion of NW Natural's Mist storage facility in Oregon, and NW Natural RNG Holding Company, LLC. Other activities aggregated and reported as other at NW Natural include the non-NGD storage activity at Mist as well as asset management services and the appliance retail center operations. Other activities aggregated and reported as other at NW Holdings include NWN Energy's equity investment in Trail West Holdings, LLC (TWH) through August 6, 2020; NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); and NWN Water, which through itself or its subsidiaries owns and continues to pursue investments in the water sector. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries. See Note 14 for information on our TWH investment.

In addition, NW Holdings reported discontinued operations results related to the sale of Gill Ranch Storage, LLC (Gill Ranch). NW Natural Gas Storage, LLC (NWN Gas Storage), an indirect wholly-owned subsidiary of NW Holdings, entered into a Purchase and Sale Agreement during the second quarter of 2018 that provided for the sale of all membership interests in Gill Ranch. Gill Ranch owns a 75% interest in the natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility. The sale was completed on December 4, 2020. See Note 18 for information on discontinued operations.

NON-GAAP FINANCIAL MEASURES. In addition to presenting the results of operations and earnings amounts in total, certain financial measures are expressed in cents per share, which are non-GAAP financial measures. All references in this section to earnings per share (EPS) are on the basis of diluted shares. We use such non-GAAP financial measures to analyze our financial performance because we believe they provide useful information to our investors and creditors in evaluating our financial condition and results of operations. Our non-GAAP financial measures should not be considered a substitute for, or superior to, measures calculated in accordance with U.S. GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of the business as determined in accordance with GAAP. Other companies may calculate similarly titled non-GAAP financial measures differently than how such measures are calculated in this report, limiting the usefulness of those measures for comparative purposes. A reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure is provided below.

EXECUTIVE SUMMARY

Our core mission is to provide safe, reliable and affordable essential utility services in an environmentally responsible way to better the lives of the public we serve. See "2021 Outlook" in the 2020 Form 10-K for more information. Current financial results and highlights include:

- Reported a net loss from continuing operations of \$0.67 per share (diluted) for the third quarter of 2021, compared to a net loss from continuing operations of \$0.61 per share (diluted) in the prior year;
- Reported consolidated net income of \$1.24 per share (diluted) for the first nine months of 2021, compared to net income of \$0.81 per share (diluted) in the prior year;
- Received Washington general rate case order providing a revenue requirement increase of \$8 million over two years;
- Added nearly 12,000 meters during the past twelve months for a growth rate of 1.5% at September 30, 2021;
- Invested over \$200 million in our utility systems in the first nine months of 2021 for greater reliability and resiliency; and
- Continued executing our water and wastewater investment strategy with two closed acquisitions in the third quarter of 2021.

Key quarter-to-date financial highlights for NW Holdings include:

	Three Months Ended September 30,				
	2021		2020		QTD
<i>In thousands, except per share data</i>	Amount	Per Share	Amount	Per Share	Change
Net loss from continuing operations	\$ (20,655)	\$ (0.67)	\$ (18,677)	\$ (0.61)	\$ (1,978)
Income from discontinued operations, net of tax	—	—	765	0.02	(765)
Consolidated net loss	\$ (20,655)	\$ (0.67)	\$ (17,912)	\$ (0.59)	\$ (2,743)

Key quarter-to-date financial highlights for NW Natural include:

<i>In thousands</i>	Three Months Ended September 30,		QTD Change
	2021	2020	
	Amount	Amount	
Consolidated net loss	\$ (21,018)	\$ (20,220)	\$ (798)
Natural gas distribution margin	\$ 61,076	\$ 55,542	\$ 5,534

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020.

Consolidated net loss increased \$0.8 million at NW Natural primarily due to the following factors:

- \$5.1 million increase in operations and maintenance expenses primarily due to higher lease expense, professional service expenses, and information technology costs;
- \$2.0 million increase in interest expense primarily due to higher commercial paper balances; and
- \$2.0 million increase in depreciation and amortization expense due to property, plant, and equipment additions as we continued to invest in our natural gas utility systems; partially offset by
- \$5.5 million increase in NGD segment margin driven by the 2020 Oregon rate case and customer growth;
- \$1.7 million increase in other income (expense), net due to higher interest income on regulatory assets and lower pension non-service costs; and
- \$1.2 million increase in income tax benefit primarily due to higher pre-tax loss in the current period compared to the prior year.

Net loss from continuing operations increased \$2.0 million at NW Holdings primarily due to the following factors:

- \$0.8 million increase in consolidated net loss at NW Natural as discussed above; and
- \$1.2 million decrease in other net income primarily reflecting a gain recognized in the prior period related to the sale of NWN Energy's interest in Trail West Holdings, LLC (TWH) and higher holding company expenses.

Key year-to-date financial highlights for NW Holdings include:

	Nine Months Ended September 30,				
	2021		2020		YTD
<i>In thousands, except per share data</i>	Amount	Per Share	Amount	Per Share	Change
Net income from continuing operations	\$ 38,138	\$ 1.24	\$ 24,467	\$ 0.80	\$ 13,671
Income from discontinued operations, net of tax	—	—	267	0.01	(267)
Consolidated net income	\$ 38,138	\$ 1.24	\$ 24,734	\$ 0.81	\$ 13,404

Key year-to-date financial highlights for NW Natural include:

<i>In thousands</i>	Nine Months Ended September 30,		YTD Change
	2021 Amount	2020 Amount	
Consolidated net income	\$ 39,682	\$ 24,247	\$ 15,435
Natural gas distribution margin	\$ 324,922	\$ 289,337	\$ 35,585

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020.

Consolidated net income increased \$15.4 million at NW Natural primarily due to the following factors:

- \$35.6 million increase in NGD segment margin driven by the 2020 Oregon rate case and customer growth;
- \$7.6 million increase in asset management revenue primarily due to the 2021 cold weather event discussed below; and
- \$2.2 million increase in other income (expense), net driven by higher interest income on regulatory assets and lower pension non-service costs; partially offset by
- \$11.8 million increase in operations and maintenance expenses due to higher lease expense, compensation and benefit costs, and professional service expenses;
- \$7.6 million increase in depreciation expense due to property, plant, and equipment additions as we continued to invest in our natural gas utility systems;
- \$6.7 million increase in income tax expense due to an increase in pretax income and Oregon's Corporate Activity Tax; and
- \$2.5 million increase in general taxes primarily due to higher assessed property values.

Net income from continuing operations increased \$13.7 million at NW Holdings primarily due to the following factors:

- \$15.4 million increase in consolidated net income at NW Natural as discussed above; partially offset by
- \$1.8 million decrease in other net income primarily reflecting higher project costs at the holding company.

2021 COLD WEATHER EVENT. In February 2021, Portland, Oregon and the surrounding region, like much of the country, experienced a severe winter storm with several days of colder temperatures resulting in elevated natural gas demand and significantly higher spot prices. Additional market gas purchases and other expenses resulted in approximately \$29 million of higher commodity costs, of which approximately \$27 million was deferred to a regulatory asset for recovery in future rates. The result was approximately \$2 million of lower natural gas utility margin in the first three months of 2021. The higher commodity costs were offset by approximately \$39 million of asset management revenue, of which approximately \$33 million was deferred to a regulatory liability for the benefit of customers.

COVID-19 AND CURRENT ECONOMIC CONDITIONS. The novel coronavirus (COVID-19), which was declared a pandemic by the World Health Organization in March 2020, has resulted in severe and widespread global, national, and local economic and societal disruptions. As a critical infrastructure energy company that provides an essential service to our customers, NW Natural has well-defined emergency response command structures and protocols. In response to the pandemic, NW Natural initially mobilized its incident command team and business continuity plans in early March 2020, with a focus on the safety of our 1,200 employees and the 2.5 million people, business partners and communities we serve. For employees whose role requires them to work in the field or onsite, we are following CDC, OSHA, and state specific requirements. Our water companies are following similar protocols.

The states we operate in have reopened with many businesses beginning to return to normal operating practices; however, the timing for recovery of businesses and local economies remains difficult to predict and dependent on the future impacts of the COVID-19 pandemic, resurgences or mutations of the virus, including the Delta variant, any potential future shutdowns, efficacy and acceptance of vaccines, or any governmental requirements related to vaccines or testing. We currently have the following expectations and beliefs:

- Both NW Natural and NW Natural Water expect their capital projects in 2021 to continue to move forward as planned.
- We have not experienced material disruptions in our supply chain for goods and services to date. Our suppliers may be subject to vaccine mandates and could be impacted by an inability to comply or loss of personnel, which could disrupt supplier performance or deliveries, and negatively impact our business. We are continuing to actively monitor, and have formulated and continue to evaluate contingency plans as necessary.
- NW Natural's customer growth rate is affected by both new meter connections and when existing customers close their accounts and disconnect their meters. Customer growth from construction and conversions remained strong during the first nine months of 2021 and commercial customer counts remained steady. Any slowdown in economic activity could result in a decline in new meter connections, which could adversely affect operating margins in 2021 and the following periods. Commercial and industrial customers have resumed normal collection practices and residential customers are in the process of returning to normal payment practices. There are several bill assistance options available to residential customers, including the arrearage management program, that was specifically designed to help with bills incurred during the pandemic. We do not currently anticipate significant residential meter disconnections.
- NW Natural has seen lower utility margin from a reduction in overall sales volumes during the first nine months of 2021 and 2020 attributed to COVID-19. Due to the seasonality of our gas utility business, we may continue to experience declines in volumes, particularly during our winter heating season, depending on the resiliency of businesses in the communities in

which we serve through the remainder of 2021. However, volumes do not translate directly to earnings as the majority of our NGD margin is not dependent on volumes.

- The recognition of late fee revenue may be delayed beyond our current expectations.
- While we deferred to a regulatory asset certain COVID-related financial impacts as agreed upon with regulators, ultimate recovery of these costs and prudence review will be determined through separate proceedings and may be subject to modification as a result of those proceedings. See "Results of Operations – Regulatory Matters – COVID-19 Process and Deferral Dockets" below.

Given the evolving nature of the pandemic and resulting economic conditions, we are continually monitoring our business operations and the larger trends and developments to take additional measures we believe are warranted to continue providing safe and reliable service to our customers and communities while protecting our employees.

See the discussion in "Results of Operations" below for additional detail regarding all significant activity that occurred during the third quarter and nine months of 2021.

DIVIDENDS

Dividend highlights include:

Per common share	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
	2021	2020	2021	2020		
Dividends paid	\$ 0.4800	\$ 0.4775	\$ 1.4400	\$ 1.4325	\$ 0.0025	\$ 0.0075

In October 2021, the Board of Directors of NW Holdings declared a quarterly dividend on NW Holdings common stock of \$0.4825 per share. The dividend is payable on November 15, 2021 to shareholders of record on October 29, 2021, reflecting an annual indicated dividend rate of \$1.93 per share.

RESULTS OF OPERATIONS

Regulatory Matters

For additional information, see Part II, Item 7 "Results of Operations—Regulatory Matters" in the 2020 Form 10-K.

Regulation and Rates

NATURAL GAS DISTRIBUTION. NW Natural's natural gas distribution business is subject to regulation by the OPUC and WUTC with respect to, among other matters, rates and terms of service, systems of accounts, and issuances of securities by NW Natural. At September 30, 2021, approximately 88% of NGD customers were located in Oregon, with the remaining 12% in Washington. Earnings and cash flows from natural gas distribution operations are largely determined by rates set in general rate cases and other proceedings in Oregon and Washington. They are also affected by weather, the local economies in Oregon and Washington, the pace of customer growth in the residential, commercial, and industrial markets, and NW Natural's ability to remain price competitive, control expenses, and obtain reasonable and timely regulatory recovery of its natural gas distribution-related costs, including operating expenses and investment costs in plant and other regulatory assets. See "Most Recent Completed General Rate Cases" below.

MIST INTERSTATE GAS STORAGE. NW Natural's interstate storage activity at Mist is subject to regulation by the OPUC, WUTC, and the Federal Energy Regulatory Commission (FERC) with respect to, among other matters, rates and terms of service. The OPUC also regulates the intrastate storage services at Mist, while FERC regulates the interstate storage services at Mist. The FERC uses a maximum cost of service model which allows for gas storage prices to be set at or below the cost of service as approved by each agency in their last regulatory filing. The OPUC Schedule 80 rates are tied to the FERC rates, and are updated whenever NW Natural modifies FERC maximum rates.

OTHER. The wholly owned regulated water businesses of NWN Water, a wholly owned subsidiary of NW Holdings, are subject to regulation by the utility commissions in the states in which they are located, which currently include Oregon, Washington, Idaho, and Texas.

Most Recent Completed General Rate Cases

OREGON. On October 16, 2020, the OPUC issued an order concluding NW Natural's general rate case filed in December 2019 (Order). The Order provided for a total revenue requirement increase of approximately \$45 million over revenues from pre-existing rates. The revenue requirement is based on the following assumptions:

- Capital structure of 50% common equity and 50% long-term debt;
- Return on equity of 9.4%;
- Cost of capital of 6.965%; and
- Average rate base of \$1.44 billion or an increase of \$242.1 million since the last rate case.

Under the terms of the Order, NW Natural was authorized to begin to recover the expense associated with the Oregon Corporate Activity Tax (CAT) as a component of base rates. See "*Corporate Activity Tax*" below.

In NW Natural's previous Oregon rate case in March 2019, the OPUC ordered specific terms by which excess deferred income taxes (EDIT) associated with the Tax Cuts and Jobs Act (TCJA) would be provided to customers directly or applied for the benefit of customers. The Order in the most recent Oregon rate case directs NW Natural to include a true-up credit to customers of approximately \$1.0 million as a temporary rate adjustment to be amortized over the 2020-21 PGA year.

In addition, the Order approves the application of NW Natural's decoupling calculation for the months of November and May to the month of April. The decoupling mechanism is intended to encourage customers to conserve energy without adversely affecting earnings due to reductions in sales volumes.

From November 1, 2018 through October 31, 2020, the OPUC authorized rates to customers based on an ROE of 9.4%, an overall rate of return of 7.317%, and a capital structure of 50% common equity and 50% long-term debt.

WASHINGTON. Effective November 1, 2019, the WUTC authorized rates to customers based on an ROE of 9.4% and an overall rate of return of 7.161% with a capital structure of 49% common equity, 1% short-term debt, and 50% long-term debt. The WUTC also authorized the recovery of environmental remediation expenses allocable to Washington customers through an Environmental Cost Recovery Mechanism (ECRM) and directed NW Natural to provide federal tax reform benefits to customers. See "*Rate Mechanisms - Environmental Cost Deferral and Recovery - Washington ECRM*" below.

FERC. NW Natural is required under its Mist interstate storage certificate authority and rate approval orders to file every five years either a petition for rate approval or a cost and revenue study to change or justify maintaining the existing rates for its interstate storage services. On October 12, 2018, NW Natural filed a rate petition with FERC for revised cost-based maximum rates, which incorporated the new federal corporate income tax rate. The revised rates were effective beginning November 1, 2018.

NW Natural continuously evaluates the need for rate cases in its jurisdictions.

Regulatory Proceeding Updates

2021 WASHINGTON RATE CASE. On December 18, 2020, NW Natural filed a request for a general rate increase with the WUTC. On July 27, 2021, NW Natural, Staff of the WUTC, Alliance of Western Energy Consumers, and The Energy Project, which comprise all of the parties to the rate case other than the Public Counsel Unit of the Washington State Office of the Attorney General, filed a settlement with the WUTC that addresses all issues in the rate case (Comprehensive Settlement). On October 21, 2021, the WUTC approved the Comprehensive Settlement (Order).

The Order provides for an annual revenue requirement increase over two years, consisting of a 6.4% or \$5.0 million increase in the first year beginning November 1, 2021 (Year One), and up to a 3.5% or \$3.0 million increase in the second year beginning November 1, 2022 (Year Two). The revenue requirement increase for Year Two includes the addition to rate base of capital projects expected to be placed in-service by November 1, 2022 and is subject to a review and adjustments according to actual costs incurred and any additional direct offsetting factors. Under the terms of the Order, NW Natural will provide customers with an estimated \$2.3 million offset to rates spread over the two years via suspension of amortization of a regulatory asset associated with NW Natural's energy efficiency programs and via application of proceeds from the sale of real property in Oregon, which is expected to reduce the Year One rate increase to approximately 5.1% or \$4.0 million and the Year Two rate increase to approximately 3.4% or \$2.8 million. This two-year rate plan and mitigating provisions strive to balance the need to recover long-planned investments that support continued safe and reliable service to customers with the need to maintain affordable rates, especially during the challenging times and economic environment brought on by the COVID-19 pandemic.

The increase is based upon the following assumptions:

- Cost of capital of 6.814%; and
- Average rate base of \$194.7 million, an increase of \$20.9 million since the last rate case for capital expenditures already expended at the time of filing, with an additional expected \$31.2 million increase in Year One, and an additional expected \$21.4 million increase in Year Two, with the increases in Year One and Year Two relating to expected capital expenditures in those years.

The Order does not specify the underlying inputs to the cost of capital, including capital structure and return on equity.

New rates authorized by the Order were effective November 1, 2021.

Rate Mechanisms

During 2021 and 2020, NW Natural's key approved rates and recovery mechanisms for each service area included:

	Oregon		Washington	
	2018 Rate Case	2020 Rate Case (effective 11/1/2020)	2019 Rate Case (effective 11/1/2019)	2021 Rate Case (effective 11/1/2021)
Authorized Rate Structure:				
Return on Equity	9.4%	9.4%	9.4%	**
Rate of Return	7.3%	7.0%	7.2%	6.8%
Debt/Equity Ratio	50%/50%	50%/50%	51%/49%	**
Key Regulatory Mechanisms:				
Purchased Gas Adjustment (PGA)	X	X	X	X
Gas Cost Incentive Sharing	X	X		
Decoupling	X	X		
Weather Normalization (WARM)	X	X		
Environmental Cost Recovery	X	X	X	X
Interstate Storage and Asset Management Sharing	X	X	X	X

** The Order does not specify the underlying inputs to the cost of capital, including capital structure and return on equity.

PURCHASED GAS ADJUSTMENT. Rate changes are established for NW Natural each year under PGA mechanisms in Oregon and Washington to reflect changes in the expected cost of natural gas commodity purchases. The PGA filings include gas costs under spot purchases as well as contract supplies, gas cost hedges, gas costs from the withdrawal of storage inventories, the production of gas reserves, interstate pipeline demand costs, temporary rate adjustments, which amortize balances of deferred regulatory accounts, and the removal of temporary rate adjustments effective for the previous year.

Each year, NW Natural hedges gas prices on a portion of NW Natural's annual sales requirement based on normal weather, including both physical and financial hedges. NW Natural entered the 2021-22 gas year with its forecasted sales volumes hedged at 53% in financial swap and option contracts, including hedging of 55% in Oregon and 31% in Washington. The percentage of total forecasted sales volume hedged was approximately 74% for Oregon and approximately 44% for Washington. NW Natural is also hedged between 2% and 70% for annual requirements over the subsequent five gas years, which consists of between 2% and 74% in Oregon and between 0% and 44% in Washington. Hedge levels are subject to change based on actual load volumes, which depend to a certain extent on weather, economic conditions, and estimated gas reserve production. Also, gas storage inventory levels may increase or decrease with storage expansion, changes in storage contracts with third parties, variations in the heat content of the gas, and/or storage recall by NW Natural.

In September 2021, NW Natural filed its annual PGA and received OPUC and WUTC approval in October 2021. PGA rate changes were effective November 1, 2021. Rates may vary between states due to different rate structures, rate mechanisms and hedging policies.

Under the current PGA mechanism in Oregon, there is an incentive sharing provision whereby NW Natural is required to select each year an 80% deferral or a 90% deferral of higher or lower actual gas costs compared to estimated PGA prices, such that the impact on NW Natural's current earnings from the incentive sharing is either 20% or 10% of the difference between actual and estimated gas costs, respectively. For the 2021-22 and 2020-21 gas years, NW Natural selected the 90% deferral option. Under the Washington PGA mechanism, NW Natural defers 100% of the higher or lower actual gas costs, and those gas cost differences are passed on to customers through the annual PGA rate adjustment.

There is currently increased volatility and pricing in the current and forward gas markets. In response to these more volatile markets, NW Natural is hedging at higher-than-normal levels in an effort to appropriately position its portfolio of financial derivatives, gas in storage and fixed price supplies. As of September 30, 2021, NW Natural was hedged at 70% for the 2021-22 PGA year and continues to execute on additional hedges.

EARNINGS TEST REVIEW. NW Natural is subject to an annual earnings review in Oregon to determine if the NGD business is earning above its authorized ROE threshold. If NGD business earnings exceed a specific ROE level, then 33% of the amount above that level is required to be deferred or refunded to customers. Under this provision, if NW Natural selects the 80% deferral gas cost option, then NW Natural retains all earnings up to 150 basis points above the currently authorized ROE. If NW Natural selects the 90% deferral option, then it retains all earnings up to 100 basis points above the currently authorized ROE. For the 2019-20 and 2020-21 gas years, NW Natural selected the 90% deferral option. The ROE threshold is subject to adjustment annually based on movements in long-term interest rates. For calendar year 2020, the ROE threshold was 10.40%. NW Natural filed the 2020 earnings test in April 2021 indicating no customer refund adjustment and the filing was approved in July 2021. NW Natural does not expect a customer refund adjustment for 2021 based on results.

GAS RESERVES. In 2011, the OPUC approved the Encana gas reserves transaction to provide long-term gas price protection for NGD business customers and determined costs under the agreement would be recovered on an ongoing basis through the annual PGA mechanism. Gas produced from NW Natural's interests is sold at then prevailing market prices, and revenues from such sales, net of associated operating and production costs and amortization, are included in cost of gas. The cost of gas, including a carrying cost for the rate base investment made under the original agreement, is included in NW Natural's annual Oregon PGA filing, which allows NW Natural to recover these costs through customer rates. The net investment under the original agreement earns a rate of return.

In 2014, NW Natural amended the original gas reserves agreement in response to Encana's sale of its interest in the Jonah field located in Wyoming to Jonah Energy. Under the amended agreement with Jonah Energy, NW Natural has the option to invest in additional wells on a well-by-well basis with drilling costs and resulting gas volumes shared at the amended proportionate working interest for each well in which NW Natural invests. Volumes produced from the additional wells drilled after the amended agreement are included in NW Natural's Oregon PGA at a fixed rate of \$0.4725 per therm. NW Natural has not participated in additional wells since 2014.

DECOUPLING. In Oregon, NW Natural has a decoupling mechanism. Decoupling is intended to break the link between earnings and the quantity of gas consumed by customers, removing any financial incentive to discourage customers' efforts to conserve energy. The Oregon decoupling baseline usage per customer was reset in the 2020 Oregon general rate case. The Order in the 2020 Oregon general rate case also approved the application of NW Natural's decoupling calculation for the months of November and May to the month of April. This mechanism employs a use-per-customer decoupling calculation, which adjusts margin revenues to account for the difference between actual and expected customer volumes. The margin adjustment resulting from differences between actual and expected volumes under the decoupling component is recorded to a deferral account, which is included in the annual PGA filing.

WARM. In Oregon, NW Natural has an approved weather normalization mechanism, which is applied to residential and small commercial customer bills. This mechanism is designed to help stabilize the collection of fixed costs by adjusting residential and small commercial customer billings based on temperature variances from average weather, with rate decreases when the weather is colder than average and rate increases when the weather is warmer than average. The mechanism is applied to bills from December through mid-May of each heating season. The mechanism adjusts the margin component of customers' rates to reflect average weather, which uses the 25-year average temperature for each day of the billing period. Daily average temperatures and 25-year average temperatures are based on a set point temperature of 59 degrees Fahrenheit for residential customers and 58 degrees Fahrenheit for commercial customers. The collections of any unbilled WARM amounts due to tariff caps and floors are deferred and earn a carrying charge until collected, or returned, in the PGA the following year. Residential and small commercial customers in Oregon are allowed to opt out of the weather normalization mechanism, and as of September 30, 2021, 8% of total eligible customers had opted out. NW Natural does not have a weather normalization mechanism approved for Washington customers, which account for about 12% of total customers. See "Business Segment—*Natural Gas Distribution*" below.

INDUSTRIAL TARIFFS. The OPUC and WUTC have approved tariffs covering NGD service to major industrial customers, which are intended to give NW Natural certainty in the level of gas supplies needed to serve this customer group. The approved terms include, among other things, an annual election period, special pricing provisions for out-of-cycle changes, and a requirement that industrial customers complete the term of their service election under NW Natural's annual PGA tariff.

ENVIRONMENTAL COST DEFERRAL AND RECOVERY. NW Natural has authorizations in Oregon and Washington to defer costs related to remediation of properties that are owned or were previously owned by NW Natural. In Oregon, a Site Remediation and Recovery Mechanism (SRRM) is currently in place to recover prudently incurred costs allocable to Oregon customers, subject to an earnings test. Effective beginning November 1, 2019, the WUTC authorized an Environmental Cost Recovery Mechanism (ECRM) for recovery of prudently incurred costs allocable to Washington customers.

Oregon SRRM

Under the Oregon SRRM collection process there are three types of deferred environmental remediation expense:

- Pre-review - This class of costs represents remediation spend that has not yet been deemed prudent by the OPUC. Carrying costs on these remediation expenses are recorded at NW Natural's authorized cost of capital. NW Natural anticipates the prudence review for annual costs and approval of the earnings test prescribed by the OPUC to occur by the third quarter of the following year.
- Post-review - This class of costs represents remediation spend that has been deemed prudent and allowed after applying the earnings test, but is not yet included in amortization. NW Natural earns a carrying cost on these amounts at a rate equal to the five-year treasury rate plus 100 basis points.
- Amortization - This class of costs represents amounts included in current customer rates for collection and is calculated as one-fifth of the post-review deferred balance. NW Natural earns a carrying cost equal to the amortization rate determined annually by the OPUC, which approximates a short-term borrowing rate. NW Natural included \$4.2 million and \$5.1 million of deferred remediation expense approved by the OPUC for collection during the 2020-21 and 2019-20 PGA years, respectively.

In addition, the SRRM also provides for the annual collection of \$5.0 million from Oregon customers through a tariff rider. As it collects amounts from customers, NW Natural recognizes these collections as revenue net of any earnings test adjustments and separately amortizes an equal and offsetting amount of the deferred regulatory asset balance through the environmental remediation operating expense line shown separately in the operating expenses section of the Consolidated Statements of Comprehensive Income. For additional information, see Note 18 in the 2020 Form 10-K.

The SRRM earnings test is an annual review of adjusted NGD ROE compared to authorized NGD ROE. To apply the earnings test NW Natural must first determine what if any costs are subject to the test through the following calculation:

Annual spend
Less: \$5.0 million base rate rider
Prior year carry-over ⁽¹⁾
\$5.0 million insurance + interest on insurance
Total deferred annual spend subject to earnings test
Less: over-earnings adjustment, if any
Add: deferred interest on annual spend ⁽²⁾
Total amount transferred to post-review

⁽¹⁾ Prior year carry-over results when the prior year amount transferred to post-review is negative. The negative amount is carried over to offset annual spend in the following year.

⁽²⁾ Deferred interest is added to annual spend to the extent the spend is recoverable.

To the extent the NGD business earns at or below its authorized ROE as defined in the SRRM, the total amount transferred to post-review is recoverable through the SRRM. To the extent more than authorized ROE is earned in a year, the amount transferred to post-review would be reduced by those earnings that exceed its authorized ROE.

NW Natural concluded there was no earnings test adjustment for 2020 based on the environmental earnings test that was submitted in April 2021.

Washington ECRM

The ECRM established by the WUTC order effective November 1, 2019 permits NW Natural's recovery of environmental remediation expenses allocable to Washington customers. These expenses represent 3.32% of costs associated with remediation of sites that historically served both Oregon and Washington customers. The order allows for recovery of past deferred and future prudently incurred remediation costs allocable to Washington through application of insurance proceeds and collections from customers. Prudently incurred costs that were deferred from the initial deferral authorization in February 2011 through June 2019 are to be fully offset with insurance proceeds, with any remaining insurance proceeds to be amortized over a 10.5 year period. On an annual basis NW Natural will file for a prudence determination and a request to recover remediation expenditures in excess of insurance amortizations in the following year's customer rates. After insurance proceeds are fully amortized, if in a particular year the request to collect deferred amounts exceeds one percent of Washington normalized revenues, then the excess will be collected over three years with interest.

INTERSTATE STORAGE AND ASSET MANAGEMENT SHARING. On an annual basis, NW Natural credits amounts to Oregon and Washington customers as part of a regulatory incentive sharing mechanism related to net revenues earned from Mist gas storage and asset management activities. Previously, amounts were credited to Oregon customers in June. Starting in 2021, Oregon customers received this credit in February per the 2020 Oregon rate case order. Credits are given to customers in Washington as reductions in rates through the annual PGA filing in November.

During the first quarter of 2021, NW Natural refunded an interstate storage and asset management sharing credit of approximately \$9.1 million to Oregon customers, which was primarily reflected in Oregon customers' February bills. Credits to Oregon and Washington customers in 2020 were approximately \$17.0 million and \$0.7 million, respectively.

Regulatory Proceeding Updates

During 2021, NW Natural was involved in the regulatory activities discussed below. For additional information, see Part II, Item 7 "Results of Operations—Regulatory Matters" in the 2020 Form 10-K.

COVID-19 PROCESS AND DEFERRAL DOCKETS. During 2020, our regulated utilities, other utilities, stakeholders, and public utility commissions worked together to determine the best way to continue protecting utility customers during and after the pandemic. In September 2020, the OPUC issued an order authorizing OPUC staff to execute a term sheet with NW Natural and other parties to the proceeding, which includes provisions for lifting moratoriums on disconnections for nonpayment and late fees; extending timeframes for repayments and deferred payment plans; establishing timelines for reinstitution of service disconnection and reconnection fees; and allowing for deferred accounting of COVID-19 related costs. The term sheet also directed NW Natural to work with the parties to provide bill payment assistance, petition the Oregon legislature for bill payment assistance funding, explore the applicability of decoupling charges for a period of time, and participate in an investigation and discussion surrounding low income customers and social and environmental justice. The stipulation incorporating the term sheet was approved by the OPUC in November 2020. A term sheet was approved by the WUTC in October 2020 that provides similar

guidance on key items such as the timing of lifting moratoriums on disconnections, resuming the collection process, and bill assistance and payment plans.

Additionally, both Oregon and Washington approved our applications in 2020 to defer certain COVID-19 related costs. Costs that may be recoverable include, but are not limited to, the following: personal protective equipment, cleaning supplies and services, bad debt expense, financing costs to secure liquidity, and certain lost revenue, net of offsetting direct expense reductions associated with COVID-19. As of September 30, 2021, we believe that approximately \$9.8 million of the financial effects related to COVID-19 are recoverable and deferred to a regulatory asset approximately \$7.4 million for incurred costs. In addition, we expect to recognize revenue in a future period for an additional \$2.4 million related to forgone late fee revenue.

The following table outlines some of the key items approved by the respective Commissions:

	Oregon	Washington
Reinstituting Disconnections for Nonpayment:		
Residential	August 1, 2021	September 30, 2021
Small Commercial	December 1, 2020	September 30, 2021
Large Commercial/Industrial	November 3, 2020	October 20, 2020
Resuming Residential Reconnection Fee Charges	October 1, 2022 *	March 29, 2022
Reinstituting Late Fees for Nonpayment:		
Residential	October 1, 2022 *	March 29, 2022
Small Commercial	December 1, 2020	March 29, 2022
Large Commercial/Industrial	November 3, 2020	October 20, 2020
Extended Time Payment Arrangements:		
Residential	Up to 24 months	Up to 18 months
Small Commercial	Up to 6 months	Up to 12 months
Arrearage Management Program	1% of Retail Revenues	1% of Retail Revenues

* Jurisdiction retains discretion to re-evaluate date based on ongoing pandemic and economic conditions.

ARREARAGE MANAGEMENT PROGRAM. As part of the approved term sheets, NW Natural established programs in Oregon and Washington to identify and mitigate residential customer arrearages associated with COVID-19. Under the Oregon program, NW Natural can provide a one-time grant of up to \$1,200 per eligible residential customer. Funding for the arrearage management program (AMP) may not exceed 1% of retail revenues. AMP is funded by NW Natural with recovery facilitated through the COVID deferral dockets. As of September 30, 2021, the amount granted and deferred to a regulatory asset related to the AMP was \$2.1 million of the total funds available of \$6.8 million.

RENEWABLE NATURAL GAS. On June 19, 2019, the Oregon legislature passed Senate Bill 98 (SB98), which enables natural gas utilities to procure or develop renewable natural gas (RNG) on behalf of their Oregon customers. RNG is produced from organic materials like food, agricultural and forestry waste, wastewater, or landfills. Methane is captured from these organic materials as they decompose and is conditioned to pipeline quality, so it can be added into the existing natural gas system, reducing net greenhouse gas emissions. The bill was signed into law by the governor in July 2019, and subsequently, the OPUC opened a docket in August 2019 regarding the rules for the bill. After working with parties, the OPUC adopted final rules in July 2020.

SB98 and the rules outline the following parameters for the RNG program including: setting voluntary goals for adding as much as 30% renewable natural gas into the state's pipeline system by 2050; enabling gas utilities to invest in and own the cleaning and conditioning equipment required to bring raw biogas and landfill gas up to pipeline quality, as well as the facilities to connect to the local gas distribution system; and allowing up to 5% of a utility's revenue requirement to be used to cover the incremental cost or investments in renewable natural gas infrastructure.

Further, the new law supports all forms of renewable natural gas including renewable hydrogen, which is made from excess wind, solar and hydro power. Renewable hydrogen can be used for industrial use or blended into the natural gas pipeline system.

In its first RNG project under SB98, NW Natural began a partnership with BioCarbN, a developer and operator of sustainable infrastructure projects, to convert methane into RNG. Under this partnership, NW Natural has the ability to invest up to an estimated \$38 million in four separate RNG development projects that will access biogas derived from water treatment at Tyson Foods' processing plants, subject to approval by all parties. Construction of our first RNG facility with BioCarbN and Tyson Foods began in 2021 with completion and commissioning planned for early 2022.

CORPORATE ACTIVITY TAX. In 2019, the State of Oregon enacted a Corporate Activity Tax (CAT) that is applicable to all businesses with annual Oregon gross revenue in excess of \$1 million. The CAT is in addition to the state's corporate income tax and imposes a 0.57% tax on certain Oregon gross receipts less a reduction for a portion of cost of goods sold or labor. The CAT legislation became effective September 29, 2019 and applies to calendar years beginning January 1, 2020. Under the terms of the Order in NW Natural's 2020 Oregon general rate case, NW Natural is authorized to begin to recover the expense associated

with the CAT as a component of base rates. NW Natural is also directed to adjust the amount recovered for the CAT in each annual PGA to reflect changes in gross revenue and cost of goods sold that occur as a result of the PGA.

The Order also provides for certain adjustments if there are legislative, rulemaking, judicial, or policy decisions that would cause the calculation methodology used by NW Natural for the CAT to vary in a fundamental way. Additionally, the CAT deferred from January 2020 through June 2020 will be added to and amortized over the 2020-21 PGA gas year, and the CAT amounts deferred from July 2020 through the effective date of the rate case will be amortized over the 2021-22 PGA year.

WATER UTILITIES. In the first nine months of 2021, NW Holdings, through its water subsidiaries, continued to acquire water utilities. While COVID-19 has restricted certain activities, we continue to pursue water acquisitions and expect to return to normal business development activities as the pandemic eases and travel and commerce return to previous levels. For our acquired water utilities, we continue to assess the need for general rate cases, and in 2021, we filed a general rate case for one of our water utilities to support infrastructure investments for safety and reliability.

OREGON EXECUTIVE ORDER. On March 10, 2020, the governor of Oregon issued an executive order (EO) establishing greenhouse gas (GHG) emissions reduction goals of at least 45% below 1990 emission levels by 2035 and at least 80% below 1990 emission levels by 2050 and directed state agencies and commissions to facilitate such GHG emission goals targeting a variety of sources and industries. Although the EO does not specifically direct actions of natural gas distribution businesses, the OPUC is directed to prioritize proceedings and activities that advance decarbonization in the utility sector, mitigate energy burden experienced by utility customers and ensure system reliability and resource adequacy. The EO also directs other state agencies, including the Oregon Department of Environmental Quality (ODEQ) and OPUC, to cap and reduce GHG emissions from transportation fuels and all other liquid and gaseous fuels, including natural gas, adopt building energy efficiency goals for new building construction, reduce methane gas emissions from landfills and food waste, and submit a proposal for adoption of state goals for carbon sequestration and storage by Oregon's forest, wetlands and agricultural lands.

NW Natural is actively engaged with Oregon state regulatory entities and held a seat on the ODEQ rules advisory committee, which was considering the cap and reduce rules for the resultant program, now known as the Climate Protection Program (CPP). The complete draft rules were made available for public comment in August 2021. Interested parties have submitted comments on both the proposed rules, as well as potential issues with respect to the ODEQ's authority to implement the proposed rules. Final rules are expected to be considered for adoption by the Environmental Quality Commission (the decision-making body of the ODEQ) in December 2021 and become effective in January 2022.

NW Natural is also engaged in an OPUC Fact-Finding ("Fact-Finding Docket"), which was opened in response to the EO. The OPUC's purpose of the Fact-Finding Docket is to analyze the potential natural gas utility bill impacts that may result from limiting GHG emissions of regulated natural gas utilities under the ODEQ's CPP and to identify appropriate regulatory tools to mitigate potential customer impacts. Per OPUC Staff's statement, the ultimate goal of the Fact-Finding Docket will be to inform future policy decisions and other key analyses to be considered in 2022, after the CPP is in place. We expect OPUC Staff to present a fact-finding report to the OPUC with recommendations for further OPUC engagement.

INTEGRATED RESOURCE PLAN (IRP). NW Natural generally files a full IRP biennially for Oregon and Washington with the OPUC and WUTC, respectively. NW Natural jointly filed its 2018 IRP for both Oregon and Washington in August 2018, and received both a letter of compliance from the WUTC and acknowledgment by the OPUC in February 2019. The 2018 IRP included analysis of different scenarios, examining several potential future states and the corresponding least cost, least risk resource acquisition strategies. In addition to these strategies, the 2018 IRP published an emissions forecast for each of these potential futures. NW Natural filed an update to the 2018 IRP in March 2021 and received acknowledgement of the requested capital projects by the OPUC in September 2021.

The development of an IRP filing is an extensive and complex process that engages multiple stakeholders in an effort to build a robust and commonly understood analysis. The final product is intended to provide a long-term outlook of the supply-side and demand-side resource requirements for reliable and low cost natural gas service. The IRP examines and analyzes uncertainties in the planning process, including potential changes in governmental and regulatory policies. As a result of the EO issued by the governor of Oregon, new regulations and requirements are currently being developed in the state of Oregon, which have the potential to impact long-term resource decisions. In order to reflect the outcomes of the EO proceedings, the time to file NW Natural's next full IRP was extended to July 2022 as approved by the OPUC and WUTC.

PIPELINE SECURITY. In May and July 2021, the Department of Homeland Security's (DHS) Transportation Security Administration (TSA) released two security directives applicable to certain notified owners and operators of natural gas pipeline facilities (including local distribution companies) that TSA has determined to be critical. The first security directive required notified owners/operators to implement cybersecurity incident reporting to the DHS, designate a cybersecurity coordinator, and perform a gap assessment of current entity cybersecurity practices against certain voluntary TSA security guidelines and report relevant results and proposed mitigation to applicable DHS agencies. The second security directive requires notified entities to implement a significant number of specified cyber security controls and processes. NW Natural is currently in the process of evaluating and implementing the security directives while ensuring safe and reliable operations. The impact on operations or an estimate or range of possible costs cannot be determined at this time. NW Natural is providing frequent updates to the TSA on NW Natural's

progress of achieving the security directives. NW Natural filed a request with the OPUC to defer the costs associated with complying with the second security directive and plans to seek recovery of these costs in future ratemaking proceedings.

Business Segment - Natural Gas Distribution (NGD)

NGD margin results are primarily affected by customer growth, revenues from rate-base additions, and, to a certain extent, by changes in delivered volumes due to weather and customers' gas usage patterns. In Oregon, NW Natural has a conservation tariff (also called the decoupling mechanism), which adjusts margin up or down each month through a deferred regulatory accounting adjustment designed to offset changes resulting from increases or decreases in average use by residential and commercial customers. NW Natural also has a weather normalization tariff in Oregon, WARM, which adjusts customer bills up or down to offset changes in margin resulting from above- or below-average temperatures during the winter heating season. Both mechanisms are designed to reduce, but not eliminate, the volatility of customer bills and natural gas distribution earnings. For additional information, see Part II, Item 7 "Results of Operations—Regulatory Matters—*Rate Mechanisms*" in NW Natural's 2020 Form 10-K. In addition to NW Natural's local gas distribution business, the NGD segment also includes the portion of the Mist underground storage facility used to serve NGD customers, the North Mist gas storage expansion, NWN Gas Reserves, which is a wholly owned subsidiary of Energy Corp., and NW Natural RNG Holding Company, LLC.

The NGD business is primarily seasonal in nature due to higher gas usage by residential and commercial customers during the cold winter heating months. Other categories of customers experience seasonality in their usage but to a lesser extent. Seasonality affects the comparability of the results of operations of the NGD business across quarters but not across years.

NGD segment highlights include:

<i>In thousands, except EPS data</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
	2021	2020	2021	2020		
NGD net income (loss)	\$ (23,297)	\$ (22,120)	\$ 29,247	\$ 19,476	\$ (1,177)	\$ 9,771
Diluted EPS - NGD segment	\$ (0.76)	\$ (0.72)	\$ 0.95	\$ 0.64	\$ (0.04)	\$ 0.31
Gas sold and delivered (in therms)	161,229	154,436	806,063	782,566	6,793	23,497
NGD margin ⁽¹⁾	\$ 61,076	\$ 55,542	\$ 324,922	\$ 289,337	\$ 5,534	\$ 35,585

⁽¹⁾ See Natural Gas Distribution Margin Table below for additional detail.

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. The primary factors contributing to the \$1.2 million, or \$0.04 per share, increase in NGD net loss were as follows:

- \$5.2 million increase in other NGD operating and maintenance expenses due primarily to higher lease and professional service and information technology expenses;
- \$2.1 million increase in interest expense driven by higher interest on commercial paper borrowings; and
- \$2.0 million increase in depreciation expense due to NGD plant additions as we continued to invest in our gas utility system.

The increase in NGD net loss was partially offset by:

- \$5.5 million increase in NGD margin due to:
 - \$4.0 million increase due to new customer rates, primarily from the 2020 Oregon rate case that went into effect on November 1, 2020;
 - \$1.0 million increase due primarily to an increase in the number of residential customers and industrial customer volumes; and
- \$1.6 million higher income tax benefit reflecting a higher pre-tax loss.

For the three months ended September 30, 2021, total NGD volumes sold and delivered increased 4% over the same period in 2020 primarily due to the recovery of commercial customer activity as compared to the prior year.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. The primary factors contributing to the \$9.8 million, or \$0.31 per share, increase in NGD net income were as follows:

- \$35.6 million increase in NGD margin due to:
 - \$32.1 million increase due to new customer rates, primarily from the 2020 Oregon rate case that went into effect on November 1, 2020;
 - \$3.7 million increase due primarily to an increase in the number of residential customers and industrial customer volumes; and
 - \$1.4 million increase due to the effects of applying the Oregon decoupling calculation to April 2021 as approved in our 2020 general rate case; partially offset by
 - \$3.3 million decrease primarily driven by additional market gas purchases and other expenses during the 2021 cold weather event.

In addition to the increase in margin, NGD net income for 2021 reflects:

- \$11.6 million increase in other NGD operating and maintenance expenses due primarily to higher lease, professional service and information technology expenses and higher compensation and benefits costs;
- \$4.5 million higher income tax expense reflecting higher pretax income and Oregon's CAT;
- \$7.5 million increase in depreciation expense due to NGD plant additions as we continued to invest in our gas utility system; and
- \$2.5 million increase in general taxes due primarily to higher assessed property values; partially offset by
- \$2.4 million higher interest income on regulatory assets within other income (expense), net.

For the nine months ended September 30, 2021, total NGD volumes sold and delivered increased 3% over the same period in 2020 primarily due to 12% warmer than average weather in the first nine months of 2021 compared to 15% warmer than average weather in the prior period.

NATURAL GAS DISTRIBUTION MARGIN TABLE. The following table summarizes the composition of NGD gas volumes, revenues, and cost of sales:

<i>In thousands, except degree day and customer data</i>	Three Months Ended September 30,		Nine Months Ended September 30,		Favorable/ (Unfavorable)	
	2021	2020	2021	2020	QTD Change	YTD Change
NGD volumes (therms)						
Residential and commercial sales	55,597	54,124	455,888	440,811	1,473	15,077
Industrial sales and transportation	105,632	100,312	350,175	341,755	5,320	8,420
Total NGD volumes sold and delivered	161,229	154,436	806,063	782,566	6,793	23,497
Operating Revenues						
Residential and commercial sales	\$ 71,979	\$ 66,384	\$ 470,923	\$ 431,187	\$ 5,595	\$ 39,736
Industrial sales and transportation	14,000	12,334	45,472	42,195	1,666	3,277
Other distribution revenues	292	639	1,278	1,607	(347)	(329)
Other regulated services	4,771	4,404	14,321	14,251	367	70
Total operating revenues	91,042	83,761	531,994	489,240	7,281	42,754
Less: Cost of gas	25,322	23,797	178,837	173,657	(1,525)	(5,180)
Less: Environmental remediation expense	806	867	6,092	6,494	61	402
Less: Revenue taxes	3,838	3,555	22,143	19,752	(283)	(2,391)
NGD margin	\$ 61,076	\$ 55,542	\$ 324,922	\$ 289,337	\$ 5,534	\$ 35,585
Margin⁽¹⁾						
Residential and commercial sales	\$ 49,302	\$ 43,751	\$ 288,974	\$ 250,750	\$ 5,551	\$ 38,224
Industrial sales and transportation	7,295	6,807	23,456	22,410	488	1,046
Gain (loss) from gas cost incentive sharing	(546)	(33)	(3,032)	310	(513)	(3,342)
Other margin	256	614	1,208	1,620	(358)	(412)
Other regulated services	4,769	4,403	14,316	14,247	366	69
NGD Margin	\$ 61,076	\$ 55,542	\$ 324,922	\$ 289,337	\$ 5,534	\$ 35,585
Degree days⁽²⁾						
Average ⁽³⁾	9	9	1,640	1,659	—	(19)
Actual	4	2	1,447	1,406	100 %	3 %
Percent warmer than average weather ⁽⁴⁾	NM	NM	(12)%	(15)%		

	As of September 30,			
	2021	2020	Change	Growth
<u>NGD Meters - end of period:</u>				
Residential meters	712,335	700,062	12,273	1.8%
Commercial meters	68,414	68,767	(353)	(0.5)%
Industrial meters	978	988	(10)	(1.0)%
Total number of meters	781,727	769,817	11,910	1.5%

⁽¹⁾ Amounts reported as margin for each category of meters are operating revenues, which are net of revenue taxes, less cost of gas and environmental remediation expense, subject to earnings test considerations, as applicable.

⁽²⁾ Heating degree days are units of measure reflecting temperature-sensitive consumption of natural gas, calculated by subtracting the average of a day's high and low temperatures from 59 degrees Fahrenheit.

⁽³⁾ Average weather represents the 25-year average of heating degree days. Beginning November 1, 2020, average weather is calculated over the period June 1, 1994 through May 31, 2019, as determined in NW Natural's 2020 Oregon general rate case. From November 1, 2018 through October 31, 2020, average weather was calculated over the period May 31, 1992 through May 30, 2017, as determined in NW Natural's 2018 Oregon general rate case.

⁽⁴⁾ NM indicates that the calculated value is not meaningful.

Residential and Commercial Sales

Residential and commercial sales highlights include:

	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
<i>In thousands</i>	2021	2020	2021	2020		
<u>Volumes (therms)</u>						
Residential sales	30,391	32,040	286,228	280,075	(1,649)	6,153
Commercial sales	25,206	22,084	169,660	160,736	3,122	8,924
Total volumes	55,597	54,124	455,888	440,811	1,473	15,077
<u>Operating revenues</u>						
Residential sales	\$ 47,091	\$ 44,433	\$ 325,203	\$ 298,214	\$ 2,658	\$ 26,989
Commercial sales	24,888	21,951	145,720	132,973	2,937	12,747
Total operating revenues	\$ 71,979	\$ 66,384	\$ 470,923	\$ 431,187	\$ 5,595	\$ 39,736
<u>NGD margin</u>						
Residential:						
Sales	\$ 32,787	\$ 31,291	\$ 198,950	\$ 179,354	\$ 1,496	\$ 19,596
Alternative revenue	1,505	(526)	10,151	2,699	2,031	7,452
Total residential NGD margin	34,292	30,765	209,101	182,053	3,527	27,048
Commercial:						
Sales	14,208	12,065	76,181	66,108	2,143	10,073
Alternative revenue	802	921	3,692	2,589	(119)	1,103
Total commercial NGD margin	15,010	12,986	79,873	68,697	2,024	11,176
Total NGD margin	\$ 49,302	\$ 43,751	\$ 288,974	\$ 250,750	\$ 5,551	\$ 38,224

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Residential and commercial margin increased \$5.6 million compared to the prior period. The increase was primarily driven by new customer rates in Oregon that took effect on November 1, 2020 and higher commercial volumes as COVID-19 restrictions and closures were lifted.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Residential and commercial margin increased \$38.2 million compared to the prior period. The increase was primarily driven by new customer rates in Oregon that took effect on November 1, 2020, 1.8% growth in residential meters, and higher commercial volumes.

Industrial Sales and Transportation

Industrial sales and transportation highlights include:

	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
<i>In thousands</i>	2021	2020	2021	2020		
<u>Volumes (therms)</u>						
Firm and interruptible sales	18,353	16,505	64,598	58,945	1,848	5,653
Firm and interruptible transportation	87,279	83,807	285,577	282,810	3,472	2,767
Total volumes - sales and transportation	105,632	100,312	350,175	341,755	5,320	8,420
<u>NGD margin</u>						
Firm and interruptible sales	\$ 2,735	\$ 2,456	\$ 9,033	\$ 8,279	\$ 279	\$ 754
Firm and interruptible transportation	4,560	4,351	14,423	14,131	209	292
Total margin - sales and transportation	\$ 7,295	\$ 6,807	\$ 23,456	\$ 22,410	\$ 488	\$ 1,046

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Industrial sales and transportation margin increased by \$0.5 million compared to the prior period primarily driven by new rates in Oregon that took effect on November 1, 2020. Volumes increased by 5.3 million therms, or 5%, due primarily to higher usage from multiple customers, most notably in the pulp and paper and forest products industries.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Industrial sales and transportation margin increased by \$1.0 million compared to the prior period primarily driven by new rates in Oregon that took effect on November 1, 2020. Volumes increased by 8.4 million therms, or 2%, due primarily to higher usage from multiple customers, most notably in the pulp and paper and forest products industries.

Cost of Gas

Cost of gas highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
	2021	2020	2021	2020		
Cost of gas	\$ 25,322	\$ 23,797	\$ 178,837	\$ 173,657	\$ 1,525	\$ 5,180
Volumes sold (therms) ⁽¹⁾	73,950	70,629	520,486	499,756	3,321	20,730
Average cost of gas (cents per therm)	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.35	\$ —	\$ (0.01)
Gain (loss) from gas cost incentive sharing ⁽²⁾	\$ (546)	\$ (33)	\$ (3,032)	\$ 310	\$ (513)	\$ (3,342)

⁽¹⁾ This calculation excludes volumes delivered to industrial transportation customers.

⁽²⁾ For additional information regarding NW Natural's gas cost incentive sharing mechanism, see Part II, Item 7 "Results of Operations—Regulatory Matters—Rate Mechanisms—Gas Reserves" in NW Natural's 2020 Form 10-K.

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Cost of gas increased \$1.5 million, or 6%, compared to the prior year due to a 5% increase in volumes sold coupled with higher natural gas market prices.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Cost of gas increased \$5.2 million, or 3%, primarily due to a \$3.3 million higher loss from cost of gas incentive sharing, driven by costs related to the 2021 cold weather event that were not deferred for future recovery. The event resulted in approximately \$29 million of higher commodity costs, of which approximately \$27 million was deferred to a regulatory asset. The remaining increase in cost of gas is primarily the result of a 4% increase in volumes sold driven by customer growth and comparatively colder weather in 2021 as compared to 2020.

Other Regulated Services Margin

Other regulated services margin highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
	2021	2020	2021	2020		
North Mist storage services	\$ 4,716	\$ 4,866	\$ 14,147	\$ 14,599	\$ (150)	\$ (452)
Other services	53	(463)	169	(352)	516	521
Total other regulated services	\$ 4,769	\$ 4,403	\$ 14,316	\$ 14,247	\$ 366	\$ 69

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Other regulated services margin increased \$0.4 million compared to the prior period primarily due to a regulatory adjustment that occurred in the first nine months of 2020. The adjustment was made in accordance with the 2019 Oregon rate case and did not re-occur in 2021. The North Mist expansion facility did not experience any significant fluctuations in storage service revenue. See Note 7 for information regarding North Mist expansion lease accounting.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Other regulated services margin was relatively flat when compared to the prior period. The North Mist expansion facility did not experience any significant fluctuations in storage service revenue.

Other

Other activities aggregated and reported as other at NW Natural include the non-NGD storage activity at Mist as well as asset management services and the appliance retail center operations. Other activities aggregated and reported as other at NW Holdings include NWN Energy's equity investment in Trail West Holding, LLC (TWH) through August 6, 2020; NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); and NWN Water, which owns and continues to pursue investments in the water sector. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries. See Note 14 for information on our TWH investment.

The following table presents the results of activities aggregated and reported as other for both NW Holdings and NW Natural:

<i>In thousands, except EPS data</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD Change	YTD Change
	2021	2020	2021	2020		
NW Natural other - net income	\$ 2,279	\$ 1,900	\$ 10,435	\$ 4,771	\$ 379	\$ 5,664
Other NW Holdings activity	363	1,543	(1,544)	220	(1,180)	(1,764)
NW Holdings other - net income	\$ 2,642	\$ 3,443	\$ 8,891	\$ 4,991	\$ (801)	\$ 3,900
Diluted EPS - NW Holdings - other	\$ 0.09	\$ 0.11	\$ 0.29	\$ 0.16	\$ (0.02)	\$ 0.13

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Other net income decreased \$0.8 million at NW Holdings and increased \$0.4 million at NW Natural. The increase at NW Natural was primarily due to an increase in interstate storage net income. The decrease at NW Holdings was driven by higher expenses at the holding company and a gain recognized in the prior period related to the sale of Trail West, partially offset by higher net income at NW Natural.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Other net income increased \$3.9 million at NW Holdings and \$5.7 million at NW Natural. The increase at NW Natural was primarily due to \$7.6 million of higher asset management revenue primarily related to the 2021 cold weather event, partially offset by \$2.1 million of income tax expense associated with the higher revenue. The increase at NW Holdings was driven by the increase at NW Natural, partially offset by higher project costs at the holding company.

Consolidated Operations

Operations and Maintenance

Operations and maintenance highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD	YTD
	2021	2020	2021	2020	Change	Change
NW Natural	\$ 43,768	\$ 38,657	\$ 137,894	\$ 126,111	\$ 5,111	\$ 11,783
Other NW Holdings operations and maintenance	3,561	2,695	11,673	8,145	866	3,528
NW Holdings	\$ 47,329	\$ 41,352	\$ 149,567	\$ 134,256	\$ 5,977	\$ 15,311

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Operations and maintenance expense increased \$6.0 million at NW Holdings and \$5.1 million at NW Natural. The increase at NW Natural was driven by the following:

- \$2.3 million increase in professional service and information technology expenses;
- \$1.2 million increase in lease expense related to a new headquarters and operations center; and
- \$1.0 million increase related to certain operations and maintenance costs that were deferred to a regulatory asset, net of direct savings, in the third quarter of 2020.

The \$0.9 million increase in other NW Holdings operations and maintenance expense primarily reflects higher holding company expenses and operating expenses from water and wastewater subsidiaries.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Operations and maintenance expense increased \$15.3 million at NW Holdings and \$11.8 million at NW Natural. The increase at NW Natural was driven by the following:

- \$4.9 million increase in professional service and information technology expenses;
- \$3.4 million increase in lease expense related to a new headquarters and operations center; and
- \$2.2 million increase related to higher compensation and benefit costs.

The \$3.5 million increase in other NW Holdings operations and maintenance expense primarily reflects higher project costs at the holding company and operating expenses from water and wastewater subsidiaries.

Depreciation and Amortization

Depreciation and amortization highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD	YTD
	2021	2020	2021	2020	Change	Change
NW Natural	\$ 27,719	\$ 25,681	\$ 82,418	\$ 74,857	\$ 2,038	\$ 7,561
Other NW Holdings depreciation and amortization	719	253	2,261	1,588	466	673
NW Holdings	\$ 28,438	\$ 25,934	\$ 84,679	\$ 76,445	\$ 2,504	\$ 8,234

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Depreciation and amortization expense increased \$2.5 million and \$2.0 million at NW Holdings and NW Natural, respectively, primarily due to additional capital investments in the distribution system, Mist storage, and information technology systems, as well as resource and operations service center renovations.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Depreciation and amortization expense increased \$8.2 million and \$7.6 million at NW Holdings and NW Natural, respectively, primarily due to additional capital investments in the distribution system, Mist storage, and information technology systems, as well as resource and operations service center renovations.

Other Income (Expense), Net

Other income (expense), net highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD	YTD
	2021	2020	2021	2020	Change	Change
NW Natural other income (expense), net	\$ (2,295)	\$ (4,002)	\$ (8,526)	\$ (10,744)	\$ 1,707	\$ 2,218
Other NW Holdings activity	79	715	171	842	(636)	(671)
NW Holdings other income (expense), net	<u>\$ (2,216)</u>	<u>\$ (3,287)</u>	<u>\$ (8,355)</u>	<u>\$ (9,902)</u>	<u>\$ 1,071</u>	<u>\$ 1,547</u>

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Other income (expense), net changed \$1.1 million and \$1.7 million at NW Holdings and NW Natural, respectively, primarily due to higher interest income on regulatory assets in the current quarter and lower pension non-service costs. The decrease at other NW Holdings was driven by a gain recognized in the prior period related to the sale of Trail West. Other income (expense), net primarily consists of regulatory interest, pension and other postretirement non-service costs, gains from company-owned life insurance, and donations.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Other income (expense), net changed \$1.5 million and \$2.2 million at NW Holdings and NW Natural, respectively, primarily due to higher interest income on regulatory assets and lower pension non-service costs. The decrease at other NW Holdings was driven by a gain recognized in the prior period related to the sale of Trail West.

Interest Expense, Net

Interest expense, net highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD	YTD
	2021	2020	2021	2020	Change	Change
NW Natural	\$ 10,850	\$ 8,806	\$ 32,336	\$ 30,518	\$ 2,044	\$ 1,818
Other NW Holdings interest expense, net	325	359	993	1,821	(34)	(828)
NW Holdings	<u>\$ 11,175</u>	<u>\$ 9,165</u>	<u>\$ 33,329</u>	<u>\$ 32,339</u>	<u>\$ 2,010</u>	<u>\$ 990</u>

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Interest expense, net increased \$2.0 million at both NW Holdings and NW Natural. The increase at NW Natural is primarily due to \$1.7 million of higher interest on commercial paper borrowings and \$0.3 million lower AFUDC debt interest income. The increase at NW Holdings includes the increase at NW Natural while interest on debt at NW Holdings was relatively flat.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Interest expense, net increased \$1.0 million and \$1.8 million at NW Holdings and NW Natural, respectively. The increase at NW Natural is primarily due to \$1.3 million lower AFUDC debt interest income and \$0.7 million of higher interest on long-term debt. The increase at NW Holdings includes the increase at NW Natural partially offset by lower interest on the credit agreement at NW Holdings.

Income Tax Expense

Income tax expense highlights include:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,		QTD	YTD
	2021	2020	2021	2020	Change	Change
NW Natural income tax expense (benefit)	\$ (7,212)	\$ (6,057)	\$ 13,628	\$ 6,942	\$ (1,155)	\$ 6,686
NW Holdings income tax expense (benefit)	\$ (7,127)	\$ (5,363)	\$ 13,117	\$ 7,092	\$ (1,764)	\$ 6,025

THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Income tax benefit increased \$1.2 million at NW Natural and \$1.8 million at NW Holdings. The increase in income tax benefit is primarily due to a higher pre-tax loss in the current period compared to the prior year.

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Income tax expense increased \$6.7 million at NW Natural and \$6.0 million at NW Holdings. The increase in income tax expense is primarily due to an increase in pre-tax income and Oregon's Corporate Activity Tax, partially offset by the ongoing amortization of TCJA benefits.

Discontinued Operations

On June 20, 2018, NWN Gas Storage, a wholly owned subsidiary of NW Holdings, entered into a Purchase and Sale Agreement (the Agreement) that provided for the sale by NWN Gas Storage of all of its membership interests in Gill Ranch. Gill Ranch owns a 75% interest in a natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility.

On December 4, 2020, NWN Gas Storage closed the sale of all the memberships interests in Gill Ranch and received payment of the initial cash purchase price of \$13.5 million less the \$1.0 million deposit previously paid. Furthermore, additional payments to NWN Gas Storage may be made subject to a maximum amount of \$15.0 million in the aggregate (subject to a working capital adjustment) based on the economic performance of Gill Ranch each full gas storage year (April 1 of one year through March 31 of the following year) occurring after the closing and the remaining portion of the 2020-2021 gas storage year and will continue until such time as the maximum amount has been paid. The fair value of this arrangement at the closing date was zero based on a discounted cash flow forecast. Subsequent changes in the fair value will be recorded in earnings. The completion of the sale resulted in an after-tax gain of \$5.9 million for the year ended December 31, 2020.

The results of Gill Ranch Storage have been determined to be discontinued operations until the date of sale and are presented separately, net of tax, from the results of continuing operations of NW Holdings for all periods presented. See Note 18 for more information on the Agreement and the results of our discontinued operations.

FINANCIAL CONDITION

Capital Structure

NW Holdings' long-term goal is to maintain a strong and balanced consolidated capital structure. NW Natural targets a regulatory capital structure of 50% common equity and 50% long-term debt, which is consistent with approved regulatory allocations in Oregon, which has an allocation of 50% common equity and 50% long-term debt without recognition of short-term debt, and Washington, which has an allocation of 50% long-term debt, 1% short-term debt, and 49% common equity.

When additional capital is required, debt or equity securities are issued depending on both the target capital structure and market conditions. These sources of capital are also used to fund long-term debt retirements and short-term commercial paper maturities. See "Liquidity and Capital Resources" below and Note 9. Achieving our target capital structure and maintaining sufficient liquidity to meet operating requirements is necessary to maintain attractive credit ratings and provide access to the capital markets at reasonable costs.

NW Holdings' consolidated capital structure was as follows:

	September 30,		December 31,
	2021	2020	2020
Common equity	49.3 %	47.2 %	48.2 %
Long-term debt (including current maturities)	50.7	52.8	51.8
Total	100.0 %	100.0 %	100.0 %

NW Natural's consolidated capital structure was as follows:

	September 30,		December 31,
	2021	2020	2020
Common equity	49.3 %	46.8 %	47.7 %
Long-term debt (including current maturities)	50.7	53.2	52.3
Total	100.0 %	100.0 %	100.0 %

Including short-term debt balances, as of September 30, 2021 and 2020, and December 31, 2020, NW Holdings' consolidated capital structure included common equity of 40.4%, 42.0% and 41.4%; long-term debt of 41.5%, 42.3% and 40.0%; and short-term debt including current maturities of long-term debt of 18.1%, 15.7% and 18.6%, respectively. As of September 30, 2021 and 2020, and December 31, 2020, NW Natural's consolidated capital structure included common equity of 40.5%, 43.0%, and 42.1%; long-term debt of 41.5%, 45.8% and 43.2%; and short-term debt including current maturities of long-term debt of 18.0%, 11.2%, and 14.7%, respectively.

Liquidity and Capital Resources

At September 30, 2021 and 2020, NW Holdings had approximately \$19.5 million and \$35.9 million, and NW Natural had approximately \$9.7 million and \$27.1 million of cash and cash equivalents, respectively. As the COVID-19 pandemic developed in March 2020, markets displayed significant volatility. In response to that volatility and possible implications for the availability of access to the capital markets, NW Natural and NW Holdings undertook a number of measures to increase cash on hand to ensure ample liquidity. In order to maintain sufficient liquidity during periods when capital markets are volatile, NW Holdings and NW Natural may elect to maintain higher cash balances and add short-term borrowing capacity. NW Holdings and NW Natural may also pre-fund their respective capital expenditures when long-term fixed rate environments are attractive. NW Holdings and

NW Natural expect to have ample liquidity in the form of cash on hand and from operations and available credit capacity under credit facilities to support funding needs.

In August 2021, NW Holdings initiated an at-the-market (ATM) equity program by entering into an equity distribution agreement under which NW Holdings may issue and sell from time to time shares of common stock, no par value, having an aggregate gross sales price of up to \$200 million. NW Holdings is under no obligation to offer and sell common stock under the ATM equity program, which expires in August 2024. Any shares of common stock offered under the ATM equity program are registered on NW Holdings' universal shelf registration statement filed with the SEC. During the quarter ended September 30, 2021, NW Holdings issued and sold 41,421 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$2.1 million, net of fees and commissions paid to agents of \$22 thousand. As of September 30, 2021, NW Holdings had issued and sold 41,421 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$2.1 million, net of fees and commissions paid to agents of \$22 thousand.

NW Holdings

For NW Holdings, short-term liquidity is primarily provided by cash balances, dividends from its operating subsidiaries, in particular NW Natural, available cash from a multi-year credit facility, and short-term credit facilities. NW Holdings also has a universal shelf registration statement filed with the SEC for the issuance of debt and equity securities. NW Holding's long-term debt, if any, and equity issuances are primarily used to provide equity contributions to NW Holdings' operating subsidiaries for operating and capital expenditures and other corporate purposes. Over the next three years, we estimate NW Holdings' incremental capital needs to be in the range of \$400 million to \$500 million to support NW Natural and NW Natural Water's operating and capital expenditure programs. NW Holdings' issuance of securities is not subject to regulation by state public utility commissions, but the dividends from NW Natural to NW Holdings are subject to regulatory ring-fencing provisions. NW Holdings guarantees the debt of its wholly-owned subsidiary, NWN Water. See "Long-Term Debt" below for more information regarding NWN Water debt.

As part of the ring-fencing conditions agreed upon with the OPUC and WUTC in connection with the holding company reorganization, NW Natural may not pay dividends or make distributions to NW Holdings if NW Natural's credit ratings and common equity ratio, defined as the ratio of equity to long-term debt, fall below specified levels. If NW Natural's long-term secured credit ratings are below A- for S&P and A3 for Moody's, dividends may be issued so long as NW Natural's common equity ratio is 45% or more. If NW Natural's long term secured credit ratings are below BBB for S&P and Baa2 for Moody's, dividends may be issued so long as NW Natural's common equity ratio is 46% or more. Dividends may not be issued if NW Natural's long-term secured credit ratings are BB+ or below for S&P or Ba1 or below for Moody's, or if NW Natural's common equity ratio is below 44%, where the ratio is measured using common equity and long-term debt excluding imputed debt or debt-like lease obligations. In each case, common equity ratios are determined based on a preceding or projected 13-month average. In addition, there are certain OPUC notice requirements for dividends in excess of 5% of NW Natural's retained earnings.

Additionally, if NW Natural's common equity (excluding goodwill and equity associated with non-regulated assets), on a preceding or projected 13-month average basis, is less than 46% of NW Natural's capital structure not including short-term debt, NW Natural is required to notify the OPUC, and if the common equity ratio falls below 44%, file a plan with the OPUC to restore its equity ratio to 44%. This condition is designed to ensure NW Natural continues to be adequately capitalized under the holding company structure. Under the WUTC order, the average common equity ratio must not exceed 56%.

Based on several factors, including current cash reserves, committed credit facilities, its ability to receive dividends from its operating subsidiaries, in particular NW Natural, and an expected ability to issue long-term debt and equity securities in the capital markets, NW Holdings believes its liquidity is sufficient to meet anticipated near-term cash requirements, including all contractual obligations, investing, and financing activities as discussed in "*Cash Flows*" below.

At September 30, 2021, NW Natural satisfied the ring-fencing provisions described above.

NW HOLDINGS DIVIDENDS. Quarterly dividends have been paid on common stock each year since NW Holdings' predecessor's stock was first issued to the public in 1951. Annual common stock dividend payments per share, adjusted for stock splits, have increased each year since 1956. The declarations and amount of future dividends to shareholders will depend upon earnings, cash flows, financial condition, NW Natural's ability to pay dividends to NW Holdings and other factors. The amount and timing of dividends payable on common stock is at the sole discretion of the NW Holdings Board of Directors.

Natural Gas Distribution Segment

For the NGD business segment, short-term borrowing requirements typically peak during colder winter months when the NGD business borrows money to cover the lag between natural gas purchases and bill collections from customers. Short-term liquidity for the NGD business is primarily provided by cash balances, internal cash flow from operations, proceeds from the sale of commercial paper notes, as well as available cash from multi-year credit facilities, short-term credit facilities, company-owned life insurance policies, the sale of long-term debt, and equity contributions from NW Holdings. NW Natural's long-term debt and contributions from NW Holdings are primarily used to finance NGD capital expenditures, refinance maturing debt, and provide temporary funding for other general corporate purposes of the NGD business.

Based on its current debt ratings (see "Credit Ratings" below), NW Natural has been able to issue commercial paper and long-term debt at attractive rates and generally has not needed to borrow or issue letters of credit from its back-up credit facility. In the event NW Natural is not able to issue new debt due to adverse market conditions or other reasons, NW Natural expects that near-term liquidity needs can be met using internal cash flows, issuing commercial paper, receiving equity contributions from NW Holdings, or, for the NGD segment, drawing upon a committed credit facility. NW Natural also has a universal shelf registration statement filed with the SEC for the issuance of secured and unsecured debt securities.

In the event senior unsecured long-term debt ratings are downgraded, or outstanding derivative positions exceed a certain credit threshold, counterparties under derivative contracts could require NW Natural to post cash, a letter of credit, or other forms of collateral, which could expose NW Natural to additional cash requirements and may trigger increases in short-term borrowings while in a net loss position. NW Natural was not required to post collateral at September 30, 2021. If the credit risk-related contingent features underlying these contracts were triggered on September 30, 2021, assuming NW Natural's long-term debt ratings dropped to non-investment grade levels, we would not be required to post collateral with counterparties, including estimates for adequate assurance. See "Credit Ratings" below and Note 16.

Other items that may have a significant impact on NW Natural's liquidity and capital resources include pension contribution requirements and environmental expenditures. For additional information, see Part II, Item 7 "Financial Condition" in the 2020 Form 10-K.

Contractual Obligations

NW Natural Renewables is a newly formed and non-regulated subsidiary of NW Natural Holdings established to pursue non-regulated renewable activities. In September 2021, a subsidiary of NW Natural Renewables and a subsidiary of EDL, a global producer of sustainable distributed energy, executed agreements to develop two production facilities that are designed to convert landfill waste gases to renewable natural gas (RNG). Testing and commissioning of the production facilities are expected to occur in 2023. Upon completion of each facility, NW Natural Renewables is committed to make cash payments totaling \$50.1 million to partially fund the infrastructure required to condition biogas and connect gas production to existing regional pipeline networks.

Alongside these development agreements, a subsidiary of NW Natural Renewables and a subsidiary of EDL executed agreements designed to secure a 20-year supply of RNG. At September 30, 2021, the amount of RNG purchases based on prices and quantities specified in the agreements are as follows: approximately \$9.2 million in 2023, \$10.5 million in 2024, \$21.0 million in 2025 and \$605.0 million thereafter.

See Part II, Item 7, "Financial Condition—Contractual Obligations" in the 2020 Form 10-K for additional contractual obligations.

Short-Term Debt

The primary source of short-term liquidity for NW Holdings is cash balances, dividends from its operating subsidiaries, in particular NW Natural, available cash from a multi-year credit facility, and short-term credit facilities it may enter into from time to time.

The primary source of short-term liquidity for NW Natural is from the sale of commercial paper, available cash from a multi-year credit facility, and short-term credit facilities. NW Holdings and NW Natural have separate bank facilities, and NW Natural has a commercial paper program. In addition to issuing commercial paper or bank loans to meet working capital requirements, including seasonal requirements to finance gas purchases and accounts receivable, short-term debt may also be used to temporarily fund capital requirements. For NW Natural, commercial paper and bank loans are periodically refinanced through the sale of long-term debt or equity contributions from NW Holdings. Commercial paper, when outstanding, is sold through two commercial banks under an issuing and paying agency agreement and is supported by one or more unsecured revolving credit facilities. See "Credit Agreements" below.

In June 2021, NW Natural entered into a \$100.0 million 364-Day Term Loan Credit Agreement (Term Loan) and borrowed the full amount. All principal and unpaid interest under the Term Loan is due and payable in June 2022. The Term Loan requires NW Natural to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Natural was in compliance with this covenant at September 30, 2021, with a consolidated indebtedness to total capitalization ratio of 59.5%.

At September 30, 2021 and 2020, NW Holdings had short-term debt outstanding of \$399.5 million and \$223.0 million, respectively. At September 30, 2021 and 2020, NW Natural had short-term debt outstanding of \$370.5 million and \$150.0 million, respectively. NW Holdings' short-term debt at September 30, 2021 consisted of \$29.0 million in revolving credit agreement loans at NW Holdings, \$270.5 million of commercial paper outstanding at NW Natural, and the aforementioned \$100.0 million Term Loan. The weighted average interest rate on the revolving credit agreement at September 30, 2021 was 1.1% at NW Holdings. The weighted average interest rate of commercial paper and the Term Loan outstanding at September 30, 2021 was 0.2% and 0.7%, respectively, at NW Natural.

Credit Agreements

NW Holdings

At September 30, 2021, NW Holdings had a \$100 million credit agreement, with a feature that allows it to request increases in the total commitment amount up to a maximum of \$150 million. The maturity date of the agreement is October 2, 2023, with available extensions of commitments for two additional one-year periods, subject to lender approval. On November 3, 2021, NW Holdings and the parties to the credit agreement amended and restated the agreement to, among other things, increase the initial commitment to \$200 million with a feature that allows it to request increases in the total commitment amount up to a maximum of \$300 million, and extend the maturity date to November 3, 2026, with available extensions of commitments for two additional one-year periods, subject to lender approval (Amended NW Holdings Credit Agreement).

All lenders under the agreement are major financial institutions with committed balances and investment grade credit ratings as of September 30, 2021 as follows:

In millions

Lender rating, by category	Loan Commitment
AA/Aa	\$ 100
Total	\$ 100

The lenders remain the same under the Amended NW Holdings Credit Agreement with a loan commitment of \$200 million. Based on credit market conditions, it is possible one or more lending commitments could be unavailable to NW Holdings if the lender defaulted due to lack of funds or insolvency; however, NW Holdings does not believe this risk to be imminent due to the lenders' strong investment-grade credit ratings. At September 30, 2021, September 30, 2020 and December 31, 2020, \$29.0 million, \$73.0 million and \$73.0 million were drawn under the existing NW Holdings Credit Agreement, respectively.

The existing and amended credit agreements permit the issuance of letters of credit in an aggregate amount of up to \$40 million. The principal amount of borrowings under the credit agreement as existing and amended is due and payable on the maturity date. The existing and amended NW Holding credit agreements require NW Holdings to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Holdings was in compliance with this covenant at September 30, 2021 and 2020, with consolidated indebtedness to total capitalization ratios of 59.6% and 58.0%, respectively.

The existing and amended agreements also require NW Holdings to maintain debt ratings (which are defined by a formula using NW Natural's credit ratings in the event NW Holdings does not have a credit rating) with Standard & Poor's (S&P) and Moody's Investors Service, Inc. (Moody's) and notify the lenders of any change in its senior unsecured debt ratings or senior secured debt ratings, as applicable, by such rating agencies. A change in NW Holdings' debt ratings by S&P or Moody's is not an event of default, nor is the maintenance of a specific minimum level of debt rating a condition of drawing upon the credit agreements. Rather, interest rates on any loans outstanding under the credit agreements are tied to debt ratings and therefore, a change in the debt rating would increase or decrease the cost of any loans under the credit agreements when ratings are changed. NW Holdings does not currently maintain ratings with S&P or Moody's.

NW Natural

At September 30, 2021, NW Natural had a \$300 million credit agreement, with a feature that allows it to request increases in the total commitment amount up to a maximum of \$450 million. The maturity date of the agreement is October 2, 2023, with an available extension of commitments for two additional one-year periods, subject to lender approval. On November 3, 2021, NW Natural and the parties to the credit agreement amended and restated the agreement to, among other things, increase the initial commitment to \$400 million with a feature that allows it to request increases in the total commitment amount up to a maximum of \$600 million, and extend the maturity date to November 3, 2026, with available extensions of commitments for two additional one-year periods, subject to lender approval (Amended NW Natural Credit Agreement).

All lenders under the agreement are major financial institutions with committed balances and investment grade credit ratings as of September 30, 2021 as follows:

In millions

Lender rating, by category	Loan Commitment
AA/Aa	\$ 300
Total	\$ 300

The lenders remain the same under the Amended NW Natural Credit Agreement with a loan commitment of \$400 million. Based on credit market conditions, it is possible one or more lending commitments could be unavailable to NW Natural if the lender defaulted due to lack of funds or insolvency; however, NW Natural does not believe this risk to be imminent due to the lenders' strong investment-grade credit ratings. NW Natural did not have any outstanding balances drawn under this credit facility at September 30, 2021, September 30, 2020 and December 31, 2020.

The existing and amended credit agreements permit the issuance of letters of credit in an aggregate amount of up to \$60 million. The principal amount of borrowings under both credit agreements is due and payable on the maturity date. The existing and amended credit agreements permit NW Natural to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Natural was in compliance with this covenant at September 30, 2021 and 2020, with consolidated indebtedness to total capitalization ratios of 59.5% and 57.0%, respectively.

The existing and amended agreements also require NW Natural to maintain credit ratings with S&P and Moody's and notify the lenders of any change in NW Natural's senior unsecured debt ratings or senior secured debt ratings, as applicable, by such rating agencies. A change in NW Natural's debt ratings by S&P or Moody's is not an event of default, nor is the maintenance of a specific minimum level of debt rating a condition of drawing upon the credit agreement. Rather, interest rates on any loans outstanding under the agreement are tied to debt ratings and therefore, a change in the debt rating would increase or decrease the cost of any loans under the credit agreement when ratings are changed. See "*Credit Ratings*" below.

Credit Ratings

NW Holdings does not currently maintain ratings with S&P or Moody's. NW Natural's credit ratings are a factor of liquidity, potentially affecting access to the capital markets including the commercial paper market. NW Natural's credit ratings also have an impact on the cost of funds and the need to post collateral under derivative contracts. The following table summarizes NW Natural's current credit ratings:

	S&P	Moody's
Commercial paper (short-term debt)	A-1	P-2
Senior secured (long-term debt)	AA-	A2
Senior unsecured (long-term debt)	n/a	Baa1
Corporate credit rating	A+	n/a
Ratings outlook	Stable	Stable

The above credit ratings and ratings outlook are dependent upon a number of factors, both qualitative and quantitative, and are subject to change at any time. The disclosure of or reference to these credit ratings is not a recommendation to buy, sell or hold NW Holdings or NW Natural securities. Each rating should be evaluated independently of any other rating.

As part of the ring-fencing conditions agreed upon with the OPUC and WUTC in connection with the holding company reorganization, NW Holdings and NW Natural are required to maintain separate credit ratings, long-term debt ratings, and preferred stock ratings, if any.

Long-Term Debt

In June 2021, NW Natural Water entered into a five-year term loan credit agreement for \$55.0 million and borrowed the full amount. The loan carried an interest rate of 0.9% at September 30, 2021, which is based upon the one-month LIBOR rate plus a spread. The loan is guaranteed by NW Holdings and requires NW Holdings to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Holdings was in compliance with this covenant at September 30, 2021, with a consolidated indebtedness to total capitalization ratio of 59.6%.

At September 30, 2021, NW Holdings and NW Natural had long-term debt outstanding of \$916.3 million and \$857.8 million, respectively, which included \$7.1 million and \$6.9 million of unamortized debt issuance costs at NW Holdings and NW Natural, respectively. NW Natural's long-term debt consists of first mortgage bonds (FMBs) with maturity dates ranging from 2023 through 2050, interest rates ranging from 2.8% to 7.9%, and a weighted average interest rate of 4.5%.

In August 2021, NW Natural retired \$10.0 million of FMBs with an interest rate of 9.1%. In September 2021, NW Natural Retired \$50.0 million of FMBs with an interest rate of 3.2%. No other long-term debt is scheduled to mature over the next twelve months as of September 30, 2021.

See Part II, Item 7, "Financial Condition—*Contractual Obligations*" in the 2020 Form 10-K for long-term debt maturing over the next five years.

Bankruptcy Ring-fencing Restrictions

As part of the ring-fencing conditions agreed upon with the OPUC and WUTC in connection with the holding company reorganization, NW Natural is required to have one director who is independent from NW Natural management and from NW Holdings and to issue one share of NW Natural preferred stock to an independent third party. NW Natural was in compliance with both of these ring-fencing provisions as of September 30, 2021. NW Natural may file a voluntary petition for bankruptcy only if approved unanimously by the Board of Directors of NW Natural, including the independent director, and by the holder of the preferred share.

Cash Flows

Operating Activities

Changes in operating cash flows are primarily affected by net income or loss, changes in working capital requirements, and other cash and non-cash adjustments to operating results.

<i>In thousands</i>	Nine Months Ended September 30,		
	2021	2020	YTD Change
NW Natural cash provided by operating activities	\$ 161,828	\$ 156,970	\$ 4,858
NW Holdings cash provided by operating activities	\$ 181,724	\$ 150,797	\$ 30,927

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Cash provided by operating activities increased \$30.9 million at NW Holdings and increased \$4.9 million at NW Natural. The significant factors contributing to the increase at NW Holdings were as follows:

- \$51.1 million increase in the regulatory incentive sharing mechanism related to revenues earned from Mist gas storage and asset management activities primarily related to the 2021 cold weather event;
- \$14.1 million of lower contributions to the defined benefit pension plan; and
- \$13.4 million increase in net income; partially offset by
- \$30.9 million increase in net deferred gas costs as the actual costs for the nine months ended September 30, 2021 were 27% above the PGA estimates primarily due to the 2021 cold weather event as opposed to gas costs for the nine months ended September 30, 2020 that were 3% below estimates embedded in the PGA; and
- \$16.2 million increase in inventories primarily driven by higher gas costs.

During the nine months ended September 30, 2021, NW Natural contributed \$9.6 million to the NGD segment's qualified defined benefit pension plan compared to \$23.7 million for the same period in 2020. The American Rescue Plan, which was signed into law on March 11, 2021, includes a provision for pension relief that extends the amortization period for required contributions from 7 to 15 years and provides for the stabilization of interest rates used to calculate future required contributions. As a result, NW Natural does not expect to make any further plan contributions during the remainder of 2021. The amount and timing of future contributions will depend on market interest rates and investment returns on the plans' assets. For additional information, see Note 10.

The increase in cash provided by operating activities at NW Natural was primarily driven by the increase discussed above, partially offset by a \$16.9 million decrease in income and other taxes.

NW Holdings and NW Natural have lease and purchase commitments relating to their operating activities that are financed with cash flows from operations. For additional information, see Part II, Item 7 "Financial Condition—*Contractual Obligations*" and Note 17 in the 2020 Form 10-K.

Investing Activities

<i>In thousands</i>	Nine Months Ended September 30,		
	2021	2020	YTD Change
NW Natural cash used in investing activities	\$ (197,169)	\$ (188,611)	\$ (8,558)
NW Holdings cash used in investing activities	\$ (203,521)	\$ (226,765)	\$ 23,244

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Cash used in investing activities decreased \$23.2 million at NW Holdings and increased \$8.6 million at NW Natural. NW Holdings' decrease in cash used in investing activities was primarily due to \$38.1 million of cash used for water and waste water acquisitions, net of cash acquired, during the nine months ended September 30, 2020. The increase at NW Natural is primarily due to an increase in capital expenditures of \$10.8 million partially offset by decreased leasehold improvement expenditures of \$7.3 million.

NW Natural capital expenditures in 2021 are anticipated to be in the range of \$280 million to \$320 million and for the five-year period from 2021 to 2025 are expected to range from \$1.0 billion to \$1.2 billion. NW Natural Water is expected to invest approximately \$15 million in 2021 related to maintenance capital expenditures for water and wastewater utilities currently owned or under a purchase and sale agreement, and for the five-year period from 2021 to 2025, capital expenditures are expected to be approximately \$40 million to \$50 million. Investments in our infrastructure during and after 2021 will depend largely on additional regulations, growth, and expansion opportunities. Required funds for the investments are expected to be internally generated or financed with long-term debt or equity, as appropriate.

Financing Activities

<i>In thousands</i>	Nine Months Ended September 30,		YTD Change
	2021	2020	
NW Natural cash provided by financing activities	\$ 37,469	\$ 55,112	\$ (17,643)
NW Holdings cash provided by financing activities	\$ 14,015	\$ 104,503	\$ (90,488)

NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO SEPTEMBER 30, 2020. Cash provided by financing activities decreased \$90.5 million and \$17.6 million at NW Holdings and NW Natural, respectively. The decrease in cash provided by financing activities at NW Natural was driven by a \$135.0 million decrease in long-term debt, partially offset by an increase of \$114.1 million in higher borrowings of short-term debt instruments.

In addition to the decrease at NW Natural, the decrease in cash provided by financing activities at NW Holdings was primarily due to the repayment of the \$35.0 million two-year loan agreement at NW Natural Water and lower borrowings on NW Holdings' credit facility during the nine months ended September 30, 2021, partially offset by the proceeds from the \$55.0 million five-year term loan credit agreement at NW Natural Water.

Contingent Liabilities

Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable in accordance with accounting standards for contingencies. See "Application of Critical Accounting Policies and Estimates" in the 2020 Form 10-K. At September 30, 2021, NW Natural's total estimated liability related to environmental sites is \$105.7 million. See "Results of Operations—Regulatory Matters—Rate Mechanisms—Environmental Costs" in the 2020 Form 10-K and Note 17.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing financial statements in accordance with U.S. GAAP, management exercises judgment to assess the potential outcomes and related accounting impacts in the selection and application of accounting principles, including making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and related disclosures in the financial statements. Management considers critical accounting policies to be those which are most important to the representation of financial condition and results of operations and which require management's most difficult and subjective or complex judgments, including accounting estimates that could result in materially different amounts if reported under different conditions or if they used different assumptions. Our most critical estimates and judgments for both NW Holdings and NW Natural include accounting for:

- regulatory accounting;
- revenue recognition;
- derivative instruments and hedging activities;
- pensions and postretirement benefits;
- income taxes;
- environmental contingencies; and
- impairment of long-lived assets and goodwill.

There have been no material changes to the information provided in the 2020 Form 10-K with respect to the application of critical accounting policies and estimates. See Part II, Item 7, "*Application of Critical Accounting Policies and Estimates*," in the 2020 Form 10-K.

Management has discussed its current estimates and judgments used in the application of critical accounting policies with the Audit Committees of the Boards of NW Holdings and NW Natural. Within the context of critical accounting policies and estimates, management is not aware of any reasonably likely events or circumstances that would result in materially different amounts being reported. For a description of recent accounting pronouncements that could have an impact on financial condition, results of operations or cash flows, see Note 2.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NW Holdings and NW Natural are exposed to various forms of market risk including commodity supply risk, commodity price risk, interest rate risk, foreign currency risk, credit risk and weather risk. This section describes NW Holdings' and NW Natural's exposure to these risks, as applicable. Management monitors and manages these financial exposures as an integral part of NW Holdings' and NW Natural's overall risk management program. No material changes have occurred related to disclosures about market risk for the nine months ended September 30, 2021. For additional information, see Part II, Item 1A, "*Risk Factors*" in this report and Part II, Item 7A, "*Quantitative and Qualitative Disclosures about Market Risk*" in the 2020 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

NW Holdings and NW Natural management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, completed an evaluation of the effectiveness of the design and operation of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer of each registrant have concluded that, as of the end of the period covered by this report, disclosure controls and procedures were effective to ensure that information required to be disclosed by each such registrant and included in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission (SEC) rules and forms and that such information is accumulated and communicated to management of each registrant, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

NW Holdings and NW Natural management are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

There have been no changes in NW Natural's or NW Holdings' internal control over financial reporting that occurred during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting for NW Holdings and NW Natural. The statements contained in Exhibit 31.1, Exhibit 31.2, Exhibit 31.3, and Exhibit 31.4 should be considered in light of, and read together with, the information set forth in this Item 4(b).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than the proceedings disclosed in Note 17 and those proceedings disclosed and incorporated by reference in Part I, Item 3, "Legal Proceedings" in the 2020 Form 10-K, we have only nonmaterial litigation, or litigation that occurs in the ordinary course of our business.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors" in the 2020 Form 10-K. In addition to the other information set forth in this report, you should carefully consider those risk factors, which could materially affect our business, financial condition, or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases of NW Holdings' equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended September 30, 2021:

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
Balance forward			2,124,528	\$ 16,732,648
07/01/21-07/31/21	—	—	—	—
08/01/21-08/31/21	2,877	\$ 53.67	—	—
09/01/21-09/30/21	—	—	—	—
Total	2,877	\$ 53.67	2,124,528	\$ 16,732,648

⁽¹⁾ During the quarter ended September 30, 2021, no shares of common stock were purchased on the open market to meet the requirements of NW Holdings' Dividend Reinvestment and Direct Stock Purchase Plan. However, 2,877 shares of NW Holdings common stock were purchased on the open market to meet the requirements of share-based compensation programs. During the quarter ended September 30, 2021, no shares of NW Holdings common stock were accepted as payment for stock option exercises pursuant to the NW Natural Restated Stock Option Plan.

⁽²⁾ During the quarter ended September 30, 2021, no shares of NW Holdings common stock were repurchased pursuant to the Board-approved share repurchase program. In May 2019, we received NW Holdings Board approval to extend the repurchase program through May 2022. For more information on this program, refer to Note 5 in the 2020 Form 10-K.

ITEM 5. OTHER INFORMATION

This disclosure is intended to satisfy any obligation to provide disclosures pursuant to Item 2.03 of Form 8-K.

New NW Holdings Credit Facility

On November 3, 2021, NW Holdings entered into an amended and restated credit agreement for unsecured revolving loans with JPMorgan Chase Bank, N.A., as administrative agent, and Bank of America, N.A., U.S. Bank National Association, and Wells Fargo Bank, National Association, as co-syndication agents, and J.P. Morgan Securities, LLC as the sustainability structuring agent (NW Holdings Facility). The aggregate commitment under the NW Holdings Facility is \$200 million, with an accordion feature whereby NW Holdings may request, subject to certain agent or lender consent rights, increases in the aggregate commitment amount up to an additional \$100 million. As of November 5, 2021, NW Holdings had borrowed \$129 million on the NW Holdings Facility, leaving \$71 million to be drawn. The NW Holdings Facility is expected to be drawn on from time to time and used for general corporate purposes, including, but not limited to, contributions from NW Holdings to its subsidiaries for working capital and other general corporate purposes.

The NW Holdings Facility will also permit the usage of a portion of the revolving credit facility for the issuance of letters of credit in an aggregate amount up to \$40 million for the account of NW Holdings. Generally, NW Holdings is required to reimburse drawings on letters of credit on the same day such drawings are made, provided that NW Holdings may (subject to the conditions to borrowing set forth in the NW Holdings Facility) finance such reimbursements with a revolving loan that will bear interest at the Alternate Base Rate (as defined).

The maturity date for the NW Holdings Facility is November 3, 2026, provided that NW Holdings may request, subject to lender consent rights, up to two, additional one-year extensions. NW Holdings may prepay any ABR Loan (as defined) without premium payment or penalty. NW Holdings may prepay a Term Benchmark Loan (as defined) without premium or penalty except customary breakage fees if prepaid on a date that is other than the end of the applicable interest period.

Under the terms of the NW Holdings Facility, NW Holdings will pay arrangement fees, upfront fees, administrative agent fees, letter of credit fronting fees and annual facility fees but is not required to maintain compensating bank balances. The interest rates on borrowings under the NW Holdings Facility are based on the Debt Rating (as defined), which is defined as certain credit ratings assigned by Standard & Poor's (S&P) or Moody's Investor Services (Moody's) to certain categories of indebtedness of NW Holdings or NW Natural (depending on which credit ratings are available).

The NW Holdings Facility requires that NW Natural maintain credit ratings with S&P and Moody's and that NW Holdings notify the banks of any change in the Debt Rating. A change in the Debt Rating is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon the NW Holdings Facility. However, interest rates on any loans outstanding under the NW Holdings Facility are tied to the Debt Rating, which would increase or decrease the cost of borrowings when ratings are changed.

Interest on any borrowing under the NW Holdings Facility, is payable (a) with respect to any ABR Loan, on the second business day following the last day of each of March, June, September and December and (b) with respect to any Term Benchmark Loan, on the last day of the Interest Period (as defined) applicable thereto or, in the case of a Term Benchmark Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

The NW Holdings Facility requires NW Holdings to maintain a ratio of Consolidated Indebtedness to Total Capitalization (each as defined) of 70 percent or less. Failure to comply with this financial covenant would entitle the banks to terminate their lending commitments and to accelerate the maturity of all amounts outstanding.

New NW Natural Credit Facility

On November 3, 2021, NW Natural entered into an amended and restated credit agreement for unsecured revolving loans with JPMorgan Chase Bank, N.A., as administrative agent, and Bank of America, N.A., U.S. Bank National Association, and Wells Fargo Bank, National Association, as co-syndication agents, and J.P. Morgan Securities, LLC as the sustainability structuring agent (NW Natural Facility). The aggregate commitment under the NW Natural Facility is \$400 million, with an accordion feature whereby NW Natural may request, subject to certain agent or lender consent rights, increases in the aggregate commitment amount up to an additional \$200 million. NW Natural expects the NW Natural Facility to be used primarily to back the NW Natural commercial paper program.

The NW Natural Facility will also permit the usage of a portion of the revolving credit facility for the issuance of letters of credit in an aggregate amount up to \$60 million for the account of NW Natural. Generally, NW Natural is required to reimburse drawings on letters of credit on the same day such drawings are made, provided that NW Natural may (subject to the conditions to borrowing set forth in the NW Natural Facility) finance such reimbursements with a revolving loan that will bear interest at the Alternate Base Rate (as defined in the NW Natural Facility).

The maturity date for the NW Natural Facility is November 3, 2026, provided that NW Natural may request, subject to lender consent rights, up to two, additional one-year extensions. NW Natural may prepay any ABR Loan (as defined) without premium payment or penalty. NW Natural may prepay a Term Benchmark Loan (as defined) without premium or penalty except customary breakage fees if prepaid on a date that is other than the end of the applicable interest period.

Under the terms of the NW Natural Facility, NW Natural will pay arrangement fees, upfront fees, administrative agent fees, letter of credit fees and annual facility fees but is not required to maintain compensating bank balances. The interest rates on borrowings under the NW Natural Facility, are based on the Debt Rating (as defined), which is defined as certain credit ratings assigned by Standard & Poor's (S&P) or Moody's Investor Services (Moody's) to certain categories of indebtedness of NW Natural (depending) on which credit ratings are available.

The NW Natural Facility requires that NW Natural maintain credit ratings with S&P and Moody's and that NW Natural notify the banks of any change in the Debt Rating. A change in the Debt Rating is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon the NW Natural Facility. However, interest rates on any loans outstanding under the NW Natural Facility are tied to the Debt Rating, which would increase or decrease the cost of borrowings when ratings are changed.

Interest on any borrowing under the NW Natural Facility, is payable (a) with respect to any ABR Loan, on the second business day following the last day of each of March, June, September and December and (b) with respect to any Term Benchmark Loan, on the last day of the Interest Period (as defined) applicable thereto or, in the case of a Term Benchmark Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

The NW Natural Facility requires NW Natural to maintain a ratio of Consolidated indebtedness to Total Capitalization (each as defined) of 70 percent or less. Failure to comply with this financial covenant would entitle the banks to terminate their lending commitments and to accelerate the maturity of all amounts outstanding.

ITEM 6. EXHIBITS

See the Exhibit Index below, which is incorporated by reference herein.

NORTHWEST NATURAL GAS COMPANY NORTHWEST NATURAL HOLDING COMPANY

Exhibit Index to Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2021

Exhibit Index

Exhibit Number	Document
4.1	Amended and Restated Credit Agreement, dated as of November 3, 2021, among Northwest Natural Holding Company and the lenders party thereto, with JPMorgan Chase Bank, N.A. as administrative agent and Bank of America, N.A., U.S. Bank National Association, and Wells Fargo Bank, National Association, as co-syndication agents.
4.2	Amended and Restated Credit Agreement, dated as of November 3, 2021, among Northwest Natural Gas Company and the lenders party thereto, with JPMorgan Chase Bank, N.A. as administrative agent and Bank of America, N.A., U.S. Bank National Association, and Wells Fargo Bank, National Association, as co-syndication agents.
10.1	Deferred Compensation Plan for Directors and Executives, effective January 1, 2005, restated as of September 23, 2021.
31.1	Certification of Principal Executive Officer of Northwest Natural Gas Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer of Northwest Natural Gas Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Principal Executive Officer of Northwest Natural Holding Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Principal Financial Officer of Northwest Natural Holding Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Principal Executive Officer and Principal Financial Officer of Northwest Natural Gas Company Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Principal Executive Officer and Principal Financial Officer of Northwest Natural Holding Company Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) Consolidated Statements of Income; (ii) Consolidated Balance Sheets; (iii) Consolidated Statements of Cash Flows; and (iv) Related notes. The instance document does not appear in the interactive data file because XBRL tags are embedded within the Inline XBRL document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL.

* Pursuant to Item 601(b)(32)(ii) of Regulation S-K, this certification is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company and its subsidiaries.

NORTHWEST NATURAL GAS COMPANY

(Registrant)

Dated: November 5, 2021

/s/ Brody J. Wilson

Brody J. Wilson

Principal Accounting Officer

Vice President, Treasurer, Chief Accounting Officer and Controller

NORTHWEST NATURAL HOLDING COMPANY

(Registrant)

Dated: November 5, 2021

/s/ Brody J. Wilson

Brody J. Wilson

Principal Accounting Officer

Vice President, Treasurer, Chief Accounting Officer and Controller