

**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 **March 31, 2024**  
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,  
including area code: **(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,  
including area code: **(503) 226-4211**

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

| Registrant                        | Title of each class | Trading Symbol | Name of each exchange<br>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 April 26, 2024, 38,028,137 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.

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# NORTHWEST NATURAL GAS COMPANY NORTHWEST NATURAL HOLDING COMPANY

For the Quarterly Period Ended March 31, 2024

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## 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. Forward-looking statements can be identified by words such as anticipates, assumes, may, intends, plans, projects, seeks, should, believes, estimates, expects, will, could, and similar references (including the negatives thereof) to future periods, although not all forward-looking statements contain these 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, including impacts of inflation and interest rates, bank failure, recessionary risk, and general economic uncertainty;
- 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 decarbonization or a low-carbon future;
- renewable natural gas, environmental attributes related thereto, and hydrogen;
- our strategy to reduce greenhouse gas emissions and the efficacy of communicating that strategy to shareholders, investors, stakeholders and communities;
- the policies and priorities of the current presidential administration and U.S. Congress;
- the policies and priorities of the officials elected in the 2024 presidential and congressional elections;
- growth;
- customer rates;
- pandemic and related illness or quarantine and economic conditions related thereto or resulting therefrom;
- 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 new business lines such as unregulated renewable natural gas, and 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;
- supply chain disruptions;
- costs of compliance, and our ability to include those costs in rates;
- customers bypassing our infrastructure;
- credit exposures and credit ratings or changes in credit ratings;
- 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, or legal challenges related thereto, including the Inflation Reduction Act or other energy climate related legislation;
- 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;

- international, federal, state, and local efforts to regulate, in a variety of ways, greenhouse gas emissions, and the effects of those efforts;
- geopolitical factors, including the ongoing conflicts in Europe and the Middle East;
- 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 2023 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"*, respectively, and Part I of this report, 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.

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 March 31, |            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                                                                                               | 2024                         | 2023       |
| Operating revenues                                                                                                                                            | \$ 433,470                   | \$ 462,423 |
| Operating expenses:                                                                                                                                           |                              |            |
| Cost of gas                                                                                                                                                   | 175,717                      | 205,749    |
| Operations and maintenance                                                                                                                                    | 73,614                       | 71,817     |
| Environmental remediation                                                                                                                                     | 5,746                        | 5,375      |
| General taxes                                                                                                                                                 | 15,468                       | 14,219     |
| Revenue taxes                                                                                                                                                 | 18,244                       | 19,042     |
| Depreciation                                                                                                                                                  | 33,098                       | 31,465     |
| Other operating expenses                                                                                                                                      | 1,756                        | 1,248      |
| Total operating expenses                                                                                                                                      | 323,643                      | 348,915    |
| Income from operations                                                                                                                                        | 109,827                      | 113,508    |
| Other income (expense), net                                                                                                                                   | (1,134)                      | 1,606      |
| Interest expense, net                                                                                                                                         | 20,531                       | 18,296     |
| Income before income taxes                                                                                                                                    | 88,162                       | 96,818     |
| Income tax expense                                                                                                                                            | 24,339                       | 25,147     |
| Net income                                                                                                                                                    | 63,823                       | 71,671     |
| Other comprehensive income (loss):                                                                                                                            |                              |            |
| Change in employee benefit plan liability, net of taxes of \$(66) for the three months ended March 31, 2024                                                   | (249)                        | —          |
| Amortization of non-qualified employee benefit plan liability, net of taxes of \$46 and \$37 for the three months ended March 31, 2024 and 2023, respectively | 127                          | 102        |
| Unrealized gain (loss) on interest rate swaps, net of taxes of \$(124) and \$149 for the three months ended March 31, 2024 and 2023, respectively             | 346                          | (411)      |
| Comprehensive income                                                                                                                                          | \$ 64,047                    | \$ 71,362  |
| Average common shares outstanding:                                                                                                                            |                              |            |
| Basic                                                                                                                                                         | 37,765                       | 35,609     |
| Diluted                                                                                                                                                       | 37,796                       | 35,708     |
| Earnings per share of common stock:                                                                                                                           |                              |            |
| Basic                                                                                                                                                         | \$ 1.69                      | \$ 2.01    |
| Diluted                                                                                                                                                       | 1.69                         | 2.01       |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL HOLDING COMPANY

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| <i>In thousands</i>                              | March 31,<br>2024   | March 31,<br>2023   | December 31,<br>2023 |
|--------------------------------------------------|---------------------|---------------------|----------------------|
| <b>Assets:</b>                                   |                     |                     |                      |
| <b>Current assets:</b>                           |                     |                     |                      |
| Cash and cash equivalents                        | \$ 72,375           | \$ 140,821          | \$ 32,920            |
| Accounts receivable                              | 128,433             | 164,157             | 121,341              |
| Accrued unbilled revenue                         | 57,905              | 59,542              | 83,138               |
| Allowance for uncollectible accounts             | (4,181)             | (6,760)             | (3,455)              |
| Regulatory assets                                | 127,666             | 126,546             | 178,270              |
| Derivative instruments                           | 5,746               | 8,507               | 11,380               |
| Inventories                                      | 99,874              | 41,392              | 112,571              |
| Other current assets                             | 49,896              | 41,968              | 65,275               |
| <b>Total current assets</b>                      | <b>537,714</b>      | <b>576,173</b>      | <b>601,440</b>       |
| <b>Non-current assets:</b>                       |                     |                     |                      |
| Property, plant, and equipment                   | 4,660,104           | 4,320,476           | 4,556,609            |
| Less: Accumulated depreciation                   | 1,218,580           | 1,164,498           | 1,198,555            |
| <b>Total property, plant, and equipment, net</b> | <b>3,441,524</b>    | <b>3,155,978</b>    | <b>3,358,054</b>     |
| Regulatory assets                                | 309,173             | 311,419             | 333,443              |
| Derivative instruments                           | 3,099               | 1,432               | 431                  |
| Other investments                                | 84,081              | 93,611              | 102,951              |
| Operating lease right of use asset, net          | 70,547              | 72,699              | 71,308               |
| Assets under sales-type leases                   | 128,840             | 133,159             | 129,882              |
| Goodwill                                         | 162,966             | 149,836             | 163,344              |
| Other non-current assets                         | 111,122             | 97,789              | 106,239              |
| <b>Total non-current assets</b>                  | <b>4,311,352</b>    | <b>4,015,923</b>    | <b>4,265,652</b>     |
| <b>Total assets</b>                              | <b>\$ 4,849,066</b> | <b>\$ 4,592,096</b> | <b>\$ 4,867,092</b>  |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL HOLDING COMPANY

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| <i>In thousands, except share information</i>                                                                                                                                             | March 31,<br>2024 | March 31,<br>2023 | December 31,<br>2023 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|----------------------|
| Liabilities and equity:                                                                                                                                                                   |                   |                   |                      |
| Current liabilities:                                                                                                                                                                      |                   |                   |                      |
| Short-term debt                                                                                                                                                                           | \$ 94,700         | \$ 72,500         | \$ 89,780            |
| Current maturities of long-term debt                                                                                                                                                      | 869               | 240,712           | 150,865              |
| Accounts payable                                                                                                                                                                          | 107,888           | 111,152           | 145,361              |
| Taxes accrued                                                                                                                                                                             | 27,031            | 31,372            | 15,454               |
| Interest accrued                                                                                                                                                                          | 16,360            | 13,089            | 15,836               |
| Regulatory liabilities                                                                                                                                                                    | 77,659            | 57,523            | 84,962               |
| Derivative instruments                                                                                                                                                                    | 52,677            | 44,370            | 98,661               |
| Operating lease liabilities                                                                                                                                                               | 2,053             | 1,700             | 2,333                |
| Other current liabilities                                                                                                                                                                 | 89,107            | 71,662            | 93,626               |
| Total current liabilities                                                                                                                                                                 | 468,344           | 644,080           | 696,878              |
| Long-term debt                                                                                                                                                                            | 1,574,735         | 1,294,590         | 1,425,435            |
| Deferred credits and other non-current liabilities:                                                                                                                                       |                   |                   |                      |
| Deferred tax liabilities                                                                                                                                                                  | 394,068           | 376,237           | 382,673              |
| Regulatory liabilities                                                                                                                                                                    | 700,703           | 669,328           | 695,896              |
| Pension and other postretirement benefit liabilities                                                                                                                                      | 157,812           | 147,890           | 158,116              |
| Derivative instruments                                                                                                                                                                    | 12,743            | 15,382            | 28,055               |
| Operating lease liabilities                                                                                                                                                               | 77,051            | 78,302            | 77,167               |
| Other non-current liabilities                                                                                                                                                             | 120,224           | 117,980           | 119,034              |
| Total deferred credits and other non-current liabilities                                                                                                                                  | 1,462,601         | 1,405,119         | 1,460,941            |
| Commitments and contingencies (Note 16)                                                                                                                                                   |                   |                   |                      |
| Equity:                                                                                                                                                                                   |                   |                   |                      |
| Common stock - no par value; authorized 100,000,000 shares; issued and outstanding 38,027,266, 35,929,228, and 37,631,212 at March 31, 2024 and 2023, and December 31, 2023, respectively | 905,153           | 824,304           | 890,976              |
| Retained earnings                                                                                                                                                                         | 445,058           | 430,597           | 399,911              |
| Accumulated other comprehensive loss                                                                                                                                                      | (6,825)           | (6,594)           | (7,049)              |
| Total equity                                                                                                                                                                              | 1,343,386         | 1,248,307         | 1,283,838            |
| Total liabilities and equity                                                                                                                                                              | \$ 4,849,066      | \$ 4,592,096      | \$ 4,867,092         |

See Notes to Unaudited Consolidated Financial Statements



# NORTHWEST NATURAL HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

*In thousands, except per share amounts*

|                                                                                | Three Months Ended March 31, |                     |
|--------------------------------------------------------------------------------|------------------------------|---------------------|
|                                                                                | 2024                         | 2023                |
| Total shareholders' equity, beginning balances                                 | \$ 1,283,838                 | \$ 1,175,441        |
| Common stock:                                                                  |                              |                     |
| Beginning balances                                                             | 890,976                      | 805,253             |
| Stock-based compensation                                                       | 1,728                        | 2,580               |
| Shares issued pursuant to equity based plans, net of shares withheld for taxes | 231                          | (174)               |
| Issuance of common stock, net of issuance costs                                | 12,218                       | 16,645              |
| Ending balances                                                                | 905,153                      | 824,304             |
| Retained earnings:                                                             |                              |                     |
| Beginning balances                                                             | 399,911                      | 376,473             |
| Net income                                                                     | 63,823                       | 71,671              |
| Dividends on common stock                                                      | (18,676)                     | (17,547)            |
| Ending balances                                                                | 445,058                      | 430,597             |
| Accumulated other comprehensive income (loss):                                 |                              |                     |
| Beginning balances                                                             | (7,049)                      | (6,285)             |
| Other comprehensive income (loss)                                              | 224                          | (309)               |
| Ending balances                                                                | (6,825)                      | (6,594)             |
| Total shareholders' equity, ending balances                                    | <u>\$ 1,343,386</u>          | <u>\$ 1,248,307</u> |
| Dividends per share of common stock                                            | \$ 0.4875                    | \$ 0.4850           |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| <i>In thousands</i>                                                 |    | Three Months Ended March 31, |            |
|---------------------------------------------------------------------|----|------------------------------|------------|
|                                                                     |    | 2024                         | 2023       |
| Operating activities:                                               |    |                              |            |
| Net income                                                          | \$ | 63,823                       | \$ 71,671  |
| Adjustments to reconcile net income to cash provided by operations: |    |                              |            |
| Depreciation                                                        |    | 33,098                       | 31,465     |
| Regulatory amortization of gas reserves                             |    | 546                          | 833        |
| Deferred income taxes                                               |    | 8,041                        | 5,228      |
| Qualified defined benefit pension plan expense (benefit)            |    | 1,082                        | (791)      |
| Deferred environmental expenditures, net                            |    | (6,264)                      | (4,113)    |
| Environmental remediation expense                                   |    | 5,746                        | 5,375      |
| Asset optimization revenue sharing bill credits                     |    | (20,608)                     | (10,471)   |
| Other                                                               |    | 8,905                        | 8,509      |
| Changes in assets and liabilities:                                  |    |                              |            |
| Receivables, net                                                    |    | 17,839                       | 38,727     |
| Inventories                                                         |    | 13,070                       | 46,129     |
| Income and other taxes                                              |    | 21,796                       | 25,567     |
| Accounts payable                                                    |    | (30,930)                     | (47,773)   |
| Deferred gas costs                                                  |    | (8,808)                      | (11,300)   |
| Asset optimization revenue sharing                                  |    | (108)                        | 7,769      |
| Decoupling mechanism                                                |    | 6,427                        | (1,303)    |
| Cloud-based software                                                |    | (6,485)                      | (3,673)    |
| Regulatory accounts                                                 |    | 13,335                       | 958        |
| Other, net                                                          |    | 4,534                        | 14,054     |
| Cash provided by operating activities                               |    | 125,039                      | 176,861    |
| Investing activities:                                               |    |                              |            |
| Capital expenditures                                                |    | (82,217)                     | (71,265)   |
| Acquisitions, net of cash acquired                                  |    | —                            | (468)      |
| Purchase of equity method investment                                |    | (1,000)                      | —          |
| Other                                                               |    | 729                          | (1,285)    |
| Cash used in investing activities                                   |    | (82,488)                     | (73,018)   |
| Financing activities:                                               |    |                              |            |
| Proceeds from common stock issued, net                              |    | 12,218                       | 16,669     |
| Long-term debt issued                                               |    | 150,000                      | 200,000    |
| Long-term debt retired                                              |    | (150,000)                    | —          |
| Changes in other short-term debt, net                               |    | 4,920                        | (185,700)  |
| Cash dividend payments on common stock                              |    | (17,746)                     | (16,532)   |
| Payment of financing fees                                           |    | (748)                        | (1,498)    |
| Shares withheld for tax purposes                                    |    | (1,314)                      | (1,312)    |
| Other                                                               |    | (247)                        | (440)      |
| Cash (used in) provided by financing activities                     |    | (2,917)                      | 11,187     |
| Increase in cash, cash equivalents and restricted cash              |    | 39,634                       | 115,030    |
| Cash, cash equivalents and restricted cash, beginning of period     |    | 49,624                       | 40,964     |
| Cash, cash equivalents and restricted cash, end of period           | \$ | 89,258                       | \$ 155,994 |
| Supplemental disclosure of cash flow information:                   |    |                              |            |
| Interest paid, net of capitalization                                | \$ | 18,044                       | \$ 14,904  |
| Income taxes paid, net of refunds                                   |    | 1,000                        | 1,300      |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL GAS COMPANY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| <i>In thousands</i>                                                                                                                                           | Three Months Ended March 31, |            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                                                                                               | 2024                         | 2023       |
| Operating revenues                                                                                                                                            | \$ 422,775                   | \$ 454,513 |
| Operating expenses:                                                                                                                                           |                              |            |
| Cost of gas                                                                                                                                                   | 175,773                      | 205,805    |
| Operations and maintenance                                                                                                                                    | 65,509                       | 65,389     |
| Environmental remediation                                                                                                                                     | 5,746                        | 5,375      |
| General taxes                                                                                                                                                 | 15,091                       | 14,000     |
| Revenue taxes                                                                                                                                                 | 18,195                       | 18,975     |
| Depreciation                                                                                                                                                  | 31,107                       | 30,144     |
| Other operating expenses                                                                                                                                      | 723                          | 697        |
| Total operating expenses                                                                                                                                      | 312,144                      | 340,385    |
| Income from operations                                                                                                                                        | 110,631                      | 114,128    |
| Other income (expense), net                                                                                                                                   | (1,322)                      | 2,445      |
| Interest expense, net                                                                                                                                         | 16,078                       | 14,611     |
| Income before income taxes                                                                                                                                    | 93,231                       | 101,962    |
| Income tax expense                                                                                                                                            | 25,673                       | 26,422     |
| Net income                                                                                                                                                    | 67,558                       | 75,540     |
| Other comprehensive income (loss):                                                                                                                            |                              |            |
| Change in employee benefit plan liability, net of taxes of \$(66) for the three months ended March 31, 2024                                                   | (249)                        | —          |
| Amortization of non-qualified employee benefit plan liability, net of taxes of \$46 and \$37 for the three months ended March 31, 2024 and 2023, respectively | 127                          | 102        |
| Comprehensive income                                                                                                                                          | \$ 67,436                    | \$ 75,642  |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL GAS COMPANY

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| <i>In thousands</i>                              | March 31,<br>2024   | March 31,<br>2023   | December 31,<br>2023 |
|--------------------------------------------------|---------------------|---------------------|----------------------|
| <b>Assets:</b>                                   |                     |                     |                      |
| <b>Current assets:</b>                           |                     |                     |                      |
| Cash and cash equivalents                        | \$ 61,906           | \$ 129,731          | \$ 19,841            |
| Accounts receivable                              | 124,827             | 158,675             | 117,216              |
| Accrued unbilled revenue                         | 56,213              | 57,855              | 81,524               |
| Receivables from affiliates                      | 2,409               | 2,388               | 824                  |
| Allowance for uncollectible accounts             | (3,946)             | (3,937)             | (3,228)              |
| Regulatory assets                                | 127,641             | 126,546             | 178,270              |
| Derivative instruments                           | 5,420               | 8,890               | 11,184               |
| Inventories                                      | 97,979              | 39,835              | 110,855              |
| Other current assets                             | 48,769              | 40,950              | 60,138               |
| <b>Total current assets</b>                      | <b>521,218</b>      | <b>560,933</b>      | <b>576,624</b>       |
| <b>Non-current assets:</b>                       |                     |                     |                      |
| Property, plant, and equipment                   | 4,488,931           | 4,200,299           | 4,393,759            |
| Less: Accumulated depreciation                   | 1,199,866           | 1,153,060           | 1,181,962            |
| <b>Total property, plant, and equipment, net</b> | <b>3,289,065</b>    | <b>3,047,239</b>    | <b>3,211,797</b>     |
| Regulatory assets                                | 309,067             | 311,394             | 333,418              |
| Derivative instruments                           | 2,700               | 1,432               | 373                  |
| Other investments                                | 66,343              | 78,102              | 86,145               |
| Operating lease right of use asset, net          | 70,019              | 72,077              | 70,728               |
| Assets under sales-type leases                   | 128,840             | 133,158             | 129,882              |
| Other non-current assets                         | 107,390             | 96,300              | 102,410              |
| <b>Total non-current assets</b>                  | <b>3,973,424</b>    | <b>3,739,702</b>    | <b>3,934,753</b>     |
| <b>Total assets</b>                              | <b>\$ 4,494,642</b> | <b>\$ 4,300,635</b> | <b>\$ 4,511,377</b>  |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL GAS COMPANY

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| <i>In thousands</i>                                      | March 31,<br>2024   | March 31,<br>2023   | December 31,<br>2023 |
|----------------------------------------------------------|---------------------|---------------------|----------------------|
| Liabilities and equity:                                  |                     |                     |                      |
| Current liabilities:                                     |                     |                     |                      |
| Short-term debt                                          | \$ 31,700           | \$ —                | \$ 16,780            |
| Current maturities of long-term debt                     | —                   | 89,962              | —                    |
| Accounts payable                                         | 103,283             | 107,986             | 138,111              |
| Payables to affiliates                                   | 26,872              | 24,806              | 14,850               |
| Taxes accrued                                            | 14,745              | 15,120              | 15,293               |
| Interest accrued                                         | 15,487              | 12,535              | 15,111               |
| Regulatory liabilities                                   | 77,463              | 57,494              | 84,912               |
| Derivative instruments                                   | 52,677              | 44,370              | 98,661               |
| Operating lease liabilities                              | 1,863               | 1,538               | 2,128                |
| Other current liabilities                                | 84,700              | 69,114              | 89,371               |
| Total current liabilities                                | <u>408,790</u>      | <u>422,925</u>      | <u>475,217</u>       |
| Long-term debt                                           | <u>1,364,899</u>    | <u>1,234,460</u>    | <u>1,364,732</u>     |
| Deferred credits and other non-current liabilities:      |                     |                     |                      |
| Deferred tax liabilities                                 | 381,568             | 374,092             | 371,867              |
| Regulatory liabilities                                   | 699,753             | 668,348             | 694,947              |
| Pension and other postretirement benefit liabilities     | 157,812             | 147,890             | 158,116              |
| Derivative instruments                                   | 12,743              | 15,382              | 28,055               |
| Operating lease liabilities                              | 76,624              | 77,840              | 76,757               |
| Other non-current liabilities                            | 110,091             | 109,518             | 109,066              |
| Total deferred credits and other non-current liabilities | <u>1,438,591</u>    | <u>1,393,070</u>    | <u>1,438,808</u>     |
| Commitments and contingencies (Note 16)                  |                     |                     |                      |
| Equity:                                                  |                     |                     |                      |
| Common stock                                             | 644,903             | 614,911             | 644,903              |
| Retained earnings                                        | 644,818             | 641,581             | 594,954              |
| Accumulated other comprehensive loss                     | (7,359)             | (6,312)             | (7,237)              |
| Total equity                                             | <u>1,282,362</u>    | <u>1,250,180</u>    | <u>1,232,620</u>     |
| Total liabilities and equity                             | <u>\$ 4,494,642</u> | <u>\$ 4,300,635</u> | <u>\$ 4,511,377</u>  |

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 March 31, |              |
|------------------------------------------------|------------------------------|--------------|
|                                                | 2024                         | 2023         |
| Total shareholder's equity, beginning balances | \$ 1,232,620                 | \$ 1,191,082 |
| Common stock:                                  |                              |              |
| Beginning balances                             | 644,903                      | 614,903      |
| Capital contributions from parent              | —                            | 8            |
| Ending balances                                | 644,903                      | 614,911      |
| Retained earnings:                             |                              |              |
| Beginning balances                             | 594,954                      | 582,593      |
| Net income                                     | 67,558                       | 75,540       |
| Dividends on common stock                      | (17,694)                     | (16,552)     |
| Ending balances                                | 644,818                      | 641,581      |
| Accumulated other comprehensive income (loss): |                              |              |
| Beginning balances                             | (7,237)                      | (6,414)      |
| Other comprehensive income (loss)              | (122)                        | 102          |
| Ending balances                                | (7,359)                      | (6,312)      |
| Total shareholder's equity, ending balances    | \$ 1,282,362                 | \$ 1,250,180 |

See Notes to Unaudited Consolidated Financial Statements

# NORTHWEST NATURAL GAS COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| <i>In thousands</i>                                                 | Three Months Ended March 31, |            |
|---------------------------------------------------------------------|------------------------------|------------|
|                                                                     | 2024                         | 2023       |
| Operating activities:                                               |                              |            |
| Net income                                                          | \$ 67,558                    | \$ 75,540  |
| Adjustments to reconcile net income to cash provided by operations: |                              |            |
| Depreciation                                                        | 31,107                       | 30,144     |
| Regulatory amortization of gas reserves                             | 546                          | 833        |
| Deferred income taxes                                               | 6,624                        | 6,495      |
| Qualified defined benefit pension plan expense (benefit)            | 1,082                        | (791)      |
| Deferred environmental expenditures, net                            | (6,264)                      | (4,113)    |
| Environmental remediation expense                                   | 5,746                        | 5,375      |
| Asset optimization revenue sharing bill credits                     | (20,608)                     | (10,471)   |
| Other                                                               | 8,189                        | 7,851      |
| Changes in assets and liabilities:                                  |                              |            |
| Receivables, net                                                    | 17,636                       | 36,671     |
| Inventories                                                         | 13,249                       | 46,509     |
| Income and other taxes                                              | 15,279                       | 20,310     |
| Accounts payable                                                    | (31,563)                     | (48,531)   |
| Deferred gas costs                                                  | (8,808)                      | (11,299)   |
| Asset optimization revenue sharing                                  | (108)                        | 7,769      |
| Decoupling mechanism                                                | 6,427                        | (1,303)    |
| Cloud-based software                                                | (6,485)                      | (3,673)    |
| Regulatory accounts                                                 | 13,335                       | 958        |
| Other, net                                                          | 5,041                        | 16,557     |
| Cash provided by operating activities                               | 117,983                      | 174,831    |
| Investing activities:                                               |                              |            |
| Capital expenditures                                                | (72,037)                     | (63,598)   |
| Other                                                               | 483                          | (1,284)    |
| Cash used in investing activities                                   | (71,554)                     | (64,882)   |
| Financing activities:                                               |                              |            |
| Cash contributions received from parent                             | —                            | 8          |
| Long-term debt issued                                               | —                            | 200,000    |
| Changes in other short-term debt, net                               | 14,920                       | (170,200)  |
| Cash dividend payments on common stock                              | (17,694)                     | (16,552)   |
| Shares withheld for tax purposes                                    | (1,314)                      | (1,312)    |
| Other                                                               | (97)                         | (1,660)    |
| Cash (used in) provided by financing activities                     | (4,185)                      | 10,284     |
| Increase in cash, cash equivalents and restricted cash              | 42,244                       | 120,233    |
| Cash, cash equivalents and restricted cash, beginning of period     | 36,520                       | 24,671     |
| Cash, cash equivalents and restricted cash, end of period           | \$ 78,764                    | \$ 144,904 |
| Supplemental disclosure of cash flow information:                   |                              |            |
| Interest paid, net of capitalization                                | \$ 14,104                    | \$ 10,522  |
| Income taxes paid, net of refunds                                   | 8,670                        | 6,565      |

See Notes to Unaudited Consolidated Financial Statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

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The accompanying consolidated financial statements represent the respective, consolidated financial results of Northwest Natural Holding Company (NW Holdings) and Northwest Natural Gas Company (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, wastewater and water services businesses, and other investments are aggregated and reported as other at their respective registrant.

NW Holdings and NW Natural consolidate all entities in which they have a controlling financial interest. 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 and NWN Water's investment in Avion Water Company, Inc., which are accounted for under the equity method. See Note 13 for activity related to investments. 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 2023 Annual Report on Form 10-K (2023 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.

Notes to the consolidated financial statements reflect the activity 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

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Significant accounting policies are described in Note 2 of the 2023 Form 10-K. There were no material changes to those accounting policies during the three months ended March 31, 2024 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**

NW Holdings' principal business is to operate as a holding company for NW Natural and its other subsidiaries. NW Natural's principal business is the distribution of natural gas, which is regulated by the OPUC and WUTC. NW Natural also has natural gas storage services, which are regulated by the FERC, and to a certain extent by the OPUC and WUTC. Additionally, certain of NW Holdings' subsidiaries own water businesses, which are regulated by the public utility commission in the state in which the water utility is located, which is currently Oregon, Washington, Idaho, Texas and Arizona. Wastewater businesses, to the extent they are regulated, are generally regulated by the public utility commissions in the state in which the wastewater utility is located, which is currently Texas and Arizona. Accounting records and practices of the regulated businesses conform to the requirements and uniform system of accounts prescribed by these regulatory authorities in accordance with U.S. GAAP. The businesses in which customer rates are regulated have approved cost-based rates which are intended to allow such businesses to earn a reasonable return on invested capital.

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 applicable state public utility commission, 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 |            |                      |
|------------------------------------------------------|-------------------|------------|----------------------|
|                                                      | March 31,<br>2024 | 2023       | December 31,<br>2023 |
| <b>NW Natural:</b>                                   |                   |            |                      |
| Current:                                             |                   |            |                      |
| Unrealized loss on derivatives <sup>(1)</sup>        | \$ 52,677         | \$ 44,370  | \$ 98,661            |
| Gas costs                                            | 8,279             | 51,296     | 9,301                |
| Environmental costs <sup>(2)</sup>                   | 9,864             | 6,947      | 9,950                |
| Decoupling <sup>(3)</sup>                            | 958               | —          | 2,288                |
| Pension balancing <sup>(4)</sup>                     | 7,131             | 7,131      | 7,131                |
| Income taxes                                         | 2,208             | 2,208      | 2,208                |
| Washington Climate Commitment Act compliance         | 19,761            | —          | 20,537               |
| COVID-19 deferrals and expenses, net                 | 4,798             | 787        | 9,685                |
| Other <sup>(5)</sup>                                 | 21,965            | 13,807     | 18,509               |
| Total current - NW Natural                           | 127,641           | 126,546    | 178,270              |
| <b>Other (NW Holdings)</b>                           | 25                | —          | —                    |
| Total current - NW Holdings                          | \$ 127,666        | \$ 126,546 | \$ 178,270           |
| Non-current:                                         |                   |            |                      |
| Unrealized loss on derivatives <sup>(1)</sup>        | \$ 12,744         | \$ 15,382  | \$ 28,055            |
| Pension balancing <sup>(4)</sup>                     | 25,016            | 30,613     | 27,460               |
| Income taxes                                         | 9,930             | 10,540     | 10,731               |
| Pension and other postretirement benefit liabilities | 112,791           | 101,413    | 114,010              |
| Environmental costs <sup>(2)</sup>                   | 112,464           | 99,541     | 118,619              |
| Gas costs                                            | 1,319             | 6,546      | 1,917                |
| Decoupling <sup>(3)</sup>                            | —                 | —          | 1,017                |
| Washington Climate Commitment Act compliance         | 4,223             | 6,312      | —                    |
| COVID-19 deferrals and expenses, net                 | 1,128             | 12,815     | 1,080                |
| Other <sup>(5)</sup>                                 | 29,452            | 28,232     | 30,529               |
| Total non-current - NW Natural                       | 309,067           | 311,394    | 333,418              |
| <b>Other (NW Holdings)</b>                           | 106               | 25         | 25                   |
| Total non-current - NW Holdings                      | \$ 309,173        | \$ 311,419 | \$ 333,443           |

| <i>In thousands</i>                           | Regulatory Liabilities |                   |                      |
|-----------------------------------------------|------------------------|-------------------|----------------------|
|                                               | March 31,<br>2024      | March 31,<br>2023 | December 31,<br>2023 |
| <b>NW Natural:</b>                            |                        |                   |                      |
| Current:                                      |                        |                   |                      |
| Gas costs                                     | \$ 13,753              | \$ 5,670          | \$ 6,375             |
| Unrealized gain on derivatives <sup>(1)</sup> | 5,420                  | 8,890             | 11,184               |
| Decoupling <sup>(3)</sup>                     | 10,137                 | 12,606            | 7,612                |
| Income taxes                                  | 4,726                  | 5,143             | 4,726                |
| Asset optimization revenue sharing            | 13,192                 | 19,040            | 31,583               |
| Washington Climate Commitment Act compliance  | 25,655                 | —                 | 17,199               |
| Other <sup>(5)</sup>                          | 4,580                  | 6,145             | 6,233                |
| Total current - NW Natural                    | 77,463                 | 57,494            | 84,912               |
| <b>Other (NW Holdings)</b>                    | 196                    | 29                | 50                   |
| Total current - NW Holdings                   | \$ 77,659              | \$ 57,523         | \$ 84,962            |
| Non-current:                                  |                        |                   |                      |
| Gas costs                                     | \$ 5,555               | \$ 2,024          | \$ 8,556             |
| Unrealized gain on derivatives <sup>(1)</sup> | 2,700                  | 1,432             | 373                  |
| Decoupling <sup>(3)</sup>                     | 3,673                  | 3,931             | 2,118                |
| Income taxes <sup>(6)</sup>                   | 165,719                | 170,289           | 169,485              |
| Accrued asset removal costs <sup>(7)</sup>    | 503,539                | 474,764           | 496,235              |
| Asset optimization revenue sharing            | —                      | —                 | 2,325                |
| Other <sup>(5)</sup>                          | 18,567                 | 15,908            | 15,855               |
| Total non-current - NW Natural                | 699,753                | 668,348           | 694,947              |
| <b>Other (NW Holdings)</b>                    | 950                    | 980               | 949                  |
| Total non-current - NW Holdings               | \$ 700,703             | \$ 669,328        | \$ 695,896           |

- (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 the Environmental Cost Deferral and Recovery table in Note 16 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. See Note 11.
- (7) Estimated costs of removal on certain regulated properties are collected through rates.

We believe all costs incurred and deferred at March 31, 2024 are prudent. All regulatory assets are reviewed annually for recoverability, or more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets 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**

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand plus highly liquid investment accounts with original maturity dates of three months or less. These investments are readily convertible to cash with fair value approximating cost. As of March 31, 2024, the amount invested in money market funds was \$48.8 million at NW Natural and NW Holdings. As of March 31, 2023, the amount invested in money market funds was \$107.6 million at NW Natural and \$112.6 million at NW Holdings. These investments are measured using net asset value per share.

#### **Restricted Cash**

Restricted cash is primarily comprised of funds from public purpose charges for programs that assist low-income customers with bill payments or energy efficiency. These balances are included in other current assets in the NW Holdings and NW Natural balance sheets. There were no transfers between restricted cash and cash and cash equivalents during the three months ended March 31, 2024 and 2023.

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances at NW Holdings as of March 31, 2024 and 2023 and December 31, 2023:

| <i>In thousands</i>                              | March 31,<br>2024 | March 31,<br>2023 | December 31,<br>2023 |
|--------------------------------------------------|-------------------|-------------------|----------------------|
| Cash and cash equivalents                        | \$ 72,375         | \$ 140,821        | \$ 32,920            |
| Restricted cash included in other current assets | 16,883            | 15,173            | 16,704               |
| Cash, cash equivalents and restricted cash       | <u>\$ 89,258</u>  | <u>\$ 155,994</u> | <u>\$ 49,624</u>     |

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances at NW Natural as of March 31, 2024 and 2023 and December 31, 2023:

| <i>In thousands</i>                              | March 31,<br>2024 | March 31,<br>2023 | December 31,<br>2023 |
|--------------------------------------------------|-------------------|-------------------|----------------------|
| Cash and cash equivalents                        | \$ 61,906         | \$ 129,731        | \$ 19,841            |
| Restricted cash included in other current assets | 16,858            | 15,173            | 16,679               |
| Cash, cash equivalents and restricted cash       | <u>\$ 78,764</u>  | <u>\$ 144,904</u> | <u>\$ 36,520</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

The payment term of our NGD 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 enhanced our review and analysis.

For the residential and commercial uncollectible provision, we primarily followed our standard methodology, which includes assessing historical write-off trends and current information on delinquent accounts. Beginning October 1, 2022, new collection rules from the OPUC applied to residential and commercial customers. This included enhanced protections for low-income customers, a return to pre-pandemic time payment arrangements terms, revised disconnection rules during the heating season, and other items. As a result of these Oregon rule changes and our recent collection process experience, we augmented our provision review for accounts in the following categories: closed or inactive accounts aged less than 120 days, accounts on payment plans, and all other open accounts not on payment plans. For industrial accounts, we continue to assess the provision on an account-by-account basis with specific reserves taken as necessary. NW Natural will continue to closely monitor and evaluate our accounts receivable and the provision for uncollectible accounts.

The following table presents the activity related to the NW Holdings provision for uncollectible accounts by pool:

| <i>In thousands</i>                   | As of<br>December 31, 2023 | Three Months Ended March 31, 2024         |                                                | As of<br>March 31, 2024 |
|---------------------------------------|----------------------------|-------------------------------------------|------------------------------------------------|-------------------------|
|                                       | Beginning Balance          | Provision recorded,<br>net of adjustments | Write-offs<br>recognized, net of<br>recoveries | Ending Balance          |
| Allowance for uncollectible accounts: |                            |                                           |                                                |                         |
| Residential                           | \$ 2,397                   | \$ 935                                    | \$ (192)                                       | \$ 3,140                |
| Commercial                            | 501                        | 93                                        | (63)                                           | 531                     |
| Industrial                            | 65                         | (9)                                       | —                                              | 56                      |
| Accrued unbilled and other            | 265                        | (31)                                      | (15)                                           | 219                     |
| Total NW Natural                      | <u>3,228</u>               | <u>988</u>                                | <u>(270)</u>                                   | <u>3,946</u>            |
| Other - NW Holdings                   | 227                        | 8                                         | —                                              | 235                     |
| Total NW Holdings                     | <u>\$ 3,455</u>            | <u>\$ 996</u>                             | <u>\$ (270)</u>                                | <u>\$ 4,181</u>         |

#### 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 uncollectibility 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.

#### Greenhouse Gas Allowances

NW Natural is subject to greenhouse gas (GHG) emission reduction requirements under the Washington Climate Commitment Act (CCA) regulations. Under Washington's CCA, emission reduction compliance mechanisms include: 1) allowances distributed at no cost by the state, 2) purchasing allowances at state-run auctions or secondary markets, 3) purchasing carbon offsets, and 4) supplying alternative gaseous fuels, such as renewable natural gas and hydrogen.

NW Natural will account for all purchased Washington allowances as inventory at the lower of cost or market. Any compliance instruments or allowances that are acquired through government allocations at no cost will be accounted for as inventory at no cost. As of March 31, 2024, NW Natural had \$39.5 million of emissions allowances for compliance in Washington recorded as inventory.

The CCA allows for the sale of compliance instruments or allowances, and as a result, should NW Natural sell these it will recognize revenue when title to the instrument or allowance is transferred to a counterparty, and NW Natural will recognize expense at the time of recognition of the related sale. In 2023 and 2024, NW Natural consigned no-cost allowances to Washington auctions and received a total of \$18.6 million in cash, which proceeds were recorded as a regulatory liability for the benefit of customers.

We measure the compliance obligation, which is based on emissions, at the carrying value of inventory held plus the fair value of any additional emission allowances NW Natural would need to purchase to satisfy the obligations. Under the Washington program, NW Natural has recognized a \$24.0 million liability as of March 31, 2024. A portion of the costs to comply with the Washington program are currently being recovered from utility customers through rates beginning January 1, 2024. NW Natural recognized \$24.0 million of deferred costs as of March 31, 2024.

#### New Accounting Standards

NW Natural and NW Holdings 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 consolidated financial position or results of operations.

#### Recently Issued Accounting Pronouncements

**JOINT VENTURE FORMATIONS.** In August 2023, the FASB issued ASU 2023-05, which requires a joint venture to initially measure all contributions received upon its formation at fair value. The standard is effective for all joint venture entities with a formation date on or after January 1, 2025, with early adoption permitted. The adoption of this standard is not anticipated to have a material impact on our results of operations, liquidity or capital resources.

**SEGMENT REPORTING.** In November 2023, the FASB issued ASU 2023-07, which requires additional disclosures about significant segment expenses. The disclosures are required beginning with our annual report for the year ending December 31, 2024. The adoption of this standard is not anticipated to have a material impact on our results of operations, liquidity or capital resources.

**IMPROVEMENTS TO INCOME TAX DISCLOSURES.** In December 2023, the FASB issued ASU 2023-09, which requires additional disclosures about income taxes. The disclosures are required beginning with our annual report for the year ending December 31, 2025. The adoption of this standard is not anticipated to have a material impact on our results of operations, liquidity or capital resources.

#### Recent Securities and Exchange Commission (SEC) Final Rules

**CLIMATE CHANGE.** In March 2024, the SEC issued a final rule under SEC Release Nos. 33-11275 and 34-99678, The Enhancement and Standardization of Climate-Related Disclosures for Investors, which requires registrants to provide climate disclosures in their annual reports. Under the final rule, disclosures are required beginning with our annual report for the year ending December 31, 2025. In April 2024, the SEC voluntarily stayed implementation of the climate rule pending completion of judicial review of challenges to the rules consolidated in the Eighth Circuit Court of Appeals. We are currently evaluating the impact of this final rule on our disclosures.

### 3. EARNINGS PER SHARE

Basic earnings or loss per share are computed using NW Holdings' net income or loss 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 or loss 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 March 31, |           |
|-------------------------------------------------------------------|------------------------------|-----------|
|                                                                   | 2024                         | 2023      |
| Net income                                                        | \$ 63,823                    | \$ 71,671 |
| Average common shares outstanding - basic                         | 37,765                       | 35,609    |
| Additional shares for stock-based compensation plans (See Note 8) | 31                           | 99        |
| Average common shares outstanding - diluted                       | 37,796                       | 35,708    |
| Earnings per share of common stock:                               |                              |           |
| Basic                                                             | \$ 1.69                      | \$ 2.01   |
| Diluted                                                           | 1.69                         | 2.01      |
| Additional information:                                           |                              |           |
| Anti-dilutive shares                                              | 15                           | 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 segment, 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 in Oregon, 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 regulated renewable natural gas for NW Natural.

#### **NW Natural**

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

Earnings from Interstate Storage Services assets are primarily related to firm storage capacity revenues. Earnings from third-party asset management services also include revenue, net of amounts shared with NGD customers, from management of NGD assets at Mist and upstream pipeline 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 to a deferred regulatory account for crediting back to NGD customers.

#### **NW Holdings**

NW Holdings' activities in Other include all remaining activities not associated with NW Natural, specifically: NW Natural Water Company, LLC (NW Natural Water or NWN Water), which consolidates the water and wastewater utility operations and water services businesses; NW Natural Water's equity investment in Avion Water Company, Inc.; NWN Gas Storage, a wholly-owned subsidiary of NWN Energy; other pipeline assets in NNG Financial; and NW Natural Renewables Holdings, LLC (NW Natural Renewables) and its non-regulated renewable natural gas activities. 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.

| <i>In thousands</i>               | Three Months Ended March 31, |                       |            |                        |             |
|-----------------------------------|------------------------------|-----------------------|------------|------------------------|-------------|
|                                   | NGD                          | Other<br>(NW Natural) | NW Natural | Other<br>(NW Holdings) | NW Holdings |
| <b>2024</b>                       |                              |                       |            |                        |             |
| Operating revenues                | \$ 417,864                   | \$ 4,911              | \$ 422,775 | \$ 10,695              | \$ 433,470  |
| Depreciation                      | 30,830                       | 277                   | 31,107     | 1,991                  | 33,098      |
| Income (loss) from operations     | 107,973                      | 2,658                 | 110,631    | (804)                  | 109,827     |
| Net income (loss)                 | 65,715                       | 1,843                 | 67,558     | (3,735)                | 63,823      |
| Capital expenditures              | 71,494                       | 543                   | 72,037     | 10,180                 | 82,217      |
| Total assets at March 31, 2024    | 4,445,206                    | 49,436                | 4,494,642  | 354,424                | 4,849,066   |
| <b>2023</b>                       |                              |                       |            |                        |             |
| Operating revenues                | \$ 447,770                   | \$ 6,743              | \$ 454,513 | \$ 7,910               | \$ 462,423  |
| Depreciation                      | 29,858                       | 286                   | 30,144     | 1,321                  | 31,465      |
| Income (loss) from operations     | 109,159                      | 4,969                 | 114,128    | (620)                  | 113,508     |
| Net income (loss)                 | 71,951                       | 3,589                 | 75,540     | (3,869)                | 71,671      |
| Capital expenditures              | 63,642                       | (44)                  | 63,598     | 7,667                  | 71,265      |
| Total assets at March 31, 2023    | 4,246,245                    | 54,390                | 4,300,635  | 291,461                | 4,592,096   |
| Total assets at December 31, 2023 | 4,458,117                    | 53,260                | 4,511,377  | 355,715                | 4,867,092   |

### **Natural Gas Distribution Margin**

NGD margin is the primary 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 environmental recovery mechanisms in Oregon and Washington as well as adjustments for the Oregon 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 March 31, |                   |
|------------------------------|------------------------------|-------------------|
|                              | 2024                         | 2023              |
| NGD margin calculation:      |                              |                   |
| NGD distribution revenues    | \$ 412,987                   | \$ 443,061        |
| Other regulated services     | 4,877                        | 4,709             |
| Total NGD operating revenues | 417,864                      | 447,770           |
| Less: NGD cost of gas        | 175,773                      | 205,805           |
| Environmental remediation    | 5,746                        | 5,375             |
| Revenue taxes                | 18,195                       | 18,975            |
| NGD margin                   | <u>\$ 218,150</u>            | <u>\$ 217,615</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 three months ended March 31, 2024, NW Holdings issued and sold 333,000 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$12.2 million, net of fees and commissions paid to agents of \$0.2 million. As of March 31, 2024, NW Holdings had \$31.0 million of equity available for issuance under the program. The ATM equity program was initiated to raise funds for general corporate purposes, including equity contributions to NW Holdings' subsidiaries, NW Natural and NW Natural Water. Contributions to NW Natural and NW Natural Water will be used for general corporate purposes.

## 6. REVENUE

The following tables present disaggregated revenue:

| <i>In thousands</i>                   | Three Months Ended March 31, |                       |                   |                        |                   |
|---------------------------------------|------------------------------|-----------------------|-------------------|------------------------|-------------------|
|                                       | NGD                          | Other<br>(NW Natural) | NW Natural        | Other<br>(NW Holdings) | NW Holdings       |
| <b>2024</b>                           |                              |                       |                   |                        |                   |
| Natural gas sales                     | \$ 410,839                   | \$ —                  | \$ 410,839        | \$ —                   | \$ 410,839        |
| Gas storage revenue, net              | —                            | 3,005                 | 3,005             | —                      | 3,005             |
| Asset management revenue, net         | —                            | 602                   | 602               | —                      | 602               |
| Appliance retail center revenue       | —                            | 1,304                 | 1,304             | —                      | 1,304             |
| Other revenue                         | 774                          | —                     | 774               | 10,695                 | 11,469            |
| Revenue from contracts with customers | 411,613                      | 4,911                 | 416,524           | 10,695                 | 427,219           |
| Alternative revenue                   | 2,125                        | —                     | 2,125             | —                      | 2,125             |
| Leasing revenue                       | 4,126                        | —                     | 4,126             | —                      | 4,126             |
| Total operating revenues              | <u>\$ 417,864</u>            | <u>\$ 4,911</u>       | <u>\$ 422,775</u> | <u>\$ 10,695</u>       | <u>\$ 433,470</u> |
| <b>2023</b>                           |                              |                       |                   |                        |                   |
| Natural gas sales                     | \$ 451,394                   | \$ —                  | \$ 451,394        | \$ —                   | \$ 451,394        |
| Gas storage revenue, net              | —                            | 2,799                 | 2,799             | —                      | 2,799             |
| Asset management revenue, net         | —                            | 2,754                 | 2,754             | —                      | 2,754             |
| Appliance retail center revenue       | —                            | 1,190                 | 1,190             | —                      | 1,190             |
| Other revenue                         | 730                          | —                     | 730               | 7,910                  | 8,640             |
| Revenue from contracts with customers | 452,124                      | 6,743                 | 458,867           | 7,910                  | 466,777           |
| Alternative revenue                   | (8,352)                      | —                     | (8,352)           | —                      | (8,352)           |
| Leasing revenue                       | 3,998                        | —                     | 3,998             | —                      | 3,998             |
| Total operating revenues              | <u>\$ 447,770</u>            | <u>\$ 6,743</u>       | <u>\$ 454,513</u> | <u>\$ 7,910</u>        | <u>\$ 462,423</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 equal and offsetting expense recognized in operating expenses in the consolidated statements of comprehensive income. Revenue-based taxes are primarily franchise taxes, which are collected from NGD 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 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 storage assets and pipeline capacity by a third-party 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 March 31, 2024, unrecognized revenue for the fixed component of the transaction price related to gas storage and asset management revenue was approximately \$77.2 million. Of this amount, approximately \$15.9 million will be recognized during the remainder of 2024, \$20.5 million in 2025, \$16.1 million in 2026, \$7.8 million in 2027, \$3.9 million in 2028 and \$13.0 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

##### Water and Wastewater Services

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 states we operate. Customer accounts are to be paid in full each month, bi-monthly, or quarterly, 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 and wastewater collection 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 PGE, which is billed under an OPUC-approved rate schedule and includes an initial 30-year term beginning May 2019 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 March 31, |                 |
|---------------------|------------------------------|-----------------|
|                     | 2024                         | 2023            |
| Lease revenue       |                              |                 |
| Operating leases    | \$ 22                        | \$ 19           |
| Sales-type leases   | 4,104                        | 3,979           |
| Total lease revenue | <u>\$ 4,126</u>              | <u>\$ 3,998</u> |

Additionally, lease revenue of \$0.1 million and \$0.2 million was recognized for the three months ended March 31, 2024 and 2023, respectively, 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-cancelable leases at March 31, 2024 are as follows:

| <i>In thousands</i>          | Operating       | Sales-Type        | Total             |
|------------------------------|-----------------|-------------------|-------------------|
| <b>NW Natural:</b>           |                 |                   |                   |
| Remainder of 2024            | \$ 452          | \$ 11,900         | \$ 12,352         |
| 2025                         | 599             | 15,306            | 15,905            |
| 2026                         | 36              | 14,901            | 14,937            |
| 2027                         | 22              | 14,521            | 14,543            |
| 2028                         | —               | 13,983            | 13,983            |
| Thereafter                   | —               | 208,218           | 208,218           |
| Total minimum lease payments | <u>\$ 1,109</u> | <u>278,829</u>    | <u>\$ 279,938</u> |
| Less: imputed interest       |                 | 151,120           |                   |
| Total leases receivable      |                 | <u>\$ 127,709</u> |                   |

### Other (NW Holdings):

|                              |                 |             |                 |
|------------------------------|-----------------|-------------|-----------------|
| Remainder of 2024            | \$ 39           | \$ —        | \$ 39           |
| 2025                         | 53              | —           | 53              |
| 2026                         | 56              | —           | 56              |
| 2027                         | 57              | —           | 57              |
| 2028                         | 58              | —           | 58              |
| Thereafter                   | 800             | —           | 800             |
| Total minimum lease payments | <u>\$ 1,063</u> | <u>\$ —</u> | <u>\$ 1,063</u> |

**NW Holdings:**

|                              |    |       |    |         |    |         |
|------------------------------|----|-------|----|---------|----|---------|
| Remainder of 2024            | \$ | 491   | \$ | 11,900  | \$ | 12,391  |
| 2025                         |    | 652   |    | 15,306  |    | 15,958  |
| 2026                         |    | 92    |    | 14,901  |    | 14,993  |
| 2027                         |    | 79    |    | 14,521  |    | 14,600  |
| 2028                         |    | 58    |    | 13,983  |    | 14,041  |
| Thereafter                   |    | 800   |    | 208,218 |    | 209,018 |
| Total minimum lease payments | \$ | 2,172 |    | 278,829 | \$ | 281,001 |
| Less: imputed interest       |    |       |    | 151,120 |    |         |
| Total leases receivable      |    |       | \$ | 127,709 |    |         |

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 \$5.6 million, \$5.2 million and \$5.5 million at March 31, 2024 and 2023 and December 31, 2023, 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 headquarters and operations center. Our leases have remaining lease terms of 8 months to 16 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 March 31, |          |
|-----------------------------|------------------------------|----------|
|                             | 2024                         | 2023     |
| <b>NW Natural:</b>          |                              |          |
| Operating lease expense     | \$ 1,862                     | \$ 1,775 |
| Short-term lease expense    | 81                           | 80       |
| <b>Other (NW Holdings):</b> |                              |          |
| Operating lease expense     | \$ 45                        | \$ 40    |
| <b>NW Holdings:</b>         |                              |          |
| Operating lease expense     | \$ 1,907                     | \$ 1,815 |
| Short-term lease expense    | 81                           | 80       |

Supplemental balance sheet information related to operating leases as of March 31, 2024 and 2023 and December 31, 2023 is as follows:

| <i>In thousands</i>                                   | March 31, |           | December 31, |
|-------------------------------------------------------|-----------|-----------|--------------|
|                                                       | 2024      | 2023      | 2023         |
| <b>NW Natural:</b>                                    |           |           |              |
| Operating lease right of use asset                    | \$ 70,019 | \$ 72,077 | \$ 70,728    |
| Operating lease liabilities - current liabilities     | \$ 1,863  | \$ 1,538  | \$ 2,128     |
| Operating lease liabilities - non-current liabilities | 76,624    | 77,840    | 76,757       |
| Total operating lease liabilities                     | \$ 78,487 | \$ 79,378 | \$ 78,885    |
| <b>Other (NW Holdings):</b>                           |           |           |              |
| Operating lease right of use asset                    | \$ 528    | \$ 622    | \$ 580       |

|                                                       |    |     |    |     |    |     |
|-------------------------------------------------------|----|-----|----|-----|----|-----|
| Operating lease liabilities - current liabilities     | \$ | 190 | \$ | 162 | \$ | 205 |
| Operating lease liabilities - non-current liabilities |    | 427 |    | 462 |    | 410 |
| Total operating lease liabilities                     | \$ | 617 | \$ | 624 | \$ | 615 |

**NW Holdings:**

|                                                       |    |        |    |        |    |        |
|-------------------------------------------------------|----|--------|----|--------|----|--------|
| Operating lease right of use asset                    | \$ | 70,547 | \$ | 72,699 | \$ | 71,308 |
| Operating lease liabilities - current liabilities     | \$ | 2,053  | \$ | 1,700  | \$ | 2,333  |
| Operating lease liabilities - non-current liabilities |    | 77,051 |    | 78,302 |    | 77,167 |
| Total operating lease liabilities                     | \$ | 79,104 | \$ | 80,002 | \$ | 79,500 |

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>                           | March 31, |       | December 31, |
|-----------------------------------------------|-----------|-------|--------------|
|                                               | 2024      | 2023  | 2023         |
| Weighted-average remaining lease term (years) | 16.0      | 17.0  | 16.2         |
| Weighted-average discount rate                | 7.3 %     | 7.3 % | 7.3 %        |

Headquarters and Operations Center Lease

NW Natural commenced a 20-year operating lease agreement in March 2020 for a new headquarters and operations center in Portland, Oregon. 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 \$8.3 million, \$7.2 million and \$8.0 million as of March 31, 2024 and 2023 and December 31, 2023, respectively.

Maturities of operating lease liabilities at March 31, 2024 were as follows:

| <i>In thousands</i>         | NW Natural | Other<br>(NW Holdings) | NW Holdings |
|-----------------------------|------------|------------------------|-------------|
| Remainder of 2024           | \$ 5,673   | \$ 138                 | \$ 5,811    |
| 2025                        | 7,362      | 176                    | 7,538       |
| 2026                        | 7,361      | 153                    | 7,514       |
| 2027                        | 7,538      | 107                    | 7,645       |
| 2028                        | 7,719      | 6                      | 7,725       |
| Thereafter                  | 101,272    | 6                      | 101,278     |
| Total lease payments        | 136,925    | 586                    | 137,511     |
| Less: imputed interest      | 58,438     | (31)                   | 58,407      |
| Total lease obligations     | 78,487     | 617                    | 79,104      |
| Less: current obligations   | 1,863      | 190                    | 2,053       |
| Long-term lease obligations | \$ 76,624  | \$ 427                 | \$ 77,051   |

Supplemental cash flow information related to leases was as follows:

| <i>In thousands</i>                                                    | Three Months Ended March 31, |          |
|------------------------------------------------------------------------|------------------------------|----------|
|                                                                        | 2024                         | 2023     |
| <b>NW Natural:</b>                                                     |                              |          |
| Cash paid for amounts included in the measurement of lease liabilities |                              |          |
| Operating cash flows from operating leases                             | \$ 1,811                     | \$ 1,767 |
| Finance cash flows from finance leases                                 | 97                           | 173      |
| Right of use assets obtained in exchange for lease obligations         |                              |          |
| Finance leases                                                         | 97                           | 173      |
| <b>Other (NW Holdings):</b>                                            |                              |          |
| Cash paid for amounts included in the measurement of lease liabilities |                              |          |

|                                                                        |    |       |    |       |
|------------------------------------------------------------------------|----|-------|----|-------|
| Operating cash flows from operating leases                             | \$ | 44    | \$ | 39    |
| Right of use assets obtained in exchange for lease obligations         |    |       |    |       |
| Finance leases                                                         |    | —     |    | 90    |
| <b>NW Holdings:</b>                                                    |    |       |    |       |
| Cash paid for amounts included in the measurement of lease liabilities |    |       |    |       |
| Operating cash flows from operating leases                             | \$ | 1,855 | \$ | 1,806 |
| Finance cash flows from finance leases                                 |    | 97    |    | 173   |
| Right of use assets obtained in exchange for lease obligations         |    |       |    |       |
| Finance leases                                                         |    | 97    |    | 263   |

#### 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 \$2.7 million, \$2.4 million and \$2.6 million at March 31, 2024 and 2023 and at December 31, 2023, respectively. As of March 31, 2024, there were no finance lease liabilities at NW Natural.

### **8. STOCK-BASED COMPENSATION**

Stock-based compensation plans are designed to promote stock ownership in NW Holdings by employees, including officers. These compensation plans include a Long Term Incentive Plan (LTIP) and an Employee Stock Purchase Plan (ESPP). For additional information on stock-based compensation plans, see Note 8 in the 2023 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 three months ended March 31, 2024, the final performance factor under the 2022 LTIP was approved and 46,156 performance-based shares were granted under the 2022 LTIP for accounting purposes. As such, NW Natural and other subsidiaries began recognizing compensation expense. In February 2023 and 2024, 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 2025 and 2026, respectively, there is not a mutual understanding of the awards' key terms and conditions between NW Holdings and the participants as of March 31, 2024, and therefore, no expense was recognized for the 2023 and 2024 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 2023 and 2024 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 2023 and 2024 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 2023 and 2024 awards, NW Holdings would grant for accounting purposes 50,542 and 73,150 shares in the first quarters of 2025 and 2026, respectively.

As of March 31, 2024, there was \$0.3 million of unrecognized compensation cost associated with the 2022 LTIP grant, which is expected to be recognized through 2024.

##### Restricted Stock Units

During the three months ended March 31, 2024, 57,704 RSUs were granted under the LTIP with a weighted-average grant date fair value of \$38.87 per share. Generally, the RSUs awarded 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 NW Holdings' common stock on the grant date. As of March 31, 2024, there was \$4.2 million of unrecognized compensation cost from grants of RSUs, which is expected to be recognized over a period extending through 2028.

## 9. DEBT

### Short-Term Debt

At March 31, 2024, March 31, 2023 and December 31, 2023, short-term debt consisted of the following:

| In millions                 | March 31, 2024      |                                               | March 31, 2023      |                                               | December 31, 2023   |                                               |
|-----------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|
|                             | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> |
| <b>NW Natural:</b>          |                     |                                               |                     |                                               |                     |                                               |
| Commercial paper            | \$ 31.7             | 5.5 %                                         | \$ —                | — %                                           | \$ 16.8             | 5.5 %                                         |
| <b>Other (NW Holdings):</b> |                     |                                               |                     |                                               |                     |                                               |
| Credit agreement            | 63.0                | 6.3 %                                         | 72.5                | 5.9 %                                         | 73.0                | 6.4 %                                         |
| <b>NW Holdings</b>          | <u>\$ 94.7</u>      |                                               | <u>\$ 72.5</u>      |                                               | <u>\$ 89.8</u>      |                                               |

<sup>(1)</sup> Weighted average interest rate on outstanding short-term debt

### Long-Term Debt

At March 31, 2024, March 31, 2023 and December 31, 2023, NW Holdings' long-term debt consisted of the following:

| In millions                           | March 31, 2024      |                                               | March 31, 2023      |                                               | December 31, 2023   |                                               |
|---------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|
|                                       | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> | Balance Outstanding | Weighted Average Interest Rate <sup>(2)</sup> |
| NW Natural first mortgage bonds       | \$ 1,374.7          | 4.6 %                                         | \$ 1,334.7          | 4.6 %                                         | \$ 1,374.7          | 4.7 %                                         |
| NW Holdings unsecured senior bonds    | 150.0               | 5.8 %                                         | —                   | — %                                           | —                   | — %                                           |
| NW Holdings credit agreement          | —                   | — %                                           | 100.0               | 5.4 %                                         | 100.0               | 5.5 %                                         |
| NWN Water credit agreement            | —                   | — %                                           | 50.0                | 5.3 %                                         | 50.0                | 5.8 %                                         |
| NWN Water term loan                   | 55.0                | 4.7 %                                         | 55.0                | 4.9 %                                         | 55.0                | 4.7 %                                         |
| Other long-term debt                  | 6.5                 |                                               | 6.0                 |                                               | 6.6                 |                                               |
| Long-term debt, gross                 | 1,586.2             |                                               | 1,545.7             |                                               | 1,586.3             |                                               |
| Less: unamortized debt issuance costs | 10.6                |                                               | 10.4                |                                               | 10.0                |                                               |
| Less: current maturities              | 0.9                 |                                               | 240.7               |                                               | 150.9               |                                               |
| Total long-term debt                  | <u>\$ 1,574.7</u>   |                                               | <u>\$ 1,294.6</u>   |                                               | <u>\$ 1,425.4</u>   |                                               |

<sup>(1)</sup> Weighted average interest rate for the three months ended March 31, 2024 and March 31, 2023

<sup>(2)</sup> Weighted average interest rate for the year ended December 31, 2023

NW Natural's first mortgage bonds (FMBs) have maturity dates ranging from 2025 through 2053 and interest rates ranging from 2.82% to 7.85%. NW Holdings' unsecured senior bonds have maturity dates ranging from 2028 through 2029 and interest rates ranging from 5.78% to 5.84%. NWN Water's term loan is due in 2026. In March 2024, NW Holdings retired a \$100.0 million credit agreement and NWN Water retired a \$50.0 million credit agreement. No debt is scheduled to mature in the next twelve months as of March 31, 2024 at NW Natural.

### Issuance of Long-Term Debt

In December 2023, NW Holdings entered into a Note Purchase Agreement between NW Holdings and the institutional investors named as purchasers therein. The Note Purchase Agreement provided for the issuance of (i) \$100.0 million aggregate principal amount of NW Holdings' 5.78% Senior Notes, Series A, due March 7, 2028 (5.78% Notes) and (ii) \$50.0 million aggregate principal amount of NW Holdings' 5.84% Senior Notes, Series B, due March 7, 2029 (5.84% Notes) in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The 5.78% Notes and the 5.84% Notes were issued on March 7, 2024, pursuant to the Note Purchase Agreement. The proceeds from the Note Purchase Agreement were used to settle an existing term loan at NW Holdings for \$100.0 million and make an equity contribution to NWN Water, which was used to settle an existing term loan for \$50 million.

### Interest Rate Swap Agreements

NW Holdings and NWN Water entered into interest rate swap agreements with major financial institutions that effectively converted variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. The notional amount, effective date, expiration date and benchmark rate of the swap agreements are shown in the table below:

| <i>In millions</i> | Notional Amount | Effective Date | Expiration Date | Fixed Rate |
|--------------------|-----------------|----------------|-----------------|------------|
| NW Holdings        | \$ 100.0        | 1/17/2023      | 3/15/2024       | 4.7 %      |
| NWN Water          | \$ 55.0         | 1/19/2023      | 6/10/2026       | 3.8 %      |

### **Fair Value of Long-Term Debt**

NW Holdings' and NW Natural's outstanding debt does not trade in active markets. The fair value of 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. These valuations are based on Level 2 inputs as defined in the fair value hierarchy. See Note 2 in the 2023 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>                 | March 31,    |              | December 31, |
|-------------------------------------|--------------|--------------|--------------|
|                                     | 2024         | 2023         | 2023         |
| <b>NW Natural:</b>                  |              |              |              |
| Gross long-term debt                | \$ 1,374,700 | \$ 1,334,700 | \$ 1,374,700 |
| Unamortized debt issuance costs     | (9,801)      | (10,278)     | (9,968)      |
| Carrying amount                     | 1,364,899    | 1,324,422    | 1,364,732    |
| Estimated fair value <sup>(1)</sup> | 1,214,625    | 1,186,110    | 1,236,559    |
| <b>NW Holdings:</b>                 |              |              |              |
| Gross long-term debt                | \$ 1,586,189 | \$ 1,545,730 | \$ 1,586,344 |
| Unamortized debt issuance costs     | (10,585)     | (10,428)     | (10,044)     |
| Carrying amount                     | 1,575,604    | 1,535,302    | 1,576,300    |
| Estimated fair value <sup>(1)</sup> | 1,425,765    | 1,395,321    | 1,447,941    |

<sup>(1)</sup> 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 (credit) for the pension and other postretirement benefit plans:

| <i>In thousands</i>                                   | Three Months Ended March 31, |          |                               |        |
|-------------------------------------------------------|------------------------------|----------|-------------------------------|--------|
|                                                       | Pension Benefits             |          | Other Postretirement Benefits |        |
|                                                       | 2024                         | 2023     | 2024                          | 2023   |
| Service cost                                          | \$ 980                       | \$ 1,049 | \$ 25                         | \$ 28  |
| Interest cost                                         | 5,160                        | 5,218    | 248                           | 248    |
| Expected return on plan assets                        | (5,935)                      | (6,661)  | —                             | —      |
| Amortization of net actuarial loss                    | 1,495                        | 139      | —                             | —      |
| Net periodic benefit cost (credit)                    | 1,700                        | (255)    | 273                           | 276    |
| Amount allocated to construction                      | (425)                        | (474)    | (8)                           | (11)   |
| Net periodic benefit cost (credit) charged to expense | 1,275                        | (729)    | 265                           | 265    |
| Amortization of regulatory balancing account          | 2,801                        | 2,801    | —                             | —      |
| Net amount charged to expense                         | \$ 4,076                     | \$ 2,072 | \$ 265                        | \$ 265 |

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 March 31, |                   |
|----------------------------------------|------------------------------|-------------------|
|                                        | 2024                         | 2023              |
| Beginning balance                      | \$ (7,237)                   | \$ (6,414)        |
| Amounts reclassified to AOCL           | (183)                        | —                 |
| Amounts reclassified from AOCL:        |                              |                   |
| Amortization of actuarial losses       | 173                          | 139               |
| Total reclassifications before tax     | (10)                         | 139               |
| Tax benefit                            | (112)                        | (37)              |
| Total reclassifications for the period | (122)                        | 102               |
| Ending balance                         | <u>\$ (7,359)</u>            | <u>\$ (6,312)</u> |

#### **Employer Contributions to Company-Sponsored Defined Benefit Pension Plans**

NW Natural made no cash contributions to its qualified defined benefit pension plans during the three months ended March 31, 2024 or 2023. During 2024, NW Natural expects to make cash contributions of approximately \$20.6 million to the Pension Plan.

#### **Defined Contribution Plan**

NW Natural's Retirement K Savings Plan is a qualified defined contribution plan under Internal Revenue Code Sections 401(a) and 401(k). NW Natural contributions totaled \$3.5 million and \$3.4 million for the three months ended March 31, 2024 and 2023, respectively.

See Note 10 in the 2023 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 March 31, |                  |                  |                  |
|---------------------------------------------------------------------|------------------------------|------------------|------------------|------------------|
|                                                                     | NW Holdings                  |                  | NW Natural       |                  |
|                                                                     | 2024                         | 2023             | 2024             | 2023             |
| Income tax at statutory rate (federal)                              | \$ 18,514                    | \$ 20,332        | \$ 19,579        | \$ 21,412        |
| State income tax                                                    | 7,577                        | 8,149            | 7,849            | 8,406            |
| Increase (decrease):                                                |                              |                  |                  |                  |
| Differences required to be flowed-through by regulatory commissions | (1,579)                      | (2,909)          | (1,580)          | (2,909)          |
| Other, net                                                          | (173)                        | (425)            | (175)            | (487)            |
| Total provision for income taxes                                    | <u>\$ 24,339</u>             | <u>\$ 25,147</u> | <u>\$ 25,673</u> | <u>\$ 26,422</u> |
| Effective income tax rate                                           | 27.6 %                       | 26.0 %           | 27.5 %           | 25.9 %           |

The NW Holdings and NW Natural effective income tax rates for the three months ended March 31, 2024 compared to the same period in 2023 changed primarily as a result of lower regulatory flow-through. The income tax benefit resulting from applying a lower U.S. corporate income tax rate to gas reserves investments, that originally occurred in 2017 as a result of the TCJA, was completely amortized to the benefit of customers in 2023. See Note 11 in the 2023 Form 10-K for more detail on income taxes and effective tax rates.

The IRS Compliance Assurance Process (CAP) examination of the 2022 tax year was completed during the first quarter of 2024. There were no material changes to the return as filed. The 2023 and 2024 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:

| <i>In thousands</i>                         | March 31,           |                     | December 31,        |
|---------------------------------------------|---------------------|---------------------|---------------------|
|                                             | 2024                | 2023                | 2023                |
| <b>NW Natural:</b>                          |                     |                     |                     |
| NGD plant in service                        | \$ 4,268,191        | \$ 4,026,183        | \$ 4,206,455        |
| NGD construction work in progress           | 137,958             | 97,128              | 105,166             |
| Less: Accumulated depreciation              | 1,177,007           | 1,131,256           | 1,159,367           |
| NGD plant, net                              | 3,229,142           | 2,992,055           | 3,152,254           |
| Other plant in service                      | 71,175              | 70,364              | 71,175              |
| Other construction work in progress         | 11,607              | 6,624               | 10,963              |
| Less: Accumulated depreciation              | 22,859              | 21,804              | 22,595              |
| Other plant, net                            | 59,923              | 55,184              | 59,543              |
| Total property, plant, and equipment, net   | <u>\$ 3,289,065</u> | <u>\$ 3,047,239</u> | <u>\$ 3,211,797</u> |
| <b>Other (NW Holdings):</b>                 |                     |                     |                     |
| Other plant in service                      | \$ 156,020          | \$ 97,286           | \$ 147,040          |
| Other construction work in progress         | 15,153              | 22,891              | 15,810              |
| Less: Accumulated depreciation              | 18,714              | 11,438              | 16,593              |
| Other plant, net                            | 152,459             | 108,739             | 146,257             |
| <b>NW Holdings:</b>                         |                     |                     |                     |
| Total property, plant, and equipment, net   | <u>\$ 3,441,524</u> | <u>\$ 3,155,978</u> | <u>\$ 3,358,054</u> |
| <b>NW Natural:</b>                          |                     |                     |                     |
| Capital expenditures in accrued liabilities | \$ 31,233           | \$ 17,255           | \$ 24,168           |
| <b>NW Holdings:</b>                         |                     |                     |                     |
| Capital expenditures in accrued liabilities | \$ 32,494           | \$ 17,730           | \$ 27,879           |

### NW Natural

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

### NW Holdings

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

## 13. INVESTMENTS

Investments include gas reserves, financial investments in life insurance policies, and equity method investments. The following table summarizes other investments:

| <i>In thousands</i>                      | NW Holdings      |                  |                   | NW Natural       |                  |                  |
|------------------------------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
|                                          | March 31,        |                  | December 31,      | March 31,        |                  | December 31,     |
|                                          | 2024             | 2023             | 2023              | 2024             | 2023             | 2023             |
| Investments in life insurance policies   | \$ 45,937        | \$ 47,666        | \$ 45,713         | \$ 45,937        | \$ 47,666        | \$ 45,713        |
| Investments in gas reserves, non-current | 20,406           | 22,229           | 20,893            | 20,406           | 22,229           | 20,893           |
| Investment in unconsolidated affiliates  | 17,738           | 23,716           | 36,345            | —                | 8,207            | 19,539           |
| Total other investments                  | <u>\$ 84,081</u> | <u>\$ 93,611</u> | <u>\$ 102,951</u> | <u>\$ 66,343</u> | <u>\$ 78,102</u> | <u>\$ 86,145</u> |

### 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 13 in the 2023 Form 10-K.



### **NW Natural Gas Reserves**

NW Natural has invested \$188 million through the gas reserves program in the Jonah Field located in Wyoming as of March 31, 2024. Gas reserves are stated at cost, net of regulatory amortization, with the associated deferred tax benefits of \$3.8 million, \$4.4 million, and \$4.0 million, which are recorded as liabilities in the March 31, 2024, March 31, 2023, and December 31, 2023 consolidated balance sheets, respectively. NW Natural's investment is included in NW Holdings' and NW Natural's consolidated balance sheets under other current assets and other investments (non-current portion) with the maximum loss exposure limited to the investment balance. The amount of gas reserves included in other current assets was \$2.2 million, \$3.3 million, and \$2.3 million as of March 31, 2024, March 31, 2023, and December 31, 2023, respectively. See Note 13 in the 2023 Form 10-K.

### **Investments in Unconsolidated Affiliates**

In December 2021, NWN Water purchased a 37.3% ownership stake in Avion Water Company, Inc. (Avion Water), an investor-owned water utility for \$14.5 million. NWN Water subsequently increased its ownership stake in Avion Water as follows:

| <i>In millions</i> | Amount | Ownership % |
|--------------------|--------|-------------|
| July 2022          | \$ 1.0 | 40.3 %      |
| June 2023          | \$ 1.0 | 43.1 %      |
| January 2024       | \$ 1.0 | 45.6 %      |

Avion Water operates in Bend, Oregon and the surrounding communities, serving approximately 15,000 customer connections and employing 35 people. The carrying value of the equity method investment is \$9.8 million higher than the underlying equity in the net assets of the investee at March 31, 2024 due to equity method goodwill. NW Natural Water's share in the earnings (loss) of Avion Water is included in other income (expense), net.

In 2020, NW Natural began a partnership with BioCarbN to invest in renewable natural gas (RNG) development facilities that are designed to access biogas derived from water treatment at Tyson Foods' processing plants, subject to approval by all parties. In January 2022, commissioning of the first facility, Lexington Renewable Energy LLC (Lexington), was completed. In April 2023, commissioning of the second facility, Dakota City Renewable Energy LLC (Dakota City), was completed. NW Natural recorded the investment as an equity method investment. As of December 31, 2023, NW Natural had an investment balance in Lexington and Dakota City totaling \$19.5 million.

In January 2024, NW Natural replaced BioCarbN as manager of the Lexington and Dakota City companies. As a result, NW Natural determined that these investments no longer qualified as an equity method investment and were fully consolidated for the three months ended March 31, 2024.

## **14. BUSINESS COMBINATIONS**

### **2024 Business Combinations**

NWN Water did not acquire any businesses qualifying as business combinations during the three months ended March 31, 2024.

### **2023 Business Combinations**

During the year ended December 31, 2023, NWN Water and its subsidiaries acquired the assets of five businesses qualifying as business combinations. The aggregate fair value of the preliminary consideration transferred for these acquisitions was \$22.8 million, most of which was preliminarily allocated to property, plant and equipment and goodwill. These transactions align with NW Holdings' water and wastewater sector strategy as it continues to expand its service territories and included:

- Pedersen Family, LLC in Washington
- King Water Corporation in Washington
- Rose Valley Water Company in Arizona
- Hiland Water in Oregon
- Truxton and Cerbat in Arizona

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. The allocation for each of these business combinations is considered preliminary as of March 31, 2024, except for Pedersen Family, LLC. 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. These allocations are considered preliminary as of March 31, 2024, as facts and circumstances that existed as of the acquisition date may be discovered as we continue to integrate the acquired businesses. As a result, subsequent adjustments to the preliminary valuation of tangible assets, contract assets and liabilities, tax positions, and goodwill may be required. Subsequent adjustments are not expected to be significant, and any such adjustments are expected to be completed within the one-year measurement period for all acquisitions described above.

### **Intangible Assets**

In connection with the acquisition of King Water Corporation, NWN Water recorded long-term customer relationship intangible assets totaling \$2.6 million, which will be amortized over 24 years. There was \$0.1 million of amortization expense recognized for the three months ended March 31, 2024. Projected amortization expense at NW Holdings for customer relationship intangible assets for each of the next five years is \$0.1 million in each year. The amortization will change in future periods if other intangible

assets are acquired, impairments are recognized or the preliminary valuations as part of our purchase price allocation is refined.

### **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 \$163.0 million, \$149.8 million, and \$163.3 million as of March 31, 2024, March 31, 2023, and December 31, 2023, respectively. 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.

## **15. DERIVATIVE INSTRUMENTS**

### **NW Natural**

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 option combinations. These derivative financial instruments are primarily used to manage commodity price variability. A small portion of NW Natural's derivative hedging strategy involves hedging gas volumes and foreign currency forward contracts. 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.

### **Notional Amounts**

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

| <i>In thousands</i>      | March 31, |           | December 31, |  |
|--------------------------|-----------|-----------|--------------|--|
|                          | 2024      | 2023      | 2023         |  |
| Natural gas (in therms): |           |           |              |  |
| Financial                | 690,905   | 681,850   | 948,425      |  |
| Physical                 | 374,350   | 295,382   | 571,610      |  |
| Foreign exchange         | \$ 10,457 | \$ 10,444 | \$ 11,926    |  |

### **Purchased Gas Adjustment (PGA)**

Rates and hedging approaches vary between states due to different rate structures and hedging mechanisms. Under the PGA mechanism in Oregon, 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 fully recovered and reflected in the weighted-average cost of gas in the PGA filing. Hedge contracts entered into after the start of the PGA period for the current PGA year are subject to the PGA incentive sharing mechanism in Oregon. Under the PGA mechanism in Washington, NW Natural incorporates a risk-responsive hedging strategy, and receives full regulatory deferral accounting treatment for all of its hedges in Washington.

NW Natural entered the 2023-24 gas year with forecasted sales volume hedged at approximately 82% in total, including 66% in financial hedges and 16% in physical gas supplies. The total hedged for Oregon was approximately 85%, including 69% in financial hedges and 16% in physical gas supplies. The total hedged for Washington was approximately 55%, including 42% in financial hedges and 13% in physical gas supplies.

### **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:

| <i>In thousands</i>                                      | Three Months Ended March 31, |                  |                       |                  |
|----------------------------------------------------------|------------------------------|------------------|-----------------------|------------------|
|                                                          | 2024                         |                  | 2023                  |                  |
|                                                          | Natural gas commodity        | Foreign Exchange | Natural gas commodity | Foreign Exchange |
| Benefit (expense) to cost of gas                         | \$ 37,964                    | \$ (179)         | \$ (61,321)           | \$ 13            |
| Operating revenues (expense)                             | —                            | —                | —                     | —                |
| Amounts deferred to regulatory accounts on balance sheet | (37,964)                     | 179              | 61,321                | (13)             |
| Total gain (loss) in pre-tax earnings                    | \$ —                         | \$ —             | \$ —                  | \$ —             |

### 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 losses of \$50.5 million and net gains of \$172.4 million for the three months ended March 31, 2024 and 2023, respectively, from the settlement of natural gas financial derivative contracts. 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 March 31, 2024 or 2023. NW Natural attempts to minimize the potential exposure to collateral calls by diversifying counterparties and using credit limits to manage liquidity risk. Counterparties generally allow a certain credit limit threshold before requiring NW Natural to post collateral against unrealized loss positions. Given NW Natural's credit ratings, counterparty credit limits and portfolio diversification, it was not subject to collateral calls in 2024 or 2023. 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 posting by NW Natural in the event of a material adverse change in NW Natural's ability to perform.

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.

If netted by its counterparties, NW Natural's physical and financial derivative position would result in an asset of \$4.1 million and a liability of \$61.4 million as of March 31, 2024, an asset of \$1.6 million and a liability of \$51.5 million as of March 31, 2023, and an asset of \$9.0 million and a liability of \$124.2 million as of December 31, 2023.

NW Natural is exposed to derivative credit and liquidity risk primarily through securing fixed-price natural gas commodity swaps and interest rate swaps with financial counterparties. NW Natural utilizes master netting arrangements with International Swaps and Derivatives Association (ISDA) contracts to minimize these risks including ISDA Credit Support Agreements with counterparties based on their credit ratings. Additionally, NW Natural uses counterparty, industry, sector and country diversification to minimize credit risk. In certain cases, NW Natural may require counterparties to post collateral, guarantees, or letters of credit to maintain its minimum credit requirement standards or for liquidity management purposes. See Note 15 in the 2023 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 it is 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 adjustment for all financial derivatives outstanding to the fair value calculation was \$0.3 million, which decreased the liability at March 31, 2024. The net fair value was a liability of \$57.3 million, a liability of \$49.9 million, and a liability of \$115.2 million as of March 31, 2024 and 2023, and December 31, 2023, respectively. No Level 3 inputs were used in our derivative valuations during the three months ended March 31, 2024, and 2023. See Note 2 in the 2023 Form 10-K.

### NW Holdings and NWN Water Interest Rate Swap Agreements

NW Holdings and NWN Water entered into interest rate swap agreements with major financial institutions that effectively converted variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. The notional amount, effective date, expiration date and benchmark rate of the swap agreements are shown in the table below:

| <i>In millions</i> | Notional Amount | Effective Date | Expiration Date | Fixed Rate |
|--------------------|-----------------|----------------|-----------------|------------|
| NW Holdings        | \$ 100.0        | 1/17/2023      | 3/15/2024       | 4.7 %      |
| NWN Water          | \$ 55.0         | 1/19/2023      | 6/10/2026       | 3.8 %      |

Unrealized gains and losses related to these interest rate swap agreements are recorded in AOCI on the consolidated balance sheet and totaled \$0.5 million and \$0.2 million, net of tax, as of March 31, 2024 and December 31, 2023, respectively. The interest rate swap at NW Holdings expired March 15, 2024. Realized gains or losses occur as a result of monthly swap settlements. A gain of \$0.4 million was reclassified from AOCI to net income during the three months ended March 31, 2024. The estimated amount of gains recorded in AOCI as of March 31, 2024 that are expected to be reclassified to net income within the next twelve months is \$0.5 million.

## 16. 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 based upon an approved remedial design.

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 preliminary nature of several site investigations, 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:

| In thousands                | Current Liabilities |                  |                  | Non-Current Liabilities |                  |                  |
|-----------------------------|---------------------|------------------|------------------|-------------------------|------------------|------------------|
|                             | March 31,           |                  | December 31,     | March 31,               |                  | December 31,     |
|                             | 2024                | 2023             | 2023             | 2024                    | 2023             | 2023             |
| Portland Harbor site:       |                     |                  |                  |                         |                  |                  |
| Gasco/Siltronic Sediments   | \$ 9,989            | \$ 8,588         | \$ 12,428        | \$ 41,365               | \$ 42,766        | \$ 42,550        |
| Other Portland Harbor       | 2,978               | 2,868            | 3,035            | 10,707                  | 10,707           | 11,270           |
| Gasco/Siltronic Upland site | 13,875              | 13,275           | 16,304           | 33,307                  | 34,519           | 34,235           |
| Front Street site           | 546                 | 456              | 687              | 513                     | 939              | 939              |
| Oregon Steel Mills          | —                   | —                | —                | 179                     | 179              | 179              |
| Total                       | <u>\$ 27,388</u>    | <u>\$ 25,187</u> | <u>\$ 32,454</u> | <u>\$ 86,071</u>        | <u>\$ 89,110</u> | <u>\$ 89,173</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 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 projects: the Gasco Sediments Site and Other Portland Harbor projects.

**GASCO 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 and the EE/CA estimated the 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. NW Natural is completing pre-design studies and has submitted a draft Basis of Design Report. These preliminary design steps do not include a cost estimate for cleanup. No remedial design is more likely than the EE/CA alternatives 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 \$51.4 million to \$350 million. NW Natural has recorded a liability of \$51.4 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.

In September 2023, the EPA approved the In Situ Stabilization and Solidification (ISS) Work Plan for the ISS field pilot study, which was successfully completed during the fall of 2023. Information obtained from the pilot study will be used to support remedial design of the Gasco sediments project.

**OTHER PORTLAND HARBOR.** While we believe liabilities associated with the Gasco 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.

NW Natural submitted a revised Remedial Investigation Report for the uplands to ODEQ in May 2007. In March 2015, ODEQ approved the Risk Assessment (RA) for this site, enabling commencement of work on the FS in 2016. A draft FS is currently anticipated to be submitted in 2025. 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 for the Gasco uplands to incorporate a portion of the Siltronic property formerly owned by Portland Gas & Coke between 1939 and 1960 into the Gasco RA and FS. 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 the Gasco sediments site.



### 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 July 2020 and was completed in October 2020. The second year of post-construction monitoring was completed in 2022 and demonstrated that the cap was intact and performing as designed. NW Natural has recognized an additional liability of \$1.1 million associated with long-term monitoring 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 17 in the 2023 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>                            | March 31, |           | December 31, |
|------------------------------------------------|-----------|-----------|--------------|
|                                                | 2024      | 2023      | 2023         |
| Deferred costs and interest <sup>(1)</sup>     | \$ 60,291 | \$ 47,651 | \$ 57,758    |
| Accrued site liabilities <sup>(2)</sup>        | 113,426   | 114,253   | 121,575      |
| Insurance proceeds and interest                | (51,389)  | (55,416)  | (50,764)     |
| Total regulatory asset deferral <sup>(1)</sup> | 122,328   | 106,488   | 128,569      |
| Current regulatory assets <sup>(3)</sup>       | 9,864     | 6,947     | 9,950        |
| Long-term regulatory assets <sup>(3)</sup>     | 112,464   | 99,541    | 118,619      |

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

<sup>(2)</sup> 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 \$34 thousand at March 31, 2024, \$45 thousand at March 31, 2023, and \$53 thousand at December 31, 2023.

<sup>(3)</sup> 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 for 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. 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 referenced 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 17 in the 2023 Form 10-K.

For additional information regarding other commitments and contingencies, see Note 16 in the 2023 Form 10-K.

## 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 for the three months ended March 31, 2024 and 2023 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 2023 Annual Report on Form 10-K, as applicable (2023 Form 10-K).

NW Natural's natural gas distribution activities are reported in the natural gas distribution (NGD) segment. The NGD segment also includes 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 NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline) and NWN Water's investment in Avion Water Company, Inc., which are accounted for under the equity method, NW Natural Renewables Holdings, LLC and its non-regulated renewable natural gas activities; and NWN Water, which through itself or its subsidiaries, owns and continues to pursue investments in the water, wastewater, and water services sectors. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries.

**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, analysts 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.

|                                                             | Three Months Ended March 31, |         |
|-------------------------------------------------------------|------------------------------|---------|
|                                                             | 2024                         | 2023    |
| Diluted earnings per share - Total <sup>(1)</sup>           | \$ 1.69                      | \$ 2.01 |
| Diluted earnings per share - NGD segment <sup>(2)</sup>     | 1.74                         | 2.02    |
| Diluted loss per share - NW Holdings - other <sup>(2)</sup> | (0.05)                       | (0.01)  |

<sup>(1)</sup> Total Diluted EPS is equal to the sum of Diluted EPS - NGD segment and Diluted EPS - NW Holdings – other.

<sup>(2)</sup> Non-GAAP financial measure

## EXECUTIVE SUMMARY

NW Holdings' financial results and highlights include:

- Reported net income of \$63.8 million or \$1.69 per share (diluted) for the first three months of 2024, compared to net income of \$71.7 million or \$2.01 per share (diluted) in the prior year;
- Added nearly 15,000 gas and water utility connections during the past twelve months for a combined growth rate of 1.7% at March 31, 2024 mainly driven by strong water acquisitions;
- Oregon customers received bill credits totaling nearly \$30 million in early 2024 due to our Mist storage assets and pipeline capacity management;
- NW Holdings issued \$150.0 million of unsecured senior bonds in March 2024;
- Customers and the region relied on the gas system during the winter storm in January with a total of 9.0 million therms delivered on Jan. 13, 2024, including 8.0 million therms provided to homes and businesses achieving a new peak day record, and setting a new withdrawal record from our on-system gas storage facility in Mist, Oregon; and
- Invested \$82.2 million in our utility systems in the first three months of 2024 in an effort to achieve greater reliability and resiliency.

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

|                                            | Three Months Ended March 31, |           |           |           |            |
|--------------------------------------------|------------------------------|-----------|-----------|-----------|------------|
|                                            | 2024                         |           | 2023      |           | YTD        |
| <i>In thousands, except per share data</i> | Amount                       | Per Share | Amount    | Per Share | Change     |
| Consolidated net income                    | \$ 63,823                    | \$ 1.69   | \$ 71,671 | \$ 2.01   | \$ (7,848) |

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

| <i>In thousands</i>             | Three Months Ended March 31, |           | YTD<br>Change |
|---------------------------------|------------------------------|-----------|---------------|
|                                 | 2024                         | 2023      |               |
|                                 | Amount                       | Amount    |               |
| Consolidated net income         | \$ 67,558                    | \$ 75,540 | \$ (7,982)    |
| Natural gas distribution margin | 218,150                      | 217,615   | 535           |

### THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.

Consolidated net income decreased \$8.0 million at NW Natural primarily due to the following factors:

- \$3.8 million decrease in other income, net primarily due to higher pension costs and lower interest income from invested cash and the equity portion of AFUDC;
- \$1.5 million increase in interest expense, net due to higher long-term debt balances;
- \$1.1 million increase in general taxes primarily driven by higher regulatory commission fees; and
- \$1.0 million increase in depreciation expense due to additional capital investments; partially offset by
- \$0.7 million decrease in income tax expense due to lower pre-tax income; and
- \$0.5 million increase in NGD segment margin driven by the amortization of deferred balances (which is mostly offset in operations and maintenance expenses and interest expense) and customer growth, partially offset by warmer than average weather for customers not covered under the weather normalization mechanism.

Consolidated net income decreased \$7.8 million at NW Holdings primarily due to the \$8.0 million decrease in consolidated net income at NW Natural as discussed above.

**CURRENT ECONOMIC CONDITIONS.** We continuously review and monitor current economic conditions, which include but are not limited to: inflation and interest rates, supply chain disruptions, and other regulatory, physical or cyber related risks impacting our business. We have experienced higher material and labor costs as a result of inflation as well as increased interest costs from higher rates over the past year. We also continue to experience long lead times on certain materials, including meter parts, microchips, semi-conductors, and IT equipment. However, through advanced planning, carrying additional levels of inventory, diversifying our vendors, and making contingency plans to address risks, we are striving to mitigate supply chain risks.

NW Holdings and NW Natural continue to monitor interest rates and financing options for all of its businesses. Interest rates have increased over the past few years resulting from actions taken by the U.S. Federal Reserve to increase short-term rates as inflation was elevated. NW Natural generally recovers interest expense on its long-term debt through its authorized cost of capital. Certain working capital items, such as the cost of gas, are deferred and accrue interest in Oregon and Washington. Additionally, short-term debt is incorporated in the capital structure in Washington. NW Natural Water's regulated water and wastewater utilities generally recover interest expense from long-term debt through their respective authorized cost of capital.

See the discussion in "Results of Operations", "Regulatory Matters" and "Financial Condition" below for additional detail regarding all significant activity that occurred during the first quarter of 2024.



## DIVIDENDS

Dividend highlights include:

| Per common share | Three Months Ended March 31, |           | YTD Change |
|------------------|------------------------------|-----------|------------|
|                  | 2024                         | 2023      |            |
| Dividends paid   | \$ 0.4875                    | \$ 0.4850 | \$ 0.0025  |

In April 2024, the Board of Directors of NW Holdings declared a quarterly dividend on NW Holdings common stock of \$0.4875 per share. The dividend is payable on May 15, 2024 to shareholders of record on April 30, 2024, reflecting an annual indicated dividend rate of \$1.95 per share.

## RESULTS OF OPERATIONS

### 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 2023 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:

| In thousands, except EPS data      | Three Months Ended March 31, |            | YTD Change |
|------------------------------------|------------------------------|------------|------------|
|                                    | 2024                         | 2023       |            |
| NGD net income                     | \$ 65,715                    | \$ 71,951  | \$ (6,236) |
| Diluted EPS - NGD segment          | \$ 1.74                      | \$ 2.02    | \$ (0.28)  |
| Gas sold and delivered (in therms) | 429,002                      | 463,049    | (34,047)   |
| NGD margin <sup>(1)</sup>          | \$ 218,150                   | \$ 217,615 | \$ 535     |

<sup>(1)</sup> See Natural Gas Distribution Margin Table below for additional detail.

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** The primary factors contributing to the \$6.2 million, or \$0.28 per share, decrease in NGD net income were as follows:

- \$3.8 million decrease in other income, net driven by higher pension non-service costs and lower interest income from invested cash and the equity portion of AFUDC;
- \$1.5 million increase in interest expense, net primarily due to higher long-term debt balances;
- \$1.1 million increase in general taxes primarily driven by higher regulatory commission fees; and
- \$1.0 million increase in depreciation expense due to additional capital investments; partially offset by
- \$0.5 million increase in NGD margin due to:
  - \$2.9 million increase due to the amortization of deferred balances primarily related to COVID-19, cybersecurity, and ERP upgrades (which is mostly offset in operations and maintenance expenses and interest expense);
  - \$2.6 million increase driven by customer growth and the estimated impact of an additional day in February due to the leap year among other miscellaneous items; partially offset by
  - \$3.5 million decrease due to lower usage from warmer comparative weather for customers not covered under the weather normalization mechanism; and
  - \$1.5 million decline in gains on the Oregon gas cost incentive sharing mechanism due to lower commodity price volatility and higher than estimated gas costs during the cold weather event in January 2024.

For the three months ended March 31, 2024, total NGD volumes sold and delivered decreased 34.0 million therms over the same period in 2023 primarily due to 9% warmer than average weather in the first three months of 2024 compared to 5% colder 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:

|                                                             | Three Months Ended March 31, |            | Favorable/<br>(Unfavorable) |
|-------------------------------------------------------------|------------------------------|------------|-----------------------------|
| <i>In thousands, except degree day and customer data</i>    | 2024                         | 2023       | YTD Change                  |
| <b>NGD volumes (therms)</b>                                 |                              |            |                             |
| Residential and commercial sales                            | 301,999                      | 330,665    | (28,666)                    |
| Industrial sales and transportation                         | 127,003                      | 132,384    | (5,381)                     |
| Total NGD volumes sold and delivered                        | 429,002                      | 463,049    | (34,047)                    |
| <b>Operating Revenues</b>                                   |                              |            |                             |
| Residential and commercial sales                            | \$ 387,168                   | \$ 412,307 | \$ (25,139)                 |
| Industrial sales and transportation                         | 24,288                       | 29,144     | (4,856)                     |
| Other distribution revenues                                 | 1,531                        | 1,610      | (79)                        |
| Other regulated services                                    | 4,877                        | 4,709      | 168                         |
| Total operating revenues                                    | 417,864                      | 447,770    | (29,906)                    |
| Less: Cost of gas                                           | 175,773                      | 205,805    | 30,032                      |
| Less: Environmental remediation expense                     | 5,746                        | 5,375      | (371)                       |
| Less: Revenue taxes                                         | 18,195                       | 18,975     | 780                         |
| NGD margin                                                  | \$ 218,150                   | \$ 217,615 | \$ 535                      |
| <b>Margin<sup>(1)</sup></b>                                 |                              |            |                             |
| Residential and commercial sales                            | \$ 201,496                   | \$ 199,246 | \$ 2,250                    |
| Industrial sales and transportation                         | 9,535                        | 9,746      | (211)                       |
| Gain from gas cost incentive sharing                        | 800                          | 2,343      | (1,543)                     |
| Other margin                                                | 1,444                        | 1,571      | (127)                       |
| Other regulated services                                    | 4,875                        | 4,709      | 166                         |
| NGD Margin                                                  | \$ 218,150                   | \$ 217,615 | \$ 535                      |
| <b>Degree days<sup>(2)</sup></b>                            |                              |            |                             |
| Average <sup>(3)</sup>                                      | 1,336                        | 1,323      | 13                          |
| Actual                                                      | 1,216                        | 1,385      | (12)%                       |
| Percent (warmer) colder than average weather <sup>(4)</sup> | (9)%                         | 5 %        |                             |

|                                    | As of March 31, |         | Change | Growth |
|------------------------------------|-----------------|---------|--------|--------|
|                                    | 2024            | 2023    |        |        |
| <b>NGD Meters - end of period:</b> |                 |         |        |        |
| Residential meters                 | 730,555         | 726,479 | 4,076  | 0.6%   |
| Commercial meters                  | 69,366          | 69,301  | 65     | 0.1%   |
| Industrial meters                  | 1,057           | 1,068   | (11)   | (1.0)% |
| Total number of meters             | 800,978         | 796,848 | 4,130  | 0.5%   |

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

<sup>(2)</sup> 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.

<sup>(3)</sup> Average weather represents the 25-year average of heating degree days. Beginning November 1, 2022, average weather is calculated over the period June 1, 1996 through May 31, 2021, as determined in NW Natural's 2022 Oregon general rate case.

## Residential and Commercial Sales

Residential and commercial sales highlights include:

| <i>In thousands</i>       | Three Months Ended March 31, |            | YTD Change  |
|---------------------------|------------------------------|------------|-------------|
|                           | 2024                         | 2023       |             |
| <u>Volumes (therms)</u>   |                              |            |             |
| Residential sales         | 191,841                      | 209,818    | (17,977)    |
| Commercial sales          | 110,158                      | 120,847    | (10,689)    |
| Total volumes             | 301,999                      | 330,665    | (28,666)    |
| <u>Operating revenues</u> |                              |            |             |
| Residential sales         | \$ 268,821                   | \$ 273,473 | \$ (4,652)  |
| Commercial sales          | 118,347                      | 138,834    | (20,487)    |
| Total operating revenues  | \$ 387,168                   | \$ 412,307 | \$ (25,139) |
| <u>NGD margin</u>         |                              |            |             |
| Residential NGD margin    | \$ 148,411                   | \$ 144,322 | \$ 4,089    |
| Commercial NGD margin     | 53,085                       | 54,924     | (1,839)     |
| Total NGD margin          | \$ 201,496                   | \$ 199,246 | \$ 2,250    |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Residential and commercial margin increased \$2.3 million compared to the prior period. The increase was primarily driven by 0.6% growth in residential customer meters. Volumes decreased 28.7 million therms due to lower usage driven by comparatively warmer weather.

## Industrial Sales and Transportation

Industrial sales and transportation highlights include:

| <i>In thousands</i>                      | Three Months Ended March 31, |          | YTD Change |
|------------------------------------------|------------------------------|----------|------------|
|                                          | 2024                         | 2023     |            |
| <u>Volumes (therms)</u>                  |                              |          |            |
| Firm and interruptible sales             | 27,570                       | 30,638   | (3,068)    |
| Firm and interruptible transportation    | 99,433                       | 101,746  | (2,313)    |
| Total volumes - sales and transportation | 127,003                      | 132,384  | (5,381)    |
| <u>NGD margin</u>                        |                              |          |            |
| Firm and interruptible sales             | \$ 4,001                     | \$ 4,103 | \$ (102)   |
| Firm and interruptible transportation    | 5,534                        | 5,643    | (109)      |
| Total margin - sales and transportation  | \$ 9,535                     | \$ 9,746 | \$ (211)   |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Industrial sales and transportation margin decreased \$0.2 million compared to the prior period primarily driven lower sales and transportation volumes. Volumes decreased 5.4 million therms primarily due to lower usage from multiple customers, most notably in the pulp and paper, forest products, and food processing industries, partially offset by higher usage from customers in the chemical manufacturing industry.

## Cost of Gas

Cost of gas highlights include:

| <i>In thousands</i>                                 | Three Months Ended March 31, |            | YTD Change  |
|-----------------------------------------------------|------------------------------|------------|-------------|
|                                                     | 2024                         | 2023       |             |
| Cost of gas                                         | \$ 175,773                   | \$ 205,805 | \$ (30,032) |
| Volumes sold (therms) <sup>(1)</sup>                | 329,569                      | 361,303    | (31,734)    |
| Average cost of gas (cents per therm)               | \$ 0.53                      | \$ 0.57    | \$ (0.04)   |
| Gain from gas cost incentive sharing <sup>(2)</sup> | \$ 800                       | \$ 2,343   | \$ (1,543)  |

<sup>(1)</sup> This calculation excludes volumes delivered to industrial transportation customers.

<sup>(2)</sup> 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 2023 Form 10-K.

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Cost of gas decreased \$30.0 million primarily due to a 7% decrease in average cost of gas and a 9% decrease in volumes sold. Volumes sold decreased 31.7 million therms due to lower usage driven by comparatively warmer weather. The gain from the Oregon gas cost incentive sharing mechanism declined

\$1.5 million due to lower commodity price volatility and higher than estimated gas costs during the cold weather event in January 2024.

#### Other Regulated Services Margin

Other regulated services margin highlights include:

| <i>In thousands</i>            | Three Months Ended March 31, |                 | YTD Change    |
|--------------------------------|------------------------------|-----------------|---------------|
|                                | 2024                         | 2023            |               |
| North Mist storage services    | \$ 4,807                     | \$ 4,662        | \$ 145        |
| Other services                 | 68                           | 47              | 21            |
| Total other regulated services | <u>\$ 4,875</u>              | <u>\$ 4,709</u> | <u>\$ 166</u> |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Other regulated services margin increased \$0.2 million compared to the prior period due to an increase in storage service revenue from the North Mist facility.

#### Other

Other activities aggregated and reported as other at NW Holdings include NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); NW Natural Renewables Holdings, LLC and its non-regulated renewable natural gas activities; NWN Water, which owns and continues to pursue investments in the water, wastewater, and water services sectors; and NWN Water's investment in Avion Water Company, Inc. (Avion Water). 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. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries. See Note 13 for information on our Avion Water 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 March 31, |                 | YTD Change        |
|----------------------------------------------|------------------------------|-----------------|-------------------|
|                                              | 2024                         | 2023            |                   |
| NW Natural other - net income                | \$ 1,843                     | \$ 3,589        | \$ (1,746)        |
| Other NW Holdings activity                   | (3,735)                      | (3,869)         | 134               |
| NW Holdings other - net loss                 | <u>\$ (1,892)</u>            | <u>\$ (280)</u> | <u>\$ (1,612)</u> |
| Diluted loss per share - NW Holdings - other | \$ (0.05)                    | \$ (0.01)       | \$ (0.04)         |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Other net income decreased \$1.7 million at NW Natural and \$1.6 million at NW Holdings. The decrease at NW Natural was primarily due to lower asset management revenue due to favorable market conditions in the prior period that did not recur. The increase at other NW Holdings was driven by lower contributions to fund community outreach programs, partially offset by higher interest expense at the holding and water companies.

#### Consolidated Operations

##### Operations and Maintenance

Operations and maintenance highlights include:

| <i>In thousands</i>                          | Three Months Ended March 31, |                  | YTD Change      |
|----------------------------------------------|------------------------------|------------------|-----------------|
|                                              | 2024                         | 2023             |                 |
| NW Natural                                   | \$ 65,509                    | \$ 65,389        | \$ 120          |
| Other NW Holdings operations and maintenance | 8,105                        | 6,428            | 1,677           |
| NW Holdings                                  | <u>\$ 73,614</u>             | <u>\$ 71,817</u> | <u>\$ 1,797</u> |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Operations and maintenance expense increased \$0.1 million at NW Natural primarily due to the following:

- \$1.6 million increase due to the amortization of deferred balances (which is mostly offset in revenues) primarily related to COVID-19, cybersecurity and information technology system upgrades; and
- \$1.5 million increase due to higher compensation costs; partially offset by
- \$2.7 million decrease related to lower benefit costs.

Operations and maintenance expense increased \$1.8 million at NW Holdings primarily due to the following:

- \$0.1 million increase in operations and maintenance expense at NW Natural as discussed above; and
- \$1.7 million increase in other NW Holdings operations and maintenance expense primarily due to costs associated with recently acquired water and wastewater subsidiaries, partially offset by lower business development costs at the holding company.

#### Depreciation

Depreciation highlights include:

| <i>In thousands</i>            | Three Months Ended March 31, |                  | YTD             |
|--------------------------------|------------------------------|------------------|-----------------|
|                                | 2024                         | 2023             | Change          |
| NW Natural                     | \$ 31,107                    | \$ 30,144        | \$ 963          |
| Other NW Holdings depreciation | 1,991                        | 1,321            | 670             |
| NW Holdings                    | <u>\$ 33,098</u>             | <u>\$ 31,465</u> | <u>\$ 1,633</u> |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Depreciation expense increased \$1.0 million at NW Natural primarily due to additional capital investments in the distribution system, such as installing new mains and services and replacing regulating equipment, as well as upgrading and improving structures. In addition, NW Natural continued to invest in information technology projects in 2023 and 2024.

Depreciation expense increased \$1.6 million at NW Holdings, primarily due to a \$0.7 million increase in other NW Holdings depreciation related to water and wastewater subsidiaries and a \$1.0 million increase at NW Natural as discussed above.

#### Other Income (Expense), Net

Other income (expense), net highlights include:

| <i>In thousands</i>                     | Three Months Ended March 31, |                 | YTD               |
|-----------------------------------------|------------------------------|-----------------|-------------------|
|                                         | 2024                         | 2023            | Change            |
| NW Natural other income (expense), net  | \$ (1,322)                   | \$ 2,445        | \$ (3,767)        |
| Other NW Holdings activity              | 188                          | (839)           | 1,027             |
| NW Holdings other income (expense), net | <u>\$ (1,134)</u>            | <u>\$ 1,606</u> | <u>\$ (2,740)</u> |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Other income, net decreased \$3.8 million at NW Natural primarily due to \$1.9 million of higher pension non-service costs and lower interest income from a lower level of invested cash and the equity portion of AFUDC. Costs related to our defined benefit pension plan for the three months ended March 31, 2024 increased compared to the prior year due to an increase in amortization of actuarial losses.

Other income, net decreased \$2.7 million at NW Holdings driven by the decrease at NW Natural discussed above, partially offset by lower contributions to fund community outreach initiatives at NW Holdings.

#### Interest Expense, Net

Interest expense, net highlights include:

| <i>In thousands</i>                     | Three Months Ended March 31, |                  | YTD             |
|-----------------------------------------|------------------------------|------------------|-----------------|
|                                         | 2024                         | 2023             | Change          |
| NW Natural                              | \$ 16,078                    | \$ 14,611        | \$ 1,467        |
| Other NW Holdings interest expense, net | 4,453                        | 3,685            | 768             |
| NW Holdings                             | <u>\$ 20,531</u>             | <u>\$ 18,296</u> | <u>\$ 2,235</u> |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Interest expense, net increased \$1.5 million at NW Natural primarily due to higher interest expense on a higher level of long-term debt.

Interest expense, net increased \$2.2 million at NW Holdings due to the increase at NW Natural discussed above and higher interest expense on a higher level of long-term debt at NW Holdings and NWN Water.

## Income Tax Expense

Income tax expense highlights include:

| <i>In thousands</i>            | Three Months Ended March 31, |           | YTD      |
|--------------------------------|------------------------------|-----------|----------|
|                                | 2024                         | 2023      | Change   |
| NW Natural income tax expense  | \$ 25,673                    | \$ 26,422 | \$ (749) |
| NW Holdings income tax expense | 24,339                       | 25,147    | (808)    |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Income tax expense decreased \$0.7 million at NW Natural and \$0.8 million at NW Holdings. The decrease in income tax expense is primarily due to lower pre-tax income in the current period compared to the prior year.

## Regulatory Matters

For additional information, see Part II, Item 7 "Results of Operations—*Regulatory Matters*" in the 2023 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 March 31, 2024, 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, legislation and policy, customer preferences 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 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 intrastate storage services at Mist, while FERC regulates 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 includes Oregon, Washington, Arizona, Idaho, and Texas. The wholly-owned regulated wastewater businesses of NWN Water are subject to regulation by the utility commissions in the states in which they are located, which currently includes Texas and Arizona.

### Most Recent Completed Rate Cases

**OREGON.** On October 24, 2022, the OPUC issued an order for rates effective November 1, 2022, which authorized a return on equity of 9.4%, a cost of capital of 6.836%, and a capital structure of 50% common equity and 50% long-term debt. After adjustments provided in the order, the order increased the revenue requirement by \$59.4 million, and included a rate base of \$1.76 billion, or an increase of \$320 million since the last rate case. The OPUC also ordered an adjustment to NW Natural's current line extension allowance methodology to a five times margin approach (which for an average residential customer is currently approximately \$2,300), declining to four times margin on November 1, 2023, and three times margin on November 1, 2024. The OPUC further ordered that the costs NW Natural sought to recover related to its Lexington RNG project were reasonable and prudently incurred under Senate Bill 98 and adopted an automatic adjustment clause that allows for NW Natural's RNG project costs to be added to rates annually on November 1<sup>st</sup>.

**WASHINGTON.** On October 21, 2021, the WUTC issued an order concluding NW Natural's general rate case filed in December 2020 (WUTC Order). The WUTC 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 a 3.5% or \$3.0 million increase in the second year beginning November 1, 2022 (Year Two). The increase is based on 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 WUTC Order does not specify the underlying inputs to the cost of capital, including capital structure and return on equity. New rates authorized by the WUTC Order were effective November 1, 2021. In September 2023, NW Natural received a letter of compliance from the WUTC acknowledging that the Year Two rates are no longer subject to review and refund.

**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. NW Natural filed a rate petition with the FERC in August 2023 and the revised rates were effective beginning September 1, 2023.

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

#### Rate Mechanisms

During 2024 and 2023, NW Natural's key approved rates and recovery mechanisms for each service area included:

|                                                 | Oregon<br>2022 Rate<br>Case<br>(effective 11/1/2022) | Washington<br>2021 Rate<br>Case<br>(effective 11/1/2021) |
|-------------------------------------------------|------------------------------------------------------|----------------------------------------------------------|
| Authorized Rate Structure:                      |                                                      |                                                          |
| Return on Equity                                | 9.4%                                                 | **                                                       |
| Rate of Return                                  | 6.8%                                                 | 6.8%                                                     |
| Debt/Equity Ratio                               | 50%/50%                                              | **                                                       |
| Key Regulatory Mechanisms:                      |                                                      |                                                          |
| Purchased Gas Adjustment (PGA)                  | X                                                    | X                                                        |
| Gas Cost Incentive Sharing                      | X                                                    |                                                          |
| Decoupling                                      | X                                                    |                                                          |
| Weather Normalization (WARM)                    | X                                                    |                                                          |
| RNG Automatic Adjustment Clause                 | X                                                    |                                                          |
| Environmental Cost Recovery                     | X                                                    | X                                                        |
| Interstate Storage and Asset Management Sharing | X                                                    | X                                                        |

\*\* The WUTC 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 purchased gas adjustment (PGA) mechanisms in Oregon and Washington to reflect changes in the expected cost of natural gas commodity purchases. The PGA filings include costs for gas purchases, gas commodity derivative contracts, gas storage costs, gas reserves costs, pipeline demand costs, renewable natural gas and its environmental attributes, including renewable thermal certificates, and temporary rate adjustments, which amortize balances of deferred regulatory accounts.

Included in the 2023-24 PGA, the OPUC and WUTC approved a new customer rate mitigation program to address higher gas costs, which includes a temporary bill credit for NW Natural's residential customers from November 2022 to March 2023, with deferral of the temporary bill credit to be recovered in warmer months when customers typically see lower bills. As of March 31, 2024, the amount deferred to a regulatory asset related to the bill credit that remains to be collected from customers in the 2023-24 PGA year was approximately \$2.6 million.

In September 2023, NW Natural filed its annual PGAs and received OPUC and WUTC approval in October 2023. PGA rate changes were effective November 1, 2023. Rates vary between states due to different rate structures, rate mechanisms and hedging policies.

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 2023-24 gas year with total forecasted sales volume hedged at approximately 82%, including 66% in financial hedges and 16% in physical gas supplies. The total hedged was approximately 85% in Oregon and 55% in Washington.

For the subsequent three gas years, NW Natural is hedged in total between 3% and 39% for annual requirements, which consists of between 3% and 43% in Oregon and between 0% and 8% 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. We will continue to monitor gas prices as we fill storage and look at hedging plans for future gas years. Gas purchases and hedges entered into for the upcoming PGA year will be included in the Company's PGA filings in Oregon and Washington.

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 2023-24 gas year, 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.

**CLIMATE COMMITMENT ACT.** Washington has enacted the Climate Commitment Act (CCA), which establishes a comprehensive program that includes an overall limit for GHG emissions from major sources in the state that declines yearly. The program began January 1, 2023. In December 2023, the WUTC approved a CCA cost recovery mechanism with a rate effective date of January 1, 2024. Under this mechanism, NW Natural recovers CCA costs and will defer any difference between forecasted and actual costs in the following year. Additionally, under the approved tariff, proceeds from the sale of allowances, which is required under the CCA, would be used to offset CCA compliance costs for low-income customers. Any remaining proceeds would benefit other customers through fixed bill credits or use in other carbon reduction programs.

Additionally in December 2023, the WUTC approved a request to modify NW Natural's CCA deferral to allow for the recovery of interest from customers based on the actual cash paid for purchases of allowances, less proceeds received from the sale of allowances.

**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 2023-24 gas year, 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 2023, the ROE threshold was 10.40%. NW Natural filed the 2023 earnings test in April 2024, indicating no customer refund adjustment 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. 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. The Oregon decoupling baseline usage per customer was reset in the 2020 Oregon general rate case.

**WARM.** In Oregon, NW Natural has an approved weather normalization mechanism (WARM), 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 March 31, 2024, 7% 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.

**RENEWABLE NATURAL GAS AND AUTOMATIC ADJUSTMENT CLAUSE.** On June 19, 2019, the Oregon legislature passed Senate Bill 98 (SB 98), which enables natural gas utilities to procure or develop RNG on behalf of their Oregon customers. The bill was signed into law by the governor in July 2019, and subsequently, the OPUC adopted final rules in July 2020.



SB 98 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 investment in renewable natural gas infrastructure.

Further, the 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 the transportation system, industrial use, or blended into the natural gas pipeline system.

Pursuant to the 2022 Oregon general rate case, the OPUC ordered that the costs NW Natural sought to recover related to its investment in Lexington Renewables Energy, LLC were reasonable and prudently incurred under SB 98. Furthermore, the OPUC approved an automatic adjustment clause that allows for NW Natural's investments in RNG projects, including operating costs, to be added to rates annually on November 1st, following a prudence review. The RNG recovery mechanism allows NW Natural to defer for recovery or credit the differences between the forecasted and actual costs of the RNG projects, subject to an earnings test that includes deadbands at 50 basis points below and above NW Natural's authorized ROE. NW Natural filed the 2023 earnings test in April 2024, indicating no adjustment based on results. For RNG procurement contracts, NW Natural seeks recovery of the costs in the PGA and other filings, subject to a prudence review.

In February 2023, NW Natural filed a request to include its investment in Dakota City Renewable Energy LLC in the approved RNG mechanism effective November 1, 2023. In October 2023, the OPUC approved an all-party settlement that deems the investment to be prudent and allows NW Natural to begin recovering the investment costs and expenses of the facility. The RNG facility began production in April 2023. Under the RNG mechanism, expenses incurred prior to the rate effective date are not recoverable under this rate mechanism. Additionally, recovery is subject to the earnings test requirements under the RNG recovery mechanism discussed above. The Dakota City investment is subject to a production risk-sharing mechanism based on the expected per unit of production. NW Natural is required to share 25% of the costs above this threshold.

**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 \$9.6 million and \$6.8 million of deferred remediation expense approved by the OPUC for collection during the 2023-24 and 2022-23 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 (Loss). For additional information, see Note 17 in the 2023 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 <sup>(1)</sup>                  |
| \$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 <sup>(2)</sup> |
| Total amount transferred to post-review               |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 2023 based on the environmental earnings test that was submitted in April 2024.

#### 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 were 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 for assets developed in advance of utility customer needs, and asset management revenues. In January 2024, the OPUC approved the annual 2024 bill credit for Oregon customers' share of interstate storage and asset management activities totaling approximately \$20.6 million, which was credited to customers' bills in February 2024. An additional \$8.4 million was credited to customer's bills in April 2024. These bill credits include revenue generated for the November 2022 through October 2023 PGA year. Credits are given to customers in Washington as reductions in rates through the annual PGA filing in November.

#### Regulatory Proceeding Updates

During 2024, NW Natural was involved in the regulatory activities discussed below.

**2024 OREGON RATE CASE.** On December 29, 2023, NW Natural filed a request for a general rate increase with the OPUC. The filing includes a requested \$154.9 million annual revenue requirement increase based upon the following assumptions or requests:

- Capital structure of 50% long-term debt and 50% equity;
- Return on equity of 10.1%;
- Cost of capital of 7.406%; and
- Average rate base of \$2.14 billion.

The filing includes effects of inflation, an updated depreciation study, and an increase in average rate base of \$381 million compared to the last rate case for several long-planned investments by NW Natural including the following:

- Supporting reinforcement, safety and reliability of NW Natural's distribution systems and operating facilities;
- Upgrading technology to, among other things, further modernize NW Natural's information technology infrastructure, enhance cybersecurity protections, and modernize metering infrastructure; and
- Investing in components of NW Natural's Mist and liquified natural gas storage facilities, which support service during winter heating months.

NW Natural's filing is under review with the OPUC and other stakeholders. The process is anticipated to take up to 10 months to complete with new rates expected to take effect November 1, 2024.

## LOW INCOME DISCOUNT TARIFFS.

### Oregon

In July 2022, NW Natural received approval from the OPUC for an income-qualifying residential bill discount program. The income threshold for program participation is at or below 60 percent of Oregon state median income (SMI). The program provides a bill discount for income-qualifying residential customers at four discount tier levels based on household income compared to SMI, with higher discounts given for lower income levels. Participating customers can self-certify their income and household size to qualify for the program directly with NW Natural or their local Community Action Agency. The program was available for qualifying customers starting November 1, 2022. Costs for the bill discount program include simultaneous recovery from all customers. Costs for the bill discount program, inclusive of start-up and administrative costs of the program, are recoverable in rates. The amount deferred to a regulatory asset as of March 31, 2024 was approximately \$4.4 million.

|        | Total Household Income | Bill Discount Percentage |
|--------|------------------------|--------------------------|
| Tier 0 | At or below 15% SMI    | 40%                      |
| Tier 1 | 16% - 30% of SMI       | 25%                      |
| Tier 2 | 31% - 45% of SMI       | 20%                      |
| Tier 3 | 46% - 60% of SMI       | 15%                      |

### Washington

In December 2023, NW Natural received approval from the WUTC for an income-qualifying residential bill discount program. The program was available for qualifying customers starting January 1, 2024. The Washington program is similar to the Oregon program, with the exception of the discount tier levels shown below. The income threshold for the Washington program participation is based on the greater of area median income (AMI) or federal poverty level (FPL). The amount deferred to a regulatory asset as of March 31, 2024 was approximately \$0.4 million.

|        | Total Household Income                   | Bill Discount Percentage |
|--------|------------------------------------------|--------------------------|
| Tier 0 | At or below 60% FPL                      | 80%                      |
| Tier 1 | 61% - 120% of FPL                        | 40%                      |
| Tier 2 | 121% - 150% of FPL                       | 20%                      |
| Tier 3 | Greater of 80% AMI or 151% - 200% of FPL | 15%                      |

**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 most recent full IRP for both Oregon and Washington on September 23, 2022. With respect to IRPs generally, the WUTC issues letters of compliance and Oregon acknowledges the IRP. In August 2023, NW Natural received a letter of compliance from the WUTC acknowledging the 2022 IRP. The OPUC also issued their order on NW Natural's 2022 IRP in August 2023. We currently expect to file our next full IRP with Oregon and Washington in 2025.

**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 owners and operators of natural gas pipeline facilities (including local distribution companies). The first directive requires owners and operators to implement cybersecurity incident reporting to the DHS, designate two cybersecurity coordinators, 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 directive requires entities to implement a significant number of specified cybersecurity controls and processes. Both directives have been updated several times. The TSA released an update to the second security directive that clarified Operational Technology (OT) scope and providing a risk- and outcome-based framework. The TSA is in the process of formulating regulations with the aim of rendering the requirements within the security directives permanent. NW Natural is currently evaluating and implementing the security directives and related deliverables. NW Natural frequently updates the TSA on its progress on achieving the security directives.

NW Natural filed requests with the OPUC and WUTC to defer the costs associated with complying with the TSA's security directives. As of March 31, 2024, NW Natural has invested approximately \$44.8 million in information and operational technology. A majority of the capital investment was included in rate base starting November 1, 2022 in Oregon.

NW Natural continues to evaluate the potential effect of these directives on our operations and facilities, as well as the potential total cost of implementation, and will continue to monitor for any clarifications or amendments to these directives. We may seek to request recovery from customers of any additional costs incurred to the extent that incremental expenses and capital expenditures are incurred in the future.

**WATER AND WASTEWATER UTILITIES.** NWN Water currently serves an estimated 183,000 people through approximately 74,000 connections across five states. In the first quarter of 2023, NWN Water signed a purchase agreement for a water utility with

approximately 700 connections in Texas. After completing a fair market valuation process through the Public Utility Commission of Texas (PUCT), NWN Water filed the application with the PUCT in the first quarter of 2024. The acquisition is expected to close in the first quarter of 2025.

For our regulated water utilities, we have been executing general rate cases.

- In October 2023, Foothills Utilities filed a general rate case with the ACC and requested rates to go into effect no later than November 30, 2024.
- In February 2024, Cascadia Water filed a general rate case with the WUTC and requested rates to go into effect on June 1, 2024.
- In March 2024, Sunriver Water filed a general rate case with the OPUC, the effective date of which the OPUC suspended until February 1, 2025.

### **Environmental Regulation and Legislation Matters**

There is a growing international and domestic focus on climate change and the contribution of GHG emissions, most notably methane and carbon dioxide, to climate change. In response, there are increasing efforts at the international, federal, state, and local level to regulate GHG emissions. Legislation or other forms of regulation could take a variety of forms including, but not limited to, GHG emissions limits, reporting requirements, carbon taxes, requirements to purchase carbon credits, building codes, increased efficiency standards, additional charges to fund energy efficiency activities or other regulatory actions, incentives or mandates to conserve energy or use renewable energy sources, tax advantages and other subsidies to support alternative energy sources, a reduction in rate recovery for construction costs related to the installation of new customer services or other new infrastructure investments, mandates for the use of specific fuels or technologies, bans on specific fuels or technologies, or promotion of research into new technologies to reduce the cost and increase the scalability of alternative energy sources. These efforts could include legislation, legislative proposals, directed government funding, or new regulations at the federal, state, and local level, as well as private party litigation related to GHG emissions or regulation thereof. We recognize certain of our businesses, including our natural gas business, are likely to be affected by current or future regulation seeking to limit GHG emissions.

#### **International**

In early 2021, the U.S. rejoined the Paris Agreement on Climate, which establishes non-binding targets to reduce GHG emissions from both developed and developing nations. Under the Paris Agreement, signatory countries are expected to submit their nationally determined contributions to curb GHG emissions and meet the agreed temperature objectives every five years. On April 22, 2021, the United States federal administration announced the U.S. nationally determined contribution to achieve a fifty to fifty-two percent reduction from 2005 levels in economy-wide net GHG emissions by 2030.

#### **Federal**

President Biden's administration has issued executive orders directing agencies to conduct a general review of regulations and executive actions related to the environment and reestablished a framework for considering the social cost of carbon as part of certain agency cost-benefit analyses for new regulations. President Biden's administration continues to consider a wide range of additional policies, executive orders, rules, legislation, and other initiatives to address climate change.

The Inflation Reduction Act of 2022 (IRA) was signed into law in August 2022 and includes several climate and energy provisions. The IRA is expected to provide significant funding through grants, tax credits, and investments to support various initiatives including manufacturing, renewable energy production and consumption, transportation electrification and climate-smart agriculture. The IRA includes tax credits for RNG, hydrogen, carbon capture projects and geothermal heat pumps, among other investments. The IRA also includes funding for the EPA to improve GHG reporting and enforcement, as well as a methane fee applicable to activities associated with gas production and processing facilities, transmission pipelines and certain storage facilities, creates a new corporate alternative minimum tax of 15 percent that applies to corporations with average annual financial statement income in excess of one billion dollars, and creates a new 1 percent excise tax on the net stock repurchases by public companies. Guidance from several federal agencies is pending regarding various aspects of the IRA and the manner in which it will be implemented. We continue to assess effects of the IRA that are relevant to our businesses, and will continue to do so as it is implemented. The U.S. Congress may also pass federal climate change legislation in the future. We cannot predict when or if Congress will pass such legislation and in what form.

In addition, the EPA regulates GHG emissions pursuant to the Clean Air Act. For example, the EPA requires the annual reporting of GHG emissions from certain industries, specified emission sources, and facilities. Under this reporting rule, local natural gas distribution companies like NW Natural are required to report system throughput to the EPA on an annual basis. The EPA also has required additional GHG reporting regulations to which NW Natural is subject, requiring the annual reporting of fugitive emissions from operations. Other federal regulatory agencies, including the U.S. Department of Energy, are beginning to address matters related to GHG emissions that may include changes in their regulatory oversight approach, policies and rules.

Other federal agencies have taken or are expected to take actions related to climate change. For example, in March 2024, the Securities and Exchange Commission (SEC) issued new rules relating to the disclosure of a range of climate-related matters, which it voluntarily stayed pending legal challenges to the rules, PHMSA is expected to prepare regulations and other actions to limit methane emissions, and the Commodities Futures Trading Commission (CFTC) has indicated it intends to take actions related to oversight of climate-related financial risks as pertinent to the derivatives and underlying commodities markets.

Similarly, other federal agencies and regulations, including but not limited to: the U.S. Department of Treasury, Federal Acquisitions Regulations, and others have indicated impending regulatory actions related to climate change. To the extent these agencies adopt final rules as proposed or in modified form, we or our customers could incur increased costs. These could include internal costs as well as external costs such as the cost of independent experts to provide attestation reports on our GHG emissions data and increased audit costs.

#### Washington State

In 2023, Washington comprised approximately 11% of NW Natural's revenues, as well as 2% and 14% of new meters from commercial and residential customers, respectively. Effective February 1, 2021, building codes in Washington state require new residential homes to achieve higher levels of energy efficiency based on specified carbon emissions assumptions, which calculate electric appliances to have lower on-site GHG emissions than comparable gas appliances. This increases the cost of new home construction incorporating natural gas depending on a number of factors including home size, equipment configurations, and building envelope measures. Additionally, the Washington State Building Code Council (SBCC) voted in April 2022 to include updates in the state commercial building energy code that would restrict or eliminate the use of gas space and water heating in new commercial construction. In November 2022, the SBCC voted to include updates to the state residential building energy code that are expected to restrict the use of gas space and water heating in residential construction, with certain exceptions including for natural gas-fired heat pumps and hybrid fuel systems. The SBCC commercial and residential rules were expected to become effective July 1, 2023, but the SBCC delayed implementation and has modified those rules. The modified rules went into effect on March 15, 2024. The new modified rules are currently subject to legal challenge by a number of companies and organizations and are likely to be subject to additional legal challenge by other impacted companies and organizations, including utilities.

Washington has also enacted the CCA, which establishes a comprehensive program that includes an overall limit for GHG emissions from major sources in the state that declines yearly beginning January 1, 2023, resulting in an overall reduction of GHG emissions to 95% below 1990 levels by 2050. The Washington Department of Ecology has adopted rules to create a cap-and-invest program, under which entities, including natural gas and electric utilities, large manufacturing facilities, and transportation and other fuel providers, which are subject to the CCA must either reduce their emissions, purchase qualifying offsets (including RNG) or obtain allowances to cover any remaining emissions. A statewide initiative to repeal the CCA has qualified to be on the ballot in November 2024. NW Natural is subject to the CCA, has received an order authorizing deferral of CCA costs from the WUTC, and is currently recovering CCA compliance costs in rates.

#### Oregon

On March 10, 2020, the governor of Oregon issued an executive order (EO) establishing 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 the 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), 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. The OPUC is also charged with carrying out the EO to the extent it is consistent with its statutory authority and duties, and to focus on equitable impacts to low-income customers under its current statutory authority.

In December 2021, the ODEQ concluded its rulemaking process and issued final cap and reduce rules for its Climate Protection Program (CPP), which became effective in January 2022. The CPP outlines GHG emissions reduction goals of 50% by 2035 and 90% by 2050 from a 2017-2019 baseline. The ODEQ rules were held invalid on procedural grounds by the Oregon Court of Appeals in December 2023. In January 2024, ODEQ announced that it would not appeal the Oregon Court of Appeals' decision, but has re-engaged in a rulemaking process and expects the new rulemaking to be effective January 2025. NW Natural received an order from the OPUC authorizing deferral of CPP compliance costs for the initial rule and intended to pursue inclusion of those compliance costs in rates and we are in the process of determining treatment given the CPP is invalid. We would expect to take the same actions with respect to any subsequently adopted ODEQ rules.

#### Local Jurisdictions and Other Advocacy

In addition to legislative activities at the state level, advocacy groups have indicated a willingness to pursue municipal ordinances and ballot measures or other local activities. Some local and county governments in the United States also have been proposing or passing renewable energy resolutions, restrictions, taxes, or fees seeking to accelerate climate action goals. A number of cities across the country, and several in our service territory are taking action or currently considering actions such as limitations or bans on the use of natural gas in new construction or otherwise. For example, in February 2023, the Eugene City Council passed an ordinance that prohibits the use of natural gas in low rise residential buildings beginning with permits submitted after June 2023. That ordinance was rescinded by the Eugene City Council after it was referred to the November 2023 ballot. In connection with its rescission of the ordinance, the City Council directed the Eugene City Manager to develop a plan to address GHG emissions and align incentives around GHG emissions. Similarly, some jurisdictions and advocates are seeking to ban the

use of natural gas and certain natural gas appliances inside homes and contend that there are detrimental indoor health effects associated with the use of natural gas.

NW Natural is actively engaged with federal, state and local policymakers, consumers, customers, small businesses and other business coalitions, economic development practitioners, and other advocates in our service territory and is working with these communities to communicate the role that direct use natural gas, and in the coming years, RNG and hydrogen, can play in pursuing more effective policies to reduce GHGs while supporting reliability, resiliency, energy choice, equity, and energy affordability.

#### NW Natural Decarbonization Initiatives and Compliance Actions

Our customers are currently paying less for their natural gas today than they did 15 years ago. We expect that compliance with any form of regulation of GHG emissions, including the CCA in Washington or any similar program adopted in Oregon, as well as actions under Oregon Senate Bill 98 (SB 98) or otherwise, will require additional resources and legislative or regulatory tools, and will increase costs. The developing and changing implementation guidance for the CCA and new rulemaking process for an Oregon carbon reduction program under the Oregon EO, evolving carbon credit markets and other regulatory tool options, decades-long timeframes for compliance, likely changing and evolving laws and energy policy, and evolving technological advancements, all make it difficult to accurately predict long-term tools for and costs of compliance. In September 2022, NW Natural filed its integrated resource plans (IRPs) with the OPUC and WUTC. Those IRPs comprehensively evaluate resource options available to serve NW Natural's customers' energy, capacity and environmental compliance needs, and are an informative component of the resources selected for compliance with the CCA and any subsequently developed Oregon program. While we model compliance with the CCA and any similar program in our IRPs, the expected costs of compliance are uncertain and subject to significant change. We are currently including costs of compliance with the CCA in rates. Costs to comply currently are increasing non-low income residential bills by approximately 12% to 38%.

These projected customer bill impacts of the CCA are estimates, are likely to increase beyond the first compliance period, and are subject to change as these laws are implemented and compliance begins. The costs are also likely to vary significantly based on forecasting assumptions related to permitted levels of rate recovery, available technologies and equipment, weather patterns and gas usage, customer growth or attrition, allocation of fixed costs among classes of customers, energy efficiency levels, availability, use and cost of renewables, feasibility of broad-scale hydrogen in the natural gas system, and a number of other assumptions used in the complex analysis of integrated resource planning.

We are not currently able to quantify the extent to which limitations on natural gas use, or declining line extension allowances provided in rates to cover construction costs for new services, will affect new meter additions, or to what extent carbon compliance costs included in rates will affect the competitiveness of our business and the demand for natural gas service. All of these developments could negatively affect our gas utility customer growth. However, at the same time natural gas utilities will be subject to GHG emissions regulation, we expect that other energy source providers will be subject to similar, or in some cases stricter or more rapid, compliance requirements that are likely to affect their cost and competitiveness relative to natural gas as well. For example, President Biden has announced his intention to have a carbon-free electricity sector by 2035, 15 years before the target date of the CCA. In June 2021, the State of Oregon enacted HB 2021, a clean electricity bill that requires the state's two largest investor-owned electric utilities and retail electricity service suppliers to reduce GHG emissions associated with electricity sold to Oregon customers to 100 percent below baseline levels by 2040 with interim steps, including an 80 percent reduction by 2030 and 90 percent reduction by 2035. This bill does not replace the separate renewable portfolio standards previously established in Oregon, which sets requirements for how much of the electricity used in Oregon must come from renewable resources. In Washington, SB 5116, the Clean Energy Transformation Act, requires all electric utilities in Washington to transition to carbon-neutral electricity by 2030 and to 100 percent carbon-free electricity by 2045. We expect compliance with these and other laws will increase the cost of energy for electric customers in our service territory. We are not able to determine at this time whether increased electricity costs will make natural gas use more or less competitive on a relative basis.

We expect these and other trends to drive innovation of, and demand for, technological developments and innovative new products that reduce GHG emissions. Research and development are occurring across the energy sector, including in the gas sector with work being conducted on gas heat pumps, higher efficiency water and space heating appliances including hybrid systems, carbon capture utilization and storage developments, continued development of technologies related to RNG, and various forms of hydrogen for different applications, among others.

NW Natural continues to take proactive steps in seeking to reduce GHG emissions in our region and we diligently communicate with local, state, and federal governments and communities about those steps. NW Natural has been a leader among gas utilities in innovative programs. Notable programs have included a decoupling rate structure designed to weaken the link between revenue and gas consumption by customers adopted in 2007, and establishment of a voluntary Smart Energy carbon offset program for customers established in 2007, and removal of all known cast iron and bare steel to create one of the tightest and most modern distribution systems in the country. We continue to believe that NW Natural has an important role in providing affordable and equitable energy to the communities we serve. NW Natural is an important provider of energy to families and businesses in Oregon and southwest Washington. Natural gas sales to our residential and commercial customers account for approximately 5% of Oregon's GHG emissions according to the preliminary 2021 data from the State of Oregon Department of Environmental Quality In-Boundary GHG Inventory. We intend to continue to provide this necessary energy to our communities with the goal of using our modern pipeline system to help the Pacific Northwest transition to a cleaner energy future.

In 2016, NW Natural initiated a multi-pronged, multi-year strategy to accelerate and deliver greater GHG emission reductions in the communities we serve. Key components of this strategy include customer energy efficiency, continued adoption of NW Natural's voluntary Smart Energy carbon offset program, and seeking to incorporate RNG and hydrogen into our gas supply. RNG is produced from organic materials including food, agricultural and forestry waste, wastewater, or landfills. We believe RNG has the potential to significantly reduce net GHG emissions because methane that would otherwise be released to the atmosphere can be captured from these organic materials as they decompose and then conditioned to pipeline quality and distributed into our existing system. SB 98 enables NW Natural to procure RNG on behalf of customers and provides targets that would allow us to make qualified investments and purchase RNG from third parties, subsequently the OPUC approved an automatic adjustment clause to assist with timely recovery of these investments.

Under SB 98, NW Natural is actively working to procure RNG supply for customers and increase the amount of RNG on our system and is also exploring the development of renewable hydrogen through power to gas. In 2022 and 2023, two RNG development facilities that access biogas derived from water treatment at Tyson Foods' processing plants were commissioned. To date, NW Natural has exclusive rights with options to purchase or develop RNG for utility customers totaling about 3% of NW Natural's annual sales volume in Oregon.

## **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, excluding short-term debt, was as follows:

|                                               | March 31, |         | December 31, |
|-----------------------------------------------|-----------|---------|--------------|
|                                               | 2024      | 2023    | 2023         |
| Common equity                                 | 46.0 %    | 44.8 %  | 44.9 %       |
| Long-term debt (including current maturities) | 54.0      | 55.2    | 55.1         |
| Total                                         | 100.0 %   | 100.0 % | 100.0 %      |

NW Natural's consolidated capital structure, excluding short-term debt, was as follows:

|                                               | March 31, |         | December 31, |
|-----------------------------------------------|-----------|---------|--------------|
|                                               | 2024      | 2023    | 2023         |
| Common equity                                 | 48.4 %    | 48.6 %  | 47.5 %       |
| Long-term debt (including current maturities) | 51.6      | 51.4    | 52.5         |
| Total                                         | 100.0 %   | 100.0 % | 100.0 %      |

As of March 31, 2024 and 2023, and December 31, 2023, NW Holdings' consolidated capital structure included common equity of 44.5%, 43.7% and 43.5%; long-term debt of 52.3%, 45.3% and 48.3%; and short-term debt including current maturities of long-term debt of 3.2%, 11.0% and 8.2%, respectively. As of March 31, 2024 and 2023, and December 31, 2023, NW Natural's consolidated capital structure included common equity of 47.9%, 48.6%, and 47.2%; long-term debt of 50.9%, 47.9% and 52.2%; and short-term debt including current maturities of long-term debt of 1.2%, 3.5%, and 0.6%, respectively.

### **Liquidity and Capital Resources**

At March 31, 2024 and 2023, NW Holdings had approximately \$72.4 million and \$140.8 million, and NW Natural had approximately \$61.9 million and \$129.7 million of cash and cash equivalents, respectively. 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.

### **ATM Equity Program**

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 three months ended March 31, 2024, NW Holdings issued and sold 333,000 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$12.2 million, net of fees and commissions paid to agents of \$0.2 million. As of March 31, 2024, NW Holdings had \$31.0 million of equity available for issuance under the program.

#### 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 Holdings long-term debt and equity issuances are primarily used to provide equity contributions to NW Holdings' operating subsidiaries for operating and capital expenditures and other corporate purposes. From 2024 through 2026, we estimate NW Holdings' and NW Natural's combined incremental capital needs to be in the range of \$500 million to \$575 million. NW Holdings intends to use raised capital to support NW Natural, NW Natural Water, and NW Natural Renewables 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, or more than 10% of its retained earnings over a six-month period, and for special cash dividends paid in addition to regularly quarterly dividends.

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, 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%.

At March 31, 2024, NW Natural satisfied the ring-fencing provisions described above.

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.

**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.

#### NW Natural

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. In the event NW Natural is not able to issue new long-term 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 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 NW Natural 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 March 31, 2024. See "Credit Ratings" below and Note 15.

Other items that may have a significant impact on NW Natural's liquidity and capital resources include NW Natural's pension contribution requirements and environmental expenditures. For additional information, see Part II, Item 7 "Financial Condition" in the 2023 Form 10-K.

### **Gas Purchase Agreements**

NW Natural Renewables is an unregulated subsidiary of NW Natural Holdings established to pursue unregulated renewable natural gas activities. In September 2021, a subsidiary of NW Natural Renewables, Ohio Renewables, and a subsidiary of EDL, a global producer of sustainable distributed energy, executed agreements to partially fund two production facilities that are designed to convert landfill waste gases to RNG (EDL Facilities). The EDL Facilities have been constructed, and testing and commissioning of these facilities is underway, but has been delayed. Upon each of the EDL Facilities achieving full commercial operations, Ohio Renewables is committed to make cash payments of approximately \$25 million per facility to partially fund the infrastructure required to condition biogas. Alongside these development agreements, Ohio Renewables and the subsidiary of EDL executed agreements for Ohio Renewables to purchase up to an annual specified amount of RNG produced by the EDL Facilities over a 20-year period. Upon commencement of commercial operations, we currently estimate the amount of RNG purchases based on prices and quantities specified in the agreements to be as follows: approximately \$4.0 million in 2024, \$18.9 million in 2025, \$18.9 million in 2026, \$22.8 million in 2027, \$22.8 million in 2028 and \$557.4 million thereafter.

### **Gas Sale Agreements**

Ohio Renewables has contracted to sell RNG produced by the EDL Facilities up to certain specified volumes in each of calendar years 2024 through 2026 to an investment-grade counterparty. We currently estimate RNG volumes to be sold pursuant to this agreement to be approximately 3,090,000 MMBtu over the life of the agreement, provided that such amounts of RNG are produced by the EDL Facilities during that period.

Ohio Renewables additionally has contracted to sell a fixed-volume amount of RNG under a long-term agreement with an investment-grade utility beginning in 2025 and extending through 2042. Amounts to be delivered under this agreement are estimated to be 112,500 MMBtu in 2025, 375,000 MMBtu in 2026, 1,950,000 MMBtu annually in 2027 through 2034, and 2,775,000 MMBtu annually in years 2035 through 2042. Under the current contract, if less than 75% of the contracted volumes of RNG are not delivered on an annual basis, Ohio Renewables is obligated to pay the per MMBtu price for volumes between the amount delivered and 75% of the contracted volumes on an annual basis.

### **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 it may enter into from time to time. In addition to issuing commercial paper or entering into 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.

At March 31, 2024, March 31, 2023 and December 31, 2023, short-term debt consisted of the following:

| <i>In millions</i>          | March 31, 2024      |                                               | March 31, 2023      |                                               | December 31, 2023   |                                               |
|-----------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|
|                             | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> | Balance Outstanding | Weighted Average Interest Rate <sup>(1)</sup> |
| <b>NW Natural:</b>          |                     |                                               |                     |                                               |                     |                                               |
| Commercial paper            | \$ 31.7             | 5.5 %                                         | \$ —                | — %                                           | \$ 16.8             | 5.5 %                                         |
| <b>Other (NW Holdings):</b> |                     |                                               |                     |                                               |                     |                                               |
| Credit agreement            | 63.0                | 6.3 %                                         | 72.5                | 5.9 %                                         | 73.0                | 6.4 %                                         |
| <b>NW Holdings</b>          | <u>\$ 94.7</u>      |                                               | <u>\$ 72.5</u>      |                                               | <u>\$ 89.8</u>      |                                               |

<sup>(1)</sup> Weighted average interest rate on outstanding short-term debt

## Credit Agreements

### NW Holdings

At March 31, 2024, NW Holdings had a \$200 million sustainability-linked credit agreement, with a feature that allows it to request increases in the total commitment amount, up to a maximum of \$300 million. The maturity date of the agreement is November 3, 2026, with available extensions of commitments for two additional one-year periods, subject to lender approval.

All lenders under the NW Holdings credit agreement are major financial institutions with committed balances and investment grade credit ratings as of March 31, 2024 as follows:

*In millions*

| Lender rating, by category | Loan Commitment |
|----------------------------|-----------------|
| AA/Aa                      | \$ 200          |
| Total                      | \$ 200          |

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 March 31, 2024, March 31, 2023 and December 31, 2023, \$63.0 million, \$72.5 million and \$73.0 million were drawn under the NW Holdings Credit Agreement, respectively.

The NW Holdings credit agreement permits the issuance of letters of credit in an aggregate amount of up to \$40 million. The principal amount of borrowings under the credit agreement is due and payable on the maturity date. The credit agreement 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 March 31, 2024 and 2023, with consolidated indebtedness to total capitalization ratios of 55.4% and 56.3%, respectively.

The NW Holdings credit agreement also requires 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 agreement. 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 maintains a credit rating with S&P of A and does not currently maintain ratings with Moody's.

NW Holdings had no letters of credit issued and outstanding under the credit agreement at March 31, 2024 and 2023.

### NW Natural

At March 31, 2024, NW Natural had a sustainability-linked multi-year credit agreement for unsecured revolving loans totaling \$400 million, with a feature that allows NW Natural to request increases in the total commitment amount, up to a maximum of \$600 million. The maturity date of the agreement is November 3, 2026 with an available extension of commitments for two additional one-year periods, subject to lender approval.

All lenders under the NW Natural credit agreement are major financial institutions with committed balances and investment grade credit ratings as of March 31, 2024 as follows:

*In millions*

| Lender rating, by category | Loan Commitment |
|----------------------------|-----------------|
| AA/Aa                      | \$ 400          |
| Total                      | \$ 400          |

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 March 31, 2024, March 31, 2023 and December 31, 2023.

The NW Natural credit agreement permits the issuance of letters of credit in an aggregate amount of up to \$60 million. The principal amount of borrowings under the credit agreement is due and payable on the maturity date. There were no outstanding balances under this credit agreement at March 31, 2024 or 2023. The credit agreement 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 March 31, 2024 and 2023, with consolidated indebtedness to total capitalization ratios of 52.1% and 51.4%, respectively.

The NW Natural credit agreement also requires 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 credit 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.

NW Natural had no letters of credit issued and outstanding under the credit agreement at March 31, 2024 and 2023.

### **Letters of Credit Facility**

In January 2024, NW Natural entered into an Uncommitted Letter of Credit and Reimbursement Agreement (LC Reimbursement Agreement), pursuant to which NW Natural agreed to reimburse each Lender acting as an issuing bank (Issuing Bank) thereunder for disbursements in respect of letters of credit (Letters of Credit) issued pursuant to the LC Reimbursement Agreement from time to time. The Company expects to use Letters of Credit issued under the facility created by the LC Reimbursement Agreement (LC Facility) primarily to support its participation in Washington Climate Commitment Act cap-and-invest program auctions.

Although there is no expressly stated maximum amount of Letters of Credit that can be issued or outstanding under the LC Facility, under current regulatory authority from the OPUC, the aggregate sum of Letters of Credit outstanding and available to be drawn under the LC Reimbursement Agreement may not exceed \$100 million at any one time. The Issuing Banks have no commitment to issue Letters of Credit under the LC Facility and will have the discretion to limit and condition the terms for the issuance of Letters of Credit (including maximum face amounts) in their sole discretion.

The LC Reimbursement Agreement requires NW Natural to maintain certain ratings with S&P and Moody's. NW Natural must also notify the Administrative Agent and Lenders of any change in the S&P or Moody's Ratings, although any such change is not an event of default.

The LC Reimbursement Agreement prohibits NW Natural from permitting Consolidated Indebtedness to be greater than 70% of Total Capitalization, each as defined therein and calculated as of the end of each fiscal quarter of NW Natural. Failure to comply with this financial covenant would constitute an Event of Default under the LC Reimbursement Agreement. The occurrence of this or any other Event of Default would entitle the Administrative Agent to require cash collateral for the LC Exposure, as defined in the LC Reimbursement Agreement, and to exercise all other rights and remedies available to it and the Lenders under the Credit Documents, as defined in the LC Reimbursement Agreement, and under applicable law.

In February 2024, NW Natural issued a \$2.0 million letter of credit under the LC facility, which expired April 1, 2024.

### **Credit Ratings**

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  |

In April 2024, S&P revised NW Natural's ratings outlook from "negative" to "stable." Also in April 2024, S&P revised NW Holdings' rating from A+ to A and confirmed a negative outlook.

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**

#### **Issuance of Long-Term Debt**

In December 2023, NW Holdings entered into a Note Purchase Agreement between NW Holdings and the institutional investors named as purchasers therein. The Note Purchase Agreement provided for the issuance of (i) \$100.0 million aggregate principal amount of NW Holdings' 5.78% Senior Notes, Series A, due March 7, 2028 (5.78% Notes) and (ii) \$50.0 million aggregate

principal amount of NW Holdings' 5.84% Senior Notes, Series B, due March 7, 2029 (5.84% Notes) in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. The 5.78% Notes and the 5.84% Notes were issued on March 7, 2024, pursuant to the Note Purchase Agreement. The proceeds from the Note Purchase Agreement were used to settle an existing term loan at NW Holdings for \$100.0 million and make an equity contribution to NWN Water, which was used to settle an existing term loan for \$50 million.

At March 31, 2024, NW Holdings and NW Natural had long-term debt outstanding of \$1,575.6 million and \$1,364.9 million, respectively, which included \$10.6 million and \$9.8 million of unamortized debt issuance costs at NW Holdings and NW Natural, respectively. NW Natural's long-term debt consists of FMBs with maturity dates ranging from 2025 through 2053, interest rates ranging from 2.8% to 7.9%, and a weighted average interest rate of 4.6%. NW Holdings' long-term debt primarily consists of the Note Purchase Agreement at NW Holdings and a term loan at NWN Water due in 2026.

No long-term debt is scheduled to mature over the next twelve months as of March 31, 2024 at NW Natural and \$0.9 million at NW Holdings. See Part II, Item 7, "Financial Condition—*Long-Term Debt*" in the 2023 Form 10-K for long-term debt maturing over the next five years.

#### Interest Rate Swap Agreements

NW Holdings and NWN Water entered into interest rate swap agreements with major financial institutions that effectively convert variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. The notional amount, effective date, expiration date and benchmark rate of the swap agreements are shown in the table below:

| <i>In millions</i> | Notional Amount | Effective Date | Expiration Date | Fixed Rate |
|--------------------|-----------------|----------------|-----------------|------------|
| NW Holdings        | \$ 100.0        | 1/17/2023      | 3/15/2024       | 4.7 %      |
| NWN Water          | \$ 55.0         | 1/19/2023      | 6/10/2026       | 3.8 %      |

#### Bankruptcy Ring-fencing Restrictions

As part of the ring-fencing conditions agreed upon with the OPUC and WUTC, 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 March 31, 2024. 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>                               | Three Months Ended March 31, |            | YTD Change  |
|---------------------------------------------------|------------------------------|------------|-------------|
|                                                   | 2024                         | 2023       |             |
| NW Natural cash provided by operating activities  | \$ 117,983                   | \$ 174,831 | \$ (56,848) |
| NW Holdings cash provided by operating activities | 125,039                      | 176,861    | (51,822)    |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Cash provided by operating activities decreased \$51.8 million at NW Holdings and \$56.8 million at NW Natural. The significant factors contributing to the decrease at NW Natural were as follows:

- \$33.3 million decrease in inventories due to higher priced gas and more gas withdrawn from storage in the prior year;
- \$19.0 million decrease in accounts receivable due to colder weather in the prior year;
- \$10.1 million increase in asset optimization revenue sharing bill credits to customers; and
- \$8.0 million decrease in net income; partially offset by
- \$17.0 million decrease in accounts payable resulting from payments of higher priced gas in the prior year.

The decrease in cash provided by operating activities at NW Holdings was primarily driven by the factors discussed above.

NW Natural did not make any cash contributions to its qualified defined benefit pension plans during the three months ended March 31, 2024 or 2023. During 2024, NW Natural expects to make cash contributions of approximately \$20.6 million. 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.

NW Holdings and NW Natural have lease and purchase commitments relating to their operating activities that are financed with cash flows from operations. For information on cash flow requirements related to leases and other purchase commitments, see Note 7 and Note 16 in the 2023 Form 10-K.

## Investing Activities

| In thousands                                  | Three Months Ended March 31, |             |    | YTD Change |
|-----------------------------------------------|------------------------------|-------------|----|------------|
|                                               | 2024                         | 2023        |    |            |
| NW Natural cash used in investing activities  | \$ (71,554)                  | \$ (64,882) | \$ | (6,672)    |
| NW Holdings cash used in investing activities | (82,488)                     | (73,018)    |    | (9,470)    |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Cash used in investing activities increased \$9.5 million at NW Holdings and \$6.7 million at NW Natural. The increase in cash used in investing activities at NW Natural and NW Holdings was primarily driven by higher capital expenditures at NW Natural and NWN Water.

NW Natural capital expenditures for 2024 are expected to be in the range of \$350 million to \$400 million and for the five-year period from 2024 to 2028 are expected to range from \$1.4 billion to \$1.6 billion. NW Natural Water is expected to invest approximately \$40 million in 2024 related to maintenance capital expenditures for water and wastewater utilities owned as of December 31, 2023, and for the five-year period from 2024 to 2028 capital expenditures are expected to invest approximately \$120 million to \$140 million.

The timing and amount of the core capital expenditures and projects for 2024 and the next five years could change based on regulation, growth, and cost estimates. Additional investments in our infrastructure during and after 2024 that are not incorporated in the estimates provided above 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

| In thousands                                                | Three Months Ended March 31, |           |    | YTD Change |
|-------------------------------------------------------------|------------------------------|-----------|----|------------|
|                                                             | 2024                         | 2023      |    |            |
| NW Natural cash (used in) provided by financing activities  | \$ (4,185)                   | \$ 10,284 | \$ | (14,469)   |
| NW Holdings cash (used in) provided by financing activities | (2,917)                      | 11,187    |    | (14,104)   |

**THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO MARCH 31, 2023.** Cash used in financing activities increased \$14.1 million at NW Holdings and \$14.5 million at NW Natural. The increase at NW Natural was attributable to a decrease in long-term debt issuances, partially offset by lower payments on short-term debt.

The increase in cash used in financing activities at NW Holdings was primarily driven by the factors discussed above.

## Contingent Liabilities

Loss contingencies are recorded as liabilities when it is probable 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 2023 Form 10-K. At March 31, 2024, NW Natural's total estimated liability related to environmental sites is \$113.5 million. See "Results of Operations—Regulatory Matters—Rate Mechanisms—Environmental Cost Deferral and Recovery" in the 2023 Form 10-K and Note 16.

## 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 2023 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 2023 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. 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 three months ended March 31, 2024. 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 2023 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 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 were no changes in NW Holdings' or NW Natural's internal control over financial reporting during the quarter ended March 31, 2024, 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 16 and those proceedings disclosed and incorporated by reference in Part I, Item 3, "*Legal Proceedings*" in the 2023 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 2023 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 March 31, 2024:

| <u>Issuer Purchases of Equity Securities</u> |                                                 |                              |                                                                                                 |                                                                                                     |
|----------------------------------------------|-------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Period                                       | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
| Balance forward                              |                                                 |                              | 2,124,528                                                                                       | \$ 16,732,648                                                                                       |
| 01/01/24-01/31/24                            | —                                               | —                            | —                                                                                               | —                                                                                                   |
| 02/01/24-02/29/24                            | —                                               | —                            | —                                                                                               | —                                                                                                   |
| 03/01/24-03/31/24                            | —                                               | —                            | —                                                                                               | —                                                                                                   |
| Total                                        | —                                               | \$ —                         | 2,124,528                                                                                       | \$ 16,732,648                                                                                       |

<sup>(1)</sup> During the quarter ended March 31, 2024, 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. During the quarter ended March 31, 2024, no shares of NW Holdings common stock were purchased on the open market to meet the requirements of share-based compensation programs.

<sup>(2)</sup> During the quarter ended March 31, 2024, no shares of NW Holdings common stock were repurchased pursuant to the Board-approved share repurchase program. Effective August 3, 2022, we received NW Holdings Board approval to extend the repurchase program. Such authorization will continue until the program is used, terminated or replaced. For more information on this program, refer to Note 5 in the 2023 Form 10-K.

## ITEM 5. OTHER INFORMATION

On March 19, 2024, our Chief Information Officer, Mr. Downing, departed for another opportunity. Beginning April 4, 2024 we have engaged a consultant, Mr. Meier to serve as Acting Interim Chief Information Officer (CIO) and Chief Information Security Officer. Mr. Meier reports to our President. Mr. Meier has an extensive career of over 30 years of information technology management experience, including 15 years as CIO or interim CIO in the banking, software, semiconductor, utility and freight transportation sectors. Mr. Meier is supported by Mr. Carlson, our Director of Cybersecurity and Compliance and his team.

## 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 March 31, 2024

## Exhibit Index

| <u>Exhibit Number</u> | <u>Document</u>                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1                  | <a href="#"><u>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.</u></a>                                                                                                                                                                                                        |
| 31.2                  | <a href="#"><u>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.</u></a>                                                                                                                                                                                                        |
| 31.3                  | <a href="#"><u>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.</u></a>                                                                                                                                                                                                    |
| 31.4                  | <a href="#"><u>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.</u></a>                                                                                                                                                                                                    |
| *32.1                 | <a href="#"><u>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.</u></a>                                                                                                                                                                                                   |
| *32.2                 | <a href="#"><u>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.</u></a>                                                                                                                                                                                               |
| 101                   | The following materials formatted in Inline Extensible Business Reporting Language (Inline XBRL):<br>(i) Consolidated Statements of Income;<br>(ii) Consolidated Balance Sheets;<br>(iii) Consolidated Statements of Cash Flows; and<br>(iv) Related notes.<br>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 March 31, 2024, formatted in Inline XBRL.                                                                                                                                                                                                                                                                   |

\* Pursuant to Item 601(b)(32)(ii) of Regulation S-K, this certification is furnished and not 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: May 6, 2024

/s/ Brody J. Wilson

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Brody J. Wilson

Principal Accounting Officer

Chief Financial Officer, Vice President, Treasurer, and Chief  
Accounting Officer

### **NORTHWEST NATURAL HOLDING COMPANY**

(Registrant)

Dated: May 6, 2024

/s/ Brody J. Wilson

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Brody J. Wilson

Principal Accounting Officer

Chief Financial Officer, Vice President, Treasurer, and Chief  
Accounting Officer