

**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 **June 30, 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 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 July 26, 2024, 38,670,272 shares of Northwest Natural Holding Company's Common Stock (the only class of Common Stock) were outstanding. All shares of Northwest Natural Gas Company's Common Stock (the only class of Common Stock) outstanding were held by Northwest Natural Holding Company.

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

NORTHWEST NATURAL GAS COMPANY NORTHWEST NATURAL HOLDING COMPANY

For the Quarterly Period Ended June 30, 2024

TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION	Page
<u>Forward-Looking Statements</u>	<u>4</u>
Item 1. Unaudited Financial Statements:	
<u>Consolidated Statements of Comprehensive Income of Northwest Natural Holding Company for the three and six months ended June 30, 2024 and 2023</u>	<u>6</u>
<u>Consolidated Balance Sheets of Northwest Natural Holding Company at June 30, 2024 and 2023 and December 31, 2023</u>	<u>7</u>
<u>Consolidated Statements of Shareholders' Equity of Northwest Natural Holding Company for the three and six months ended June 30, 2024 and 2023</u>	<u>9</u>
<u>Consolidated Statements of Cash Flows of Northwest Natural Holding Company for the six months ended June 30, 2024 and 2023</u>	<u>10</u>
<u>Consolidated Statements of Comprehensive Income of Northwest Natural Gas Company for the three and six months ended June 30, 2024 and 2023</u>	<u>11</u>
<u>Consolidated Balance Sheets of Northwest Natural Gas Company at June 30, 2024 and 2023 and December 31, 2023</u>	<u>12</u>
<u>Consolidated Statements of Shareholder's Equity of Northwest Natural Gas Company for the three and six months ended June 30, 2024 and 2023</u>	<u>14</u>
<u>Consolidated Statements of Cash Flows of Northwest Natural Gas Company for the six months ended June 30, 2024 and 2023</u>	<u>15</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>16</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>41</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>66</u>
Item 4. Controls and Procedures	<u>67</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>67</u>
Item 1A. Risk Factors	<u>67</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>67</u>
Item 6. Exhibits	<u>68</u>
<u>Signatures</u>	<u>70</u>

PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to the safe harbors created by such Act. 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating revenues	\$ 211,714	\$ 237,859	\$ 645,184	\$ 700,282
Operating expenses:				
Cost of gas	72,970	102,433	248,687	308,182
Operations and maintenance	64,950	66,819	138,564	138,636
Environmental remediation	2,329	2,140	8,075	7,515
General taxes	11,853	10,889	27,321	25,108
Revenue taxes	9,211	9,185	27,455	28,227
Depreciation	33,762	31,293	66,860	62,758
Other operating expenses	933	1,257	2,689	2,505
Total operating expenses	196,008	224,016	519,651	572,931
Income from operations	15,706	13,843	125,533	127,351
Other income (expense), net	6	6,618	(1,128)	8,224
Interest expense, net	19,311	18,974	39,842	37,270
(Loss) income before income taxes	(3,599)	1,487	84,563	98,305
Income tax (benefit) expense	(812)	243	23,527	25,390
Net (loss) income	(2,787)	1,244	61,036	72,915
Other comprehensive income (loss):				
Change in employee benefit plan liability, net of taxes of \$115 and \$49 for the three and six months ended June 30, 2024, respectively	115	—	(134)	—
Amortization of non-qualified employee benefit plan liability, net of taxes of \$55 and \$37 for the three months ended and \$101 and \$74 for the six months ended June 30, 2024 and 2023, respectively	152	103	279	205
Unrealized gain on interest rate swaps, net of taxes of \$22 and \$445 for the three months ended and \$146 and \$297 for the six months ended June 30, 2024 and 2023, respectively	58	1,236	404	825
Comprehensive (loss) income	\$ (2,462)	\$ 2,583	\$ 61,585	\$ 73,945
Average common shares outstanding:				
Basic	38,260	36,019	38,013	35,815
Diluted	38,260	36,062	38,059	35,845
(Loss) earnings per share of common stock:				
Basic	\$ (0.07)	\$ 0.03	\$ 1.61	\$ 2.04
Diluted	(0.07)	0.03	1.60	2.03

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands</i>	June 30, 2024	June 30, 2023	December 31, 2023
Assets:			
Current assets:			
Cash and cash equivalents	\$ 65,192	\$ 137,759	\$ 32,920
Accounts receivable	61,821	73,930	121,341
Accrued unbilled revenue	22,863	21,924	83,138
Allowance for uncollectible accounts	(3,758)	(3,297)	(3,455)
Regulatory assets	124,102	111,819	178,270
Derivative instruments	8,033	12,423	11,380
Inventories	107,332	67,502	112,571
Other current assets	37,535	35,797	65,275
Total current assets	423,120	457,857	601,440
Non-current assets:			
Property, plant, and equipment	4,764,593	4,391,993	4,556,609
Less: Accumulated depreciation	1,234,148	1,181,230	1,198,555
Total property, plant, and equipment, net	3,530,445	3,210,763	3,358,054
Regulatory assets	308,521	307,999	333,443
Derivative instruments	2,985	2,118	431
Other investments	83,795	104,330	102,951
Operating lease right of use asset, net	69,813	72,096	71,308
Assets under sales-type leases	127,794	132,045	129,882
Goodwill	163,166	152,670	163,344
Other non-current assets	112,727	96,827	106,239
Total non-current assets	4,399,246	4,078,848	4,265,652
Total assets	\$ 4,822,366	\$ 4,536,705	\$ 4,867,092

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands, except share information</i>	June 30, 2024	June 30, 2023	December 31, 2023
Liabilities and equity:			
Current liabilities:			
Short-term debt	\$ 79,000	\$ 41,000	\$ 89,780
Current maturities of long-term debt	866	240,714	150,865
Accounts payable	93,564	101,369	145,361
Taxes accrued	11,302	12,217	15,454
Interest accrued	18,130	11,443	15,836
Regulatory liabilities	99,663	61,546	84,962
Derivative instruments	52,048	42,135	98,661
Operating lease liabilities	1,851	1,732	2,333
Other current liabilities	79,116	58,777	93,626
Total current liabilities	435,540	570,933	696,878
Long-term debt	1,574,751	1,294,578	1,425,435
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	394,489	380,058	382,673
Regulatory liabilities	705,929	672,215	695,896
Pension and other postretirement benefit liabilities	153,849	147,063	158,116
Derivative instruments	11,988	25,212	28,055
Operating lease liabilities	76,692	77,951	77,167
Other non-current liabilities	122,412	128,417	119,034
Total deferred credits and other non-current liabilities	1,465,359	1,430,916	1,460,941
Commitments and contingencies (Note 16)			
Equity:			
Common stock - no par value; authorized 100,000,000 shares; issued and outstanding 38,669,098, 36,064,625, and 37,631,212 at June 30, 2024 and 2023, and December 31, 2023, respectively	929,498	831,135	890,976
Retained earnings	423,718	414,398	399,911
Accumulated other comprehensive loss	(6,500)	(5,255)	(7,049)
Total equity	1,346,716	1,240,278	1,283,838
Total liabilities and equity	\$ 4,822,366	\$ 4,536,705	\$ 4,867,092

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

<i>In thousands, except per share amounts</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Total shareholders' equity, beginning balances	\$ 1,343,386	\$ 1,248,307	\$ 1,283,838	\$ 1,175,441
Common stock:				
Beginning balances	905,153	824,304	890,976	805,253
Stock-based compensation	496	426	2,224	3,006
Shares issued pursuant to equity based plans, net of shares withheld for taxes	1,025	1,011	1,256	837
Issuance of common stock, net of issuance costs	22,824	5,394	35,042	22,039
Ending balances	929,498	831,135	929,498	831,135
Retained earnings:				
Beginning balances	445,058	430,597	399,911	376,473
Net (loss) income	(2,787)	1,244	61,036	72,915
Dividends on common stock	(18,553)	(17,443)	(37,229)	(34,990)
Ending balances	423,718	414,398	423,718	414,398
Accumulated other comprehensive income (loss):				
Beginning balances	(6,825)	(6,594)	(7,049)	(6,285)
Other comprehensive income	325	1,339	549	1,030
Ending balances	(6,500)	(5,255)	(6,500)	(5,255)
Total shareholders' equity, ending balances	<u>\$ 1,346,716</u>	<u>\$ 1,240,278</u>	<u>\$ 1,346,716</u>	<u>\$ 1,240,278</u>
Dividends per share of common stock	\$ 0.4875	\$ 0.4850	\$ 0.9750	\$ 0.9700

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>In thousands</i>	Six Months Ended June 30,	
	2024	2023
Operating activities:		
Net income	\$ 61,036	\$ 72,915
Adjustments to reconcile net income to cash provided by operations:		
Depreciation	66,860	62,758
Regulatory amortization of gas reserves	1,085	1,678
Deferred income taxes	8,844	8,610
Qualified defined benefit pension plan expense (benefit)	2,164	(1,129)
Contributions to qualified defined benefit pension plans	(3,390)	—
Deferred environmental expenditures, net	(14,128)	(9,732)
Environmental remediation expense	8,075	7,515
Asset optimization revenue sharing bill credits	(29,198)	(10,471)
Other	15,698	14,068
Changes in assets and liabilities:		
Receivables, net	118,562	163,965
Inventories	5,411	20,084
Income and other taxes	14,837	14,834
Accounts payable	(10,966)	(48,935)
Deferred gas costs	(14,418)	(16,370)
Asset optimization revenue sharing	4,284	12,056
Decoupling mechanism	4,085	(9,554)
Cloud-based software	(16,424)	(7,229)
Regulatory accounts	14,866	8,992
Other, net	8,793	13,799
Cash provided by operating activities	246,076	297,854
Investing activities:		
Capital expenditures	(198,929)	(144,863)
Acquisitions, net of cash acquired	—	(3,249)
Purchase of equity method investment	(1,000)	(1,000)
Other	(512)	(2,428)
Cash used in investing activities	(200,441)	(151,540)
Financing activities:		
Proceeds from common stock issued, net	34,986	22,072
Long-term debt issued	150,000	200,000
Long-term debt retired	(150,000)	—
Changes in other short-term debt, net	(10,780)	(217,200)
Cash dividend payments on common stock	(35,600)	(33,293)
Payment of financing fees	(748)	(1,883)
Shares withheld for tax purposes	(1,314)	(1,313)
Other	(764)	(578)
Cash used in financing activities	(14,220)	(32,195)
Increase in cash, cash equivalents and restricted cash	31,415	114,119
Cash, cash equivalents and restricted cash, beginning of period	49,624	40,964
Cash, cash equivalents and restricted cash, end of period	\$ 81,039	\$ 155,083
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalization	\$ 34,802	\$ 36,376
Income taxes paid, net of refunds	10,251	12,163

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating revenues	\$ 200,188	\$ 228,348	\$ 622,963	\$ 682,861
Operating expenses:				
Cost of gas	73,026	102,490	248,799	308,295
Operations and maintenance	56,751	60,238	122,260	125,627
Environmental remediation	2,329	2,140	8,075	7,515
General taxes	11,305	10,597	26,396	24,597
Revenue taxes	9,198	9,159	27,393	28,134
Depreciation	31,658	29,880	62,765	60,024
Other operating expenses	535	542	1,258	1,239
Total operating expenses	184,802	215,046	496,946	555,431
Income from operations	15,386	13,302	126,017	127,430
Other (expense) income, net	(430)	3,832	(1,752)	6,277
Interest expense, net	15,336	15,028	31,414	29,639
(Loss) income before income taxes	(380)	2,106	92,851	104,068
Income tax expense	44	322	25,717	26,744
Net (loss) income	(424)	1,784	67,134	77,324
Other comprehensive income (loss):				
Change in employee benefit plan liability, net of taxes of \$115 and \$49 for the three and six months ended June 30, 2024, respectively	115	—	(134)	—
Amortization of non-qualified employee benefit plan liability, net of taxes of \$55 and \$37 for the three months ended and \$101 and \$74 for the six months ended June 30, 2024 and 2023, respectively	152	103	279	205
Comprehensive (loss) income	\$ (157)	\$ 1,887	\$ 67,279	\$ 77,529

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands</i>	June 30, 2024	June 30, 2023	December 31, 2023
Assets:			
Current assets:			
Cash and cash equivalents	\$ 19,189	\$ 131,778	\$ 19,841
Accounts receivable	57,227	67,454	117,216
Accrued unbilled revenue	20,823	19,669	81,524
Receivables from affiliates	429	529	824
Allowance for uncollectible accounts	(3,523)	(3,080)	(3,228)
Regulatory assets	124,078	111,819	178,270
Derivative instruments	7,624	11,691	11,184
Inventories	105,599	65,949	110,855
Other current assets	36,445	35,006	60,138
Total current assets	367,891	440,815	576,624
Non-current assets:			
Property, plant, and equipment	4,581,003	4,261,100	4,393,759
Less: Accumulated depreciation	1,213,169	1,168,270	1,181,962
Total property, plant, and equipment, net	3,367,834	3,092,830	3,211,797
Regulatory assets	308,415	307,974	333,418
Derivative instruments	2,588	1,551	373
Other investments	65,865	87,848	86,145
Operating lease right of use asset, net	69,317	71,508	70,728
Assets under sales-type leases	127,794	132,045	129,882
Other non-current assets	109,009	95,343	102,410
Total non-current assets	4,050,822	3,789,099	3,934,753
Total assets	\$ 4,418,713	\$ 4,229,914	\$ 4,511,377

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In thousands</i>	June 30, 2024	June 30, 2023	December 31, 2023
Liabilities and equity:			
Current liabilities:			
Short-term debt	\$ —	\$ —	\$ 16,780
Current maturities of long-term debt	—	89,982	—
Accounts payable	86,528	95,674	138,111
Payables to affiliates	7,963	5,072	14,850
Taxes accrued	9,906	10,000	15,293
Interest accrued	15,108	10,964	15,111
Regulatory liabilities	99,545	61,496	84,912
Derivative instruments	52,048	42,135	98,661
Operating lease liabilities	1,691	1,598	2,128
Other current liabilities	75,018	55,841	89,371
Total current liabilities	<u>347,807</u>	<u>372,762</u>	<u>475,217</u>
Long-term debt	<u>1,365,066</u>	<u>1,234,577</u>	<u>1,364,732</u>
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	382,177	371,762	371,867
Regulatory liabilities	704,980	671,263	694,947
Pension and other postretirement benefit liabilities	153,848	147,063	158,116
Derivative instruments	11,988	25,212	28,055
Operating lease liabilities	76,355	77,490	76,757
Other non-current liabilities	112,158	119,489	109,066
Total deferred credits and other non-current liabilities	<u>1,441,506</u>	<u>1,412,279</u>	<u>1,438,808</u>
Commitments and contingencies (Note 16)			
Equity:			
Common stock	644,903	614,903	644,903
Retained earnings	626,523	601,602	594,954
Accumulated other comprehensive loss	(7,092)	(6,209)	(7,237)
Total equity	<u>1,264,334</u>	<u>1,210,296</u>	<u>1,232,620</u>
Total liabilities and equity	<u>\$ 4,418,713</u>	<u>\$ 4,229,914</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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Total shareholder's equity, beginning balances	\$ 1,282,362	\$ 1,250,180	\$ 1,232,620	\$ 1,191,082
Common stock:				
Beginning balances	644,903	614,911	644,903	614,903
Capital contributions from parent	—	(8)	—	—
Ending balances	644,903	614,903	644,903	614,903
Retained earnings:				
Beginning balances	644,818	641,581	594,954	582,593
Net (loss) income	(424)	1,784	67,134	77,324
Dividends on common stock	(17,871)	(41,763)	(35,565)	(58,315)
Ending balances	626,523	601,602	626,523	601,602
Accumulated other comprehensive income (loss):				
Beginning balances	(7,359)	(6,312)	(7,237)	(6,414)
Other comprehensive income	267	103	145	205
Ending balances	(7,092)	(6,209)	(7,092)	(6,209)
Total shareholder's equity, ending balances	\$ 1,264,334	\$ 1,210,296	\$ 1,264,334	\$ 1,210,296

See Notes to Unaudited Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>In thousands</i>	Six Months Ended June 30,	
	2024	2023
Operating activities:		
Net income	\$ 67,134	\$ 77,324
Adjustments to reconcile net income to cash provided by operations:		
Depreciation	62,765	60,024
Regulatory amortization of gas reserves	1,085	1,678
Deferred income taxes	7,637	4,172
Qualified defined benefit pension plan expense (benefit)	2,164	(1,129)
Contributions to qualified defined benefit pension plans	(3,390)	—
Deferred environmental expenditures, net	(14,128)	(9,732)
Environmental remediation expense	8,075	7,515
Asset optimization revenue sharing bill credits	(29,198)	(10,471)
Other	14,821	13,022
Changes in assets and liabilities:		
Receivables, net	119,695	167,936
Inventories	5,629	20,438
Income and other taxes	3,971	6,078
Accounts payable	(13,544)	(52,366)
Deferred gas costs	(14,418)	(16,370)
Asset optimization revenue sharing	4,284	12,056
Decoupling mechanism	4,085	(9,554)
Cloud-based software	(16,424)	(7,229)
Regulatory accounts	14,867	9,020
Other, net	7,089	15,593
Cash provided by operating activities	<u>232,199</u>	<u>288,005</u>
Investing activities:		
Capital expenditures	(179,015)	(129,298)
Other	(757)	(2,428)
Cash used in investing activities	<u>(179,772)</u>	<u>(131,726)</u>
Financing activities:		
Long-term debt issued	—	200,000
Changes in other short-term debt, net	(16,780)	(170,200)
Cash dividend payments on common stock	(35,565)	(58,315)
Shares withheld for tax purposes	(1,314)	(1,313)
Other	(277)	(2,045)
Cash used in financing activities	<u>(53,936)</u>	<u>(31,873)</u>
(Decrease) increase in cash, cash equivalents and restricted cash	<u>(1,509)</u>	<u>124,406</u>
Cash, cash equivalents and restricted cash, beginning of period	36,520	24,671
Cash, cash equivalents and restricted cash, end of period	<u>\$ 35,011</u>	<u>\$ 149,077</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalization	\$ 28,735	\$ 28,078
Income taxes paid, net of refunds	24,920	26,745

See Notes to Unaudited Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements represent the respective, consolidated financial results of 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

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 six months ended June 30, 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		
	June 30, 2024	2023	December 31, 2023
NW Natural:			
Current:			
Unrealized loss on derivatives ⁽¹⁾	\$ 52,048	\$ 42,135	\$ 98,661
Gas costs	7,134	24,782	9,301
Environmental costs ⁽²⁾	9,915	6,749	9,950
Decoupling ⁽³⁾	538	1,520	2,288
Pension balancing ⁽⁴⁾	7,131	7,131	7,131
Income taxes	2,208	2,208	2,208
Washington Climate Commitment Act compliance	19,655	10,379	20,537
COVID-19 deferrals and expenses, net	2,646	231	9,685
Security and systems improvements	2,647	2,984	3,267
Other ⁽⁵⁾	20,156	13,700	15,242
Total current - NW Natural	124,078	111,819	178,270
Other (NW Holdings)	24	—	—
Total current - NW Holdings	\$ 124,102	\$ 111,819	\$ 178,270
Non-current:			
Unrealized loss on derivatives ⁽¹⁾	\$ 11,988	\$ 25,212	\$ 28,055
Pension balancing ⁽⁴⁾	24,074	29,731	27,460
Income taxes	9,930	10,540	10,731
Pension and other postretirement benefit liabilities	111,502	101,413	114,010
Environmental costs ⁽²⁾	112,189	98,160	118,619
Gas costs	853	1,122	1,917
Decoupling ⁽³⁾	—	267	1,017
Washington Climate Commitment Act compliance	8,983	1,823	—
COVID-19 deferrals and expenses, net	1,128	12,731	1,080
Security and systems improvements	9,040	11,192	9,734
Other ⁽⁵⁾	18,728	15,783	20,795
Total non-current - NW Natural	308,415	307,974	333,418
Other (NW Holdings)	106	25	25
Total non-current - NW Holdings	\$ 308,521	\$ 307,999	\$ 333,443

	Regulatory Liabilities		
	June 30, 2024	2023	December 31, 2023
<i>In thousands</i>			
NW Natural:			
Current:			
Gas costs	\$ 33,491	\$ 5,603	\$ 6,375
Unrealized gain on derivatives ⁽¹⁾	7,624	11,691	11,184
Decoupling ⁽³⁾	9,538	8,715	7,612
Income taxes	4,726	5,158	4,726
Asset optimization revenue sharing	8,994	23,327	31,583
Washington Climate Commitment Act compliance	30,468	—	17,199
Other ⁽⁵⁾	4,704	7,002	6,233
Total current - NW Natural	99,545	61,496	84,912
Other (NW Holdings)	118	50	50
Total current - NW Holdings	\$ 99,663	\$ 61,546	\$ 84,962
Non-current:			
Gas costs	\$ 5,939	\$ 731	\$ 8,556
Unrealized gain on derivatives ⁽¹⁾	2,588	1,551	373
Decoupling ⁽³⁾	1,510	1,358	2,118
Income taxes ⁽⁶⁾	166,063	170,318	169,485
Accrued asset removal costs ⁽⁷⁾	510,900	481,851	496,235
Asset optimization revenue sharing	—	—	2,325
Other ⁽⁵⁾	17,980	15,454	15,855
Total non-current - NW Natural	704,980	671,263	694,947
Other (NW Holdings)	949	952	949
Total non-current - NW Holdings	\$ 705,929	\$ 672,215	\$ 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 June 30, 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 June 30, 2024, the amount invested in money market funds was \$8.2 million at NW Natural and \$11.4 million NW Holdings. As of June 30, 2023, the amount invested in money market funds was \$116.5 million at NW Natural and 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.

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances at NW Holdings as of June 30, 2024 and 2023 and December 31, 2023:

<i>In thousands</i>	June 30, 2024	June 30, 2023	December 31, 2023
Cash and cash equivalents	\$ 65,192	\$ 137,759	\$ 32,920
Restricted cash included in other current assets	15,847	17,324	16,704
Cash, cash equivalents and restricted cash	<u>\$ 81,039</u>	<u>\$ 155,083</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 June 30, 2024 and 2023 and December 31, 2023:

<i>In thousands</i>	June 30, 2024	June 30, 2023	December 31, 2023
Cash and cash equivalents	\$ 19,189	\$ 131,778	\$ 19,841
Restricted cash included in other current assets	15,822	17,299	16,679
Cash, cash equivalents and restricted cash	<u>\$ 35,011</u>	<u>\$ 149,077</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:

	As of December 31, 2023	Six Months Ended June 30, 2024		As of June 30, 2024
<i>In thousands</i>	Beginning Balance	Provision recorded, net of adjustments	Write-offs recognized, net of recoveries	Ending Balance
Allowance for uncollectible accounts:				
Residential	\$ 2,397	\$ 1,372	\$ (881)	\$ 2,888
Commercial	501	140	(262)	379
Industrial	65	(48)	(2)	15
Accrued unbilled and other	265	(3)	(21)	241
Total NW Natural	3,228	1,461	(1,166)	3,523
Other - NW Holdings	227	8	—	235
Total NW Holdings	<u>\$ 3,455</u>	<u>\$ 1,469</u>	<u>\$ (1,166)</u>	<u>\$ 3,758</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 June 30, 2024, NW Natural had \$39.8 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 \$28.6 million liability as of June 30, 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 \$28.6 million of deferred costs as of June 30, 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net (loss) income	\$ (2,787)	\$ 1,244	\$ 61,036	\$ 72,915
Average common shares outstanding - basic	38,260	36,019	38,013	35,815
Additional shares for stock-based compensation plans (See Note 8)	—	43	46	30
Average common shares outstanding - diluted	38,260	36,062	38,059	35,845
(Loss) earnings per share of common stock:				
Basic	\$ (0.07)	\$ 0.03	\$ 1.61	\$ 2.04
Diluted	\$ (0.07)	\$ 0.03	\$ 1.60	\$ 2.03
Additional information:				
Anti-dilutive shares	36	2	9	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 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:

In thousands	Three Months Ended June 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2024					
Operating revenues	\$ 194,862	\$ 5,326	\$ 200,188	\$ 11,526	\$ 211,714
Depreciation	31,418	240	31,658	2,104	33,762
Income (loss) from operations	11,788	3,598	15,386	320	15,706
Net income (loss)	(2,987)	2,563	(424)	(2,363)	(2,787)
Capital expenditures	107,473	(495)	106,978	9,734	116,712
2023					
Operating revenues	\$ 223,714	\$ 4,634	\$ 228,348	\$ 9,511	\$ 237,859
Depreciation	29,623	257	29,880	1,413	31,293
Income (loss) from operations	10,390	2,912	13,302	541	13,843
Net income (loss)	(271)	2,055	1,784	(540)	1,244
Capital expenditures	65,215	485	65,700	7,898	73,598

In thousands	Six Months Ended June 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2024					
Operating revenues	\$ 612,726	\$ 10,237	\$ 622,963	\$ 22,221	\$ 645,184
Depreciation	62,248	517	62,765	4,095	66,860
Income (loss) from operations	119,761	6,256	126,017	(484)	125,533
Net income (loss)	62,728	4,406	67,134	(6,098)	61,036
Capital expenditures	178,967	48	179,015	19,914	198,929
Total assets at June 30, 2024	4,367,838	50,875	4,418,713	403,653	4,822,366
2023					
Operating revenues	\$ 671,484	\$ 11,377	\$ 682,861	\$ 17,421	\$ 700,282
Depreciation	59,481	543	60,024	2,734	62,758
Income (loss) from operations	119,549	7,881	127,430	(79)	127,351
Net income (loss)	71,680	5,644	77,324	(4,409)	72,915
Capital expenditures	128,857	441	129,298	15,565	144,863
Total assets at June 30, 2023	4,176,376	53,538	4,229,914	306,791	4,536,705
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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
NGD margin calculation:				
NGD distribution revenues	\$ 189,979	\$ 218,988	\$ 602,966	\$ 662,049
Other regulated services	4,883	4,726	9,760	9,435
Total NGD operating revenues	194,862	223,714	612,726	671,484
Less: NGD cost of gas	73,026	102,490	248,799	308,295
Environmental remediation	2,329	2,140	8,075	7,515
Revenue taxes	9,198	9,159	27,393	28,134
NGD margin	<u>\$ 110,309</u>	<u>\$ 109,925</u>	<u>\$ 328,459</u>	<u>\$ 327,540</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 mid-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 June 30, 2024, NW Holdings issued and sold 620,000 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$22.8 million, net of fees and commissions paid to agents of \$0.3 million. During the six months ended June 30, 2024, NW Holdings issued and sold 953,000 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$35.0 million, net of fees and commissions paid to agents of \$0.6 million. As of June 30, 2024, NW Holdings had \$7.9 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 June 30,				
	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2024					
Natural gas sales	\$ 183,876	\$ —	\$ 183,876	\$ —	\$ 183,876
Gas storage revenue, net	—	3,066	3,066	—	3,066
Asset management revenue, net	—	1,328	1,328	—	1,328
Appliance retail center revenue	—	933	933	—	933
Other revenue	780	—	780	11,526	12,306
Revenue from contracts with customers	184,656	5,327	189,983	11,526	201,509
Alternative revenue	6,082	—	6,082	—	6,082
Leasing revenue	4,123	—	4,123	—	4,123
Total operating revenues	<u>\$ 194,861</u>	<u>\$ 5,327</u>	<u>\$ 200,188</u>	<u>\$ 11,526</u>	<u>\$ 211,714</u>
2023					
Natural gas sales	\$ 215,108	\$ —	\$ 215,108	\$ —	\$ 215,108
Gas storage revenue, net	—	3,201	3,201	—	3,201
Asset management revenue, net	—	502	502	—	502
Appliance retail center revenue	—	932	932	—	932
Other revenue	732	—	732	9,511	10,243
Revenue from contracts with customers	215,840	4,635	220,475	9,511	229,986
Alternative revenue	3,861	—	3,861	—	3,861
Leasing revenue	4,012	—	4,012	—	4,012
Total operating revenues	<u>\$ 223,713</u>	<u>\$ 4,635</u>	<u>\$ 228,348</u>	<u>\$ 9,511</u>	<u>\$ 237,859</u>

Six Months Ended June 30,

<i>In thousands</i>	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2024					
Natural gas sales	\$ 594,715	\$ —	\$ 594,715	\$ —	\$ 594,715
Gas storage revenue, net	—	6,071	6,071	—	6,071
Asset management revenue, net	—	1,930	1,930	—	1,930
Appliance retail center revenue	—	2,237	2,237	—	2,237
Other revenue	1,554	—	1,554	22,221	23,775
Revenue from contracts with customers	596,269	10,238	606,507	22,221	628,728
Alternative revenue	8,207	—	8,207	—	8,207
Leasing revenue	8,249	—	8,249	—	8,249
Total operating revenues	<u>\$ 612,725</u>	<u>\$ 10,238</u>	<u>\$ 622,963</u>	<u>\$ 22,221</u>	<u>\$ 645,184</u>
2023					
Natural gas sales	\$ 666,502	\$ —	\$ 666,502	\$ —	\$ 666,502
Gas storage revenue, net	—	6,000	6,000	—	6,000
Asset management revenue, net	—	3,256	3,256	—	3,256
Appliance retail center revenue	—	2,122	2,122	—	2,122
Other revenue	1,462	—	1,462	17,421	18,883
Revenue from contracts with customers	667,964	11,378	679,342	17,421	696,763
Alternative revenue	(4,491)	—	(4,491)	—	(4,491)
Leasing revenue	8,010	—	8,010	—	8,010
Total operating revenues	<u>\$ 671,483</u>	<u>\$ 11,378</u>	<u>\$ 682,861</u>	<u>\$ 17,421</u>	<u>\$ 700,282</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 June 30, 2024, unrecognized revenue for the fixed component of the transaction price related to gas storage and asset management revenue was approximately \$77.5 million. Of this amount, approximately \$14.4 million will be recognized during the remainder of 2024, \$22.3 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Lease revenue				
Operating leases	\$ 20	\$ 19	\$ 42	\$ 38
Sales-type leases	4,103	3,993	8,207	7,972
Total lease revenue	<u>\$ 4,123</u>	<u>\$ 4,012</u>	<u>\$ 8,249</u>	<u>\$ 8,010</u>

Additionally, lease revenue of \$0.2 million was recognized for both the three months ended June 30, 2024 and 2023, and lease revenue of \$0.3 million was recognized for both the six months ended June 30, 2024 and 2023 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 June 30, 2024 are as follows:

<i>In thousands</i>	Operating	Sales-Type	Total
NW Natural:			
Remainder of 2024	\$ 302	\$ 7,811	\$ 8,113
2025	599	15,306	15,905
2026	36	14,901	14,937
2027	22	14,521	14,543
2028	—	13,983	13,983
Thereafter	—	208,316	208,316
Total minimum lease payments	<u>\$ 959</u>	<u>274,838</u>	<u>\$ 275,797</u>
Less: imputed interest		148,206	
Total leases receivable		<u>\$ 126,632</u>	

Other (NW Holdings):

Remainder of 2024	\$ 26	\$ —	\$ 26
2025	53	—	53
2026	56	—	56
2027	57	—	57
2028	58	—	58
Thereafter	800	—	800
Total minimum lease payments	<u>\$ 1,050</u>	<u>\$ —</u>	<u>\$ 1,050</u>

NW Holdings:

Remainder of 2024	\$	328	\$	7,811	\$	8,139
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		208,316		209,116
Total minimum lease payments	\$	2,009		274,838	\$	276,847
Less: imputed interest				148,206		
Total leases receivable			\$	126,632		

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 \$5.7 million, \$5.3 million and \$5.5 million at June 30, 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 5 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
NW Natural:				
Operating lease expense	\$ 1,875	\$ 1,790	\$ 3,737	\$ 3,565
Short-term lease expense	384	278	465	358
Other (NW Holdings):				
Operating lease expense	\$ 46	\$ 40	\$ 91	\$ 80
NW Holdings:				
Operating lease expense	\$ 1,921	\$ 1,830	\$ 3,828	\$ 3,645
Short-term lease expense	384	278	465	358

Supplemental balance sheet information related to operating leases as of June 30, 2024 and 2023 and December 31, 2023 is as follows:

<i>In thousands</i>	June 30,		December 31,	
	2024	2023	2023	
NW Natural:				
Operating lease right of use asset	\$ 69,317	\$ 71,508	\$ 70,728	
Operating lease liabilities - current liabilities	\$ 1,691	\$ 1,598	\$ 2,128	
Operating lease liabilities - non-current liabilities	76,355	77,490	76,757	
Total operating lease liabilities	\$ 78,046	\$ 79,088	\$ 78,885	
Other (NW Holdings):				
Operating lease right of use asset	\$ 496	\$ 588	\$ 580	

Operating lease liabilities - current liabilities	\$	160	\$	134	\$	205
Operating lease liabilities - non-current liabilities		337		461		410
Total operating lease liabilities	\$	497	\$	595	\$	615

NW Holdings:

Operating lease right of use asset	\$	69,813	\$	72,096	\$	71,308
Operating lease liabilities - current liabilities	\$	1,851	\$	1,732	\$	2,333
Operating lease liabilities - non-current liabilities		76,692		77,951		77,167
Total operating lease liabilities	\$	78,543	\$	79,683	\$	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>	June 30,		December 31,
	2024	2023	2023
Weighted-average remaining lease term (years)	15.8	16.8	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 \$8.6 million, \$7.5 million and \$8.0 million as of June 30, 2024 and 2023 and December 31, 2023, respectively.

Maturities of operating lease liabilities at June 30, 2024 were as follows:

<i>In thousands</i>	NW Natural	Other (NW Holdings)	NW Holdings
Remainder of 2024	\$ 3,834	\$ 94	\$ 3,928
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	135,086	542	135,628
Less: imputed interest	57,040	45	57,085
Total lease obligations	78,046	497	78,543
Less: current obligations	1,691	160	1,851
Long-term lease obligations	\$ 76,355	\$ 337	\$ 76,692

Supplemental cash flow information related to leases was as follows:

<i>In thousands</i>	Six Months Ended June 30,	
	2024	2023
NW Natural:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 3,650	\$ 3,565
Finance cash flows from finance leases	277	173
Right of use assets obtained in exchange for lease obligations		
Operating leases	\$ —	\$ 81
Finance leases	277	173

Other (NW Holdings):

Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	\$	88	\$ 78
Right of use assets obtained in exchange for lease obligations			
Finance leases		—	90

NW Holdings:

Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	\$	3,738	\$ 3,643
Finance cash flows from finance leases		277	173
Right of use assets obtained in exchange for lease obligations			
Operating leases	\$	—	\$ 81
Finance leases		277	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 \$2.8 million, \$2.4 million and \$2.6 million at June 30, 2024 and 2023 and at December 31, 2023, respectively.

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 six months ended June 30, 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 June 30, 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 June 30, 2024, there was \$0.2 million of unrecognized compensation cost associated with the 2022 LTIP grant, which is expected to be recognized through 2024.

Restricted Stock Units

During the six months ended June 30, 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 June 30, 2024, there was \$3.9 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 June 30, 2024, June 30, 2023 and December 31, 2023, short-term debt consisted of the following:

In millions	June 30, 2024		June 30, 2023		December 31, 2023	
	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾
NW Natural:						
Commercial paper	\$ —	— %	\$ —	— %	\$ 16.8	5.5 %
Other (NW Holdings):						
Credit agreement	79.0	6.4 %	41.0	6.2 %	73.0	6.4 %
NW Holdings	<u>\$ 79.0</u>		<u>\$ 41.0</u>		<u>\$ 89.8</u>	

⁽¹⁾ Weighted average interest rate on outstanding short-term debt

Long-Term Debt

At June 30, 2024, June 30, 2023 and December 31, 2023, NW Holdings' long-term debt consisted of the following:

In millions	June 30, 2024		June 30, 2023		December 31, 2023	
	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾	Balance Outstanding	Weighted Average Interest Rate ⁽²⁾
NW Natural first mortgage bonds	\$ 1,374.7	4.6 %	\$ 1,334.7	4.7 %	\$ 1,374.7	4.7 %
NW Holdings unsecured senior bonds	150.0	5.8 %	—	— %	—	— %
NW Holdings credit agreement	—	— %	100.0	5.5 %	100.0	5.5 %
NWN Water credit agreement	—	— %	50.0	5.5 %	50.0	5.8 %
NWN Water term loan	55.0	4.7 %	55.0	4.8 %	55.0	4.7 %
Other long-term debt	6.3		5.9		6.6	
Long-term debt, gross	1,586.0		1,545.6		1,586.3	
Less: unamortized debt issuance costs	10.4		10.3		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>	

⁽¹⁾ Weighted average interest rate for the six months ended June 30, 2024 and June 30, 2023

⁽²⁾ 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 June 30, 2024 at NW Natural and \$0.9 million of debt is scheduled to mature in the next twelve months at NW Holdings.

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 Agreement

In January 2023, NWN Water entered into an interest rate swap agreement with major a financial institution for \$55.0 million that effectively converted variable-rate debt to a fixed rate of 3.8%. Interest payments made between the effective date and expiration date are hedged by the swap agreement. The interest rate swap agreement expires in June 2026.

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>	June 30,		December 31,
	2024	2023	2023
NW Natural:			
Gross long-term debt	\$ 1,374,700	\$ 1,334,700	\$ 1,374,700
Unamortized debt issuance costs	(9,634)	(10,141)	(9,968)
Carrying amount	1,365,066	1,324,559	1,364,732
Estimated fair value ⁽¹⁾	1,182,455	1,176,519	1,236,559
NW Holdings:			
Gross long-term debt	\$ 1,585,986	\$ 1,545,553	\$ 1,586,344
Unamortized debt issuance costs	(10,369)	(10,261)	(10,044)
Carrying amount	1,575,617	1,535,292	1,576,300
Estimated fair value ⁽¹⁾	1,393,946	1,385,612	1,447,941

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

10. PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS

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

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

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

<i>In thousands</i>	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Postretirement Benefits		Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023	2024	2023	2024	2023
Service cost	\$ 979	\$ 1,049	\$ 24	\$ 28	\$ 1,959	\$ 2,098	\$ 49	\$ 56
Interest cost	5,159	5,218	247	248	10,319	10,436	495	496
Expected return on plan assets	(5,936)	(6,210)	—	—	(11,871)	(12,871)	—	—
Amortization of net actuarial loss	1,496	140	—	—	2,991	279	—	—
Net periodic benefit cost (credit)	1,698	197	271	276	3,398	(58)	544	552
Amount allocated to construction	(476)	(439)	(10)	(9)	(901)	(913)	(18)	(20)
Net periodic benefit cost (credit) charged to expense	1,222	(242)	261	267	2,497	(971)	526	532
Amortization of regulatory balancing account	1,281	1,281	—	—	4,082	4,082	—	—
Net amount charged to expense	\$ 2,503	\$ 1,039	\$ 261	\$ 267	\$ 6,579	\$ 3,111	\$ 526	\$ 532

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Beginning balance	\$ (7,359)	\$ (6,312)	\$ (7,237)	\$ (6,414)
Amounts reclassified to AOCL	—	—	(183)	—
Amounts reclassified from AOCL:				
Amortization of actuarial losses	207	140	380	279
Total reclassifications before tax	207	140	197	279
Tax expense (benefit)	60	(37)	(52)	(74)
Total reclassifications for the period	267	103	145	205
Ending balance	<u>\$ (7,092)</u>	<u>\$ (6,209)</u>	<u>\$ (7,092)</u>	<u>\$ (6,209)</u>

Employer Contributions to Company-Sponsored Defined Benefit Pension Plans

NW Natural made \$3.4 million of cash contributions to its qualified defined benefit pension plans during the six months ended June 30, 2024 and no cash contributions during the six months ended June 30, 2023. NW Natural expects to make cash contributions of approximately \$17.2 million to the Pension Plan during the remainder of 2024.

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 \$5.8 million and \$5.9 million for the six months ended June 30, 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 June 30,			
	NW Holdings		NW Natural	
	2024	2023	2024	2023
Income tax at statutory rate (federal)	\$ (756)	\$ 312	\$ (80)	\$ 442
State income tax	(345)	211	(167)	217
Increase (decrease):				
Differences required to be flowed-through by regulatory commissions	107	(161)	108	(160)
Other, net	182	(119)	183	(177)
Total (benefit) expense for income taxes	<u>\$ (812)</u>	<u>\$ 243</u>	<u>\$ 44</u>	<u>\$ 322</u>
Effective income tax rate	22.6 %	16.3 %	(11.6)%	15.3 %

<i>In thousands</i>	Six Months Ended June 30,			
	NW Holdings		NW Natural	
	2024	2023	2024	2023
Income tax at statutory rate (federal)	\$ 17,758	\$ 20,644	\$ 19,499	\$ 21,854
State income tax	7,232	8,360	7,682	8,623
Increase (decrease):				
Differences required to be flowed-through by regulatory commissions	(1,472)	(3,070)	(1,472)	(3,069)
Other, net	9	(544)	8	(664)
Total provision for income taxes	<u>\$ 23,527</u>	<u>\$ 25,390</u>	<u>\$ 25,717</u>	<u>\$ 26,744</u>
Effective income tax rate	27.8 %	25.8 %	27.7 %	25.7 %

The NW Holdings and NW Natural effective income tax rates for the six months ended June 30, 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>	June 30,		December 31,
	2024	2023	2023
NW Natural:			
NGD plant in service	\$ 4,330,415	\$ 4,060,392	\$ 4,206,455
NGD construction work in progress	170,625	123,163	105,166
Less: Accumulated depreciation	1,190,789	1,146,202	1,159,367
NGD plant, net	3,310,251	3,037,353	3,152,254
Other plant in service	68,712	70,364	71,175
Other construction work in progress	11,251	7,181	10,963
Less: Accumulated depreciation	22,380	22,068	22,595
Other plant, net	57,583	55,477	59,543
Total property, plant, and equipment, net	<u>\$ 3,367,834</u>	<u>\$ 3,092,830</u>	<u>\$ 3,211,797</u>
Other (NW Holdings):			
Other plant in service	\$ 169,785	\$ 122,161	\$ 147,040
Other construction work in progress	13,805	8,732	15,810
Less: Accumulated depreciation	20,979	12,960	16,593
Other plant, net	162,611	117,933	146,257
NW Holdings:			
Total property, plant, and equipment, net	<u>\$ 3,530,445</u>	<u>\$ 3,210,763</u>	<u>\$ 3,358,054</u>
NW Natural:			
Capital expenditures in accrued liabilities	\$ 24,586	\$ 28,466	\$ 24,168
NW Holdings:			
Capital expenditures in accrued liabilities	\$ 28,370	\$ 31,439	\$ 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		
	June 30,		December 31,	June 30,		December 31,
	2024	2023	2023	2024	2023	2023
Investments in life insurance policies	\$ 46,295	\$ 46,772	\$ 45,713	\$ 46,295	\$ 46,772	\$ 45,713
Investments in gas reserves, non-current	19,570	21,488	20,893	19,570	21,488	20,893
Investment in unconsolidated affiliates	17,930	36,070	36,345	—	19,588	19,539
Total other investments	<u>\$ 83,795</u>	<u>\$ 104,330</u>	<u>\$ 102,951</u>	<u>\$ 65,865</u>	<u>\$ 87,848</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 June 30, 2024. Gas reserves are stated at cost, net of regulatory amortization, with the associated deferred tax benefits of \$3.0 million, \$4.4 million, and \$4.0 million, which are recorded as liabilities in the June 30, 2024, June 30, 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 \$2.5 million, \$3.2 million, and \$2.3 million as of June 30, 2024, June 30, 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 16,000 customer connections and employing 35 people. The carrying value of the equity method investment is \$9.9 million higher than the underlying equity in the net assets of the investee at June 30, 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 and six months ended June 30, 2024.

14. BUSINESS COMBINATIONS

2024 Business Combinations

NWN Water did not acquire any businesses qualifying as business combinations during the six months ended June 30, 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 June 30, 2024, except for Pedersen Family, LLC and King Water Corporation. 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 June 30, 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 six months ended June 30, 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 \$163.2 million, \$152.7 million, and \$163.3 million as of June 30, 2024, June 30, 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>	June 30,		December 31,
	2024	2023	2023
Natural gas (in therms):			
Financial	776,400	801,020	948,425
Physical	615,300	538,794	571,610
Foreign exchange	\$ 10,406	\$ 10,438	\$ 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 June 30,			
	2024		2023	
	Natural gas commodity	Foreign Exchange	Natural gas commodity	Foreign Exchange
Benefit (expense) to cost of gas	\$ 493	\$ 17	\$ (11,936)	\$ 168
Operating revenues (expense)	—	—	—	—
Amounts deferred to regulatory accounts on balance sheet	(493)	(17)	11,936	(168)
Total gain (loss) in pre-tax earnings	\$ —	\$ —	\$ —	\$ —
<i>In thousands</i>	Six Months Ended June 30,			
	2024		2023	
	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
Benefit (expense) to cost of gas	\$ 38,457	\$ (162)	\$ (73,257)	\$ 181
Operating revenues (expense)	—	—	—	—
Amounts deferred to regulatory accounts on balance sheet	(38,457)	162	73,257	(181)
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 \$18.7 million and net losses of \$69.2 million for the three and six months ended June 30, 2024, respectively, from the settlement of natural gas financial derivative contracts, whereas, net losses of \$19.2 million and net gains of \$153.2 million were realized for the three and six months ended June 30, 2023, respectively. 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 June 30, 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 \$5.4 million and a liability of \$59.2 million as of June 30, 2024, an asset of \$8.4 million and a liability of \$61.2 million as of June 30, 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 \$0.2 million, which decreased the liability at June 30, 2024. The net fair value was a liability of \$53.8 million, a liability of \$52.8 million, and a liability of \$115.2 million as of June 30, 2024 and 2023, and December 31, 2023, respectively. No Level 3 inputs were used in our derivative valuations during the six months ended June 30, 2024, and 2023. See Note 2 in the 2023 Form 10-K.

NWN Water Interest Rate Swap Agreement

In January 2023, NWN Water entered into an interest rate swap agreement with a major financial institution for \$55.0 million that effectively converted variable-rate debt to a fixed rate of 3.8%. Interest payments made between the effective date and expiration date are hedged by the swap agreement. The interest rate swap agreement expires in June 2026.

Unrealized gains and losses related to the interest rate swap agreement are recorded in AOCI on the consolidated balance sheet and totaled \$0.6 million and \$0.2 million, net of tax, as of June 30, 2024 and December 31, 2023, respectively. Realized gains or losses occur as a result of monthly swap settlements. A gain of \$0.2 million and \$0.6 million was reclassified from AOCI to net income during the three and six months ended June 30, 2024, respectively. The estimated amount of gains recorded in AOCI as of June 30, 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:

<i>In thousands</i>	Current Liabilities			Non-Current Liabilities		
	June 30,		December 31,	June 30,		December 31,
	2024	2023	2023	2024	2023	2023
Portland Harbor site:						
Gasco/Siltronic Sediments	\$ 9,654	\$ 8,103	\$ 12,428	\$ 40,665	\$ 42,120	\$ 42,550
Other Portland Harbor	3,218	2,838	3,035	10,143	10,143	11,270
Gasco/Siltronic Upland site	11,822	11,424	16,304	32,379	33,516	34,235
Front Street site	762	513	687	428	939	939
Oregon Steel Mills	—	—	—	179	179	179
Total	<u>\$ 25,456</u>	<u>\$ 22,878</u>	<u>\$ 32,454</u>	<u>\$ 83,794</u>	<u>\$ 86,897</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 \$50.3 million to \$350 million. NW Natural has recorded a liability of \$50.3 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 2024. 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 \$1.2 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>	June 30,		December 31,
	2024	2023	2023
Deferred costs and interest ⁽¹⁾	\$ 64,917	\$ 51,237	\$ 57,758
Accrued site liabilities ⁽²⁾	109,212	109,727	121,575
Insurance proceeds and interest	(52,025)	(56,055)	(50,764)
Total regulatory asset deferral ⁽¹⁾	122,104	104,909	128,569
Current regulatory assets ⁽³⁾	9,915	6,749	9,950
Long-term regulatory assets ⁽³⁾	112,189	98,160	118,619

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

⁽²⁾ Excludes 3.3% of the Front Street site liability as the OPUC only allows recovery of 96.7% of costs for those sites allocable to Oregon, including those that historically served only Oregon customers. Amounts excluded from regulatory assets were \$38 thousand at June 30, 2024, \$47 thousand at June 30, 2023, and \$53 thousand at December 31, 2023.

⁽³⁾ Environmental costs relate to specific sites approved for regulatory deferral by the OPUC and WUTC. In Oregon, NW Natural earns a carrying charge on cash amounts paid, whereas amounts accrued but not yet paid do not earn a carrying charge until expended. It also accrues a carrying charge on insurance proceeds for amounts owed to customers. In Washington, neither the cash paid 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 and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Diluted (loss) earnings per share - Total ⁽¹⁾	\$ (0.07)	\$ 0.03	\$ 1.60	\$ 2.03
Diluted (loss) earnings per share - NGD segment ⁽²⁾	(0.08)	(0.01)	1.65	2.00
Diluted earnings (loss) per share - NW Holdings - other ⁽²⁾	0.01	0.04	(0.05)	0.03

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

⁽²⁾ Non-GAAP financial measure

EXECUTIVE SUMMARY

NW Holdings' financial results and highlights include:

- Reported a net loss of \$2.8 million or \$0.07 per share (diluted) for the second quarter of 2024, compared to net income of \$1.2 million or \$0.03 per share (diluted) in the prior year;
- Reported net income of \$61.0 million or \$1.60 per share (diluted) for the first six months of 2024, compared to net income of \$72.9 million or \$2.03 per share (diluted) in the prior year;
- Added nearly 16,000 gas and water utility connections during the past twelve months for a combined growth rate of 1.8% at June 30, 2024 mainly driven by strong water acquisitions; and
- Invested nearly \$200 million in our utility systems in the first six months of 2024 in an effort to achieve greater reliability and resiliency.

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

	Three Months Ended June 30,				
	2024		2023		
<i>In thousands, except per share data</i>	Amount	Per Share	Amount	Per Share	QTD Change
Consolidated net (loss) income	\$ (2,787)	\$ (0.07)	\$ 1,244	\$ 0.03	\$ (4,031)

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

<i>In thousands</i>	Three Months Ended June 30,		QTD Change
	2024	2023	
	Amount	Amount	
Consolidated net (loss) income	\$ (424)	\$ 1,784	\$ (2,208)
Natural gas distribution margin	\$ 110,309	\$ 109,925	\$ 384

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023.

Consolidated net income decreased \$2.2 million at NW Natural primarily due to the following factors:

- \$4.3 million decrease in other income, net primarily due to higher pension costs and lower interest income from invested cash and the equity portion of Allowance for Funds Used During Construction (AFUDC); and
- \$1.8 million increase in depreciation expense due to additional capital investments; partially offset by
- \$3.5 million decrease in operations and maintenance expenses due to lower payroll, benefits and contract labor costs, partially offset by higher amortization expense related to cloud computing arrangements; and
- \$0.4 million increase in NGD segment margin driven by:
 - 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 \$4.0 million at NW Holdings primarily due to the following factors:

- \$2.2 million decrease in consolidated net income at NW Natural as discussed above; and
- \$1.8 million decrease in other net income primarily reflecting a gain from a settlement recognized in the prior year.

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

	Six Months Ended June 30,				
	2024		2023		YTD
<i>In thousands, except per share data</i>	Amount	Per Share	Amount	Per Share	Change
Consolidated net income	\$ 61,036	\$ 1.60	\$ 72,915	\$ 2.03	\$ (11,879)

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

<i>In thousands</i>	Six Months Ended June 30,		YTD Change
	2024	2023	
	Amount	Amount	
Consolidated net income	\$ 67,134	\$ 77,324	\$ (10,190)
Natural gas distribution margin	328,459	327,540	919

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023.

Consolidated net income decreased \$10.2 million at NW Natural primarily due to the following factors:

- \$8.0 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;
- \$2.7 million increase in depreciation expense due to additional capital investments;
- \$1.8 million increase in interest expense, net due to higher long-term debt balances;
- \$1.8 million increase in general taxes primarily driven by higher regulatory commission fees; and
- \$1.3 million decrease in asset management revenue, partially offset by
- \$3.4 million decrease in operations and maintenance expenses due to lower benefit costs and other employee-related expenses, partially offset by the amortization of deferred balances (which is primarily offset in revenues);
- \$1.0 million decrease in income tax expense due to lower pre-tax income; and
- \$0.9 million increase in NGD segment margin driven by:
 - the amortization of deferred balances (which is primarily 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; and a decline in gains on the Oregon gas cost incentive sharing mechanism.

Consolidated net income decreased \$11.9 million at NW Holdings primarily due to the following factors:

- \$10.2 million decrease in consolidated net income at NW Natural as discussed above; and
- \$1.7 million decrease in other net income primarily as a result of a gain from a settlement recognized in the prior year and higher interest expense at NW Holdings, partially offset by lower contributions to fund community outreach initiatives.

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 second quarter of 2024.

DIVIDENDS

Dividend highlights include:

Per common share	Three Months Ended June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
Dividends paid	\$ 0.4875	\$ 0.4850	\$ 0.9750	\$ 0.9700	\$ 0.0025	\$ 0.0050

In July 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 August 15, 2024 to shareholders of record on July 31, 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:

<i>In thousands, except EPS data</i>	Three Months Ended June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
NGD net (loss) income	\$ (2,987)	\$ (271)	\$ 62,728	\$ 71,680	\$ (2,716)	\$ (8,952)
Diluted (loss) earnings per share - NGD segment	\$ (0.08)	\$ (0.01)	\$ 1.65	\$ 2.00	\$ (0.07)	\$ (0.35)
Gas sold and delivered (in therms)	229,061	236,366	658,063	699,415	(7,305)	(41,352)
NGD margin ⁽¹⁾	\$ 110,309	\$ 109,925	\$ 328,459	\$ 327,540	\$ 384	\$ 919

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

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. The primary factors contributing to the \$2.7 million, or \$0.07 per share, increase in NGD net loss were as follows:

- \$4.2 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;
- \$1.8 million increase in depreciation expense due to additional capital investments; and
- \$0.7 million increase in general taxes driven by higher property taxes and regulatory commission fees; partially offset by
- \$3.5 million decrease in operations and maintenance expenses due to lower payroll, benefits and contract labor costs, partially offset by higher amortization expense related to cloud computing arrangements; and
- \$0.4 million increase in NGD margin due to:
 - \$2.5 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); and
 - \$0.4 million increase driven by customer growth; partially offset by
 - \$2.5 million decrease due to lower usage from warmer comparative weather for customers not covered under the weather normalization mechanism among other miscellaneous items.

For the three months ended June 30, 2024, total NGD volumes sold and delivered decreased 7.3 million compared to the same period in 2023 primarily due to 30% warmer than average weather in the second quarter of 2024 compared to 8% warmer than average weather in the prior period.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. The primary factors contributing to the \$9.0 million, or \$0.35 per share, decrease in NGD net income were as follows:

- \$8.0 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;
- \$2.8 million increase in depreciation expense due to additional capital investments;
- \$1.9 million increase in interest expense, net primarily due to higher long-term debt balances; and
- \$1.8 million increase in general taxes primarily driven by higher regulatory commission fees; partially offset by
- \$3.8 million decrease in operations and maintenance expenses due to lower benefit costs and other employee-related expenses, partially offset by the amortization of deferred balances (which is mostly offset in revenues); and
- \$0.9 million increase in NGD margin due to:
 - \$5.4 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);
 - \$1.6 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
 - \$4.5 million decrease due to lower usage from warmer comparative weather for customers not covered under the weather normalization mechanism; and
 - \$1.6 million decline in gains on the Oregon gas cost incentive sharing mechanism due to tighter market spreads compared to the PGA and higher than estimated gas costs during the cold weather event in January 2024.

For the six months ended June 30, 2024, total NGD volumes sold and delivered decreased 41.4 million therms over the same period in 2023 primarily due to 13% warmer than average weather in the first six months of 2024 compared to 2% 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:

<i>In thousands, except degree day and customer data</i>	Three Months Ended June 30,		Six Months Ended June 30,		Favorable/ (Unfavorable)	
	2024	2023	2024	2023	QTD Change	YTD Change
NGD volumes (therms)						
Residential and commercial sales	117,290	122,977	419,289	453,642	(5,687)	(34,353)
Industrial sales and transportation	111,771	113,389	238,774	245,773	(1,618)	(6,999)
Total NGD volumes sold and delivered	<u>229,061</u>	<u>236,366</u>	<u>658,063</u>	<u>699,415</u>	<u>(7,305)</u>	<u>(41,352)</u>
Operating Revenues						
Residential and commercial sales	\$ 169,308	\$ 194,382	\$ 556,476	\$ 606,689	\$ (25,074)	\$ (50,213)
Industrial sales and transportation	19,437	23,238	43,725	52,382	(3,801)	(8,657)
Other distribution revenues	1,234	1,368	2,765	2,978	(134)	(213)
Other regulated services	4,883	4,726	9,760	9,435	157	325
Total operating revenues	<u>194,862</u>	<u>223,714</u>	<u>612,726</u>	<u>671,484</u>	<u>(28,852)</u>	<u>(58,758)</u>
Less: Cost of gas	73,026	102,490	248,799	308,295	29,464	59,496
Less: Environmental remediation expense	2,329	2,140	8,075	7,515	(189)	(560)
Less: Revenue taxes	9,198	9,159	27,393	28,134	(39)	741
NGD margin	<u>\$ 110,309</u>	<u>\$ 109,925</u>	<u>\$ 328,459</u>	<u>\$ 327,540</u>	<u>\$ 384</u>	<u>\$ 919</u>

Margin⁽¹⁾						
Residential and commercial sales	\$ 95,645	\$ 95,069	\$ 297,141	\$ 294,315	\$ 576	\$ 2,826
Industrial sales and transportation	7,901	7,990	17,436	17,736	(89)	(300)
Gain from gas cost incentive sharing	700	731	1,500	3,074	(31)	(1,574)
Other margin	1,182	1,412	2,626	2,983	(230)	(357)
Other regulated services	4,881	4,723	9,756	9,432	158	324
NGD Margin	<u>\$ 110,309</u>	<u>\$ 109,925</u>	<u>\$ 328,459</u>	<u>\$ 327,540</u>	<u>\$ 384</u>	<u>\$ 919</u>

Degree days⁽²⁾						
Average ⁽³⁾	297	296	1,633	1,619	1	14
Actual	208	273	1,424	1,658	(24)%	(14)%
Percent (warmer) colder than average weather	(30)%	(8)%	(13)%	2 %		

	As of June 30,			
	2024	2023	Change	Growth
<u>NGD Meters - end of period:</u>				
Residential meters	731,497	726,763	4,734	0.7%
Commercial meters	69,390	68,964	426	0.6%
Industrial meters	1,056	1,065	(9)	(0.8)%
Total number of meters	801,943	796,792	5,151	0.6%

(1) 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.

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

(3) Average weather represents the 25-year average of heating degree days. Beginning November 1, 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:

	Three Months Ended June 30,		Six Months Ended June 30,			
<i>In thousands</i>	2024	2023	2024	2023	QTD Change	YTD Change
<u>Volumes (therms)</u>						
Residential sales	69,423	72,622	261,264	282,440	(3,199)	(21,176)
Commercial sales	47,867	50,355	158,025	171,202	(2,488)	(13,177)
Total volumes	<u>117,290</u>	<u>122,977</u>	<u>419,289</u>	<u>453,642</u>	<u>(5,687)</u>	<u>(34,353)</u>
<u>Operating revenues</u>						
Residential sales	\$ 113,700	\$ 132,692	\$ 382,521	\$ 406,165	\$ (18,992)	\$ (23,644)
Commercial sales	55,608	61,690	173,955	200,524	(6,082)	(26,569)
Total operating revenues	<u>\$ 169,308</u>	<u>\$ 194,382</u>	<u>\$ 556,476</u>	<u>\$ 606,689</u>	<u>\$ (25,074)</u>	<u>\$ (50,213)</u>
<u>NGD margin</u>						
Residential NGD margin	\$ 68,873	\$ 68,457	\$ 217,284	\$ 212,779	\$ 416	\$ 4,505
Commercial NGD margin	26,772	26,612	79,857	81,536	160	(1,679)
Total NGD margin	<u>\$ 95,645</u>	<u>\$ 95,069</u>	<u>\$ 297,141</u>	<u>\$ 294,315</u>	<u>\$ 576</u>	<u>\$ 2,826</u>

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Residential and commercial margin increased \$0.6 million compared to the prior period. The increase was primarily driven by 0.7% growth in residential customer meters. Volumes decreased 5.7 million therms due to lower usage driven by comparatively warmer weather.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Residential and commercial margin increased \$2.8 million compared to the prior period. The increase was primarily driven by 0.7% growth in residential customer meters. Volumes decreased 34.4 million therms due to lower usage driven by comparatively warmer weather.

Industrial Sales and Transportation

Industrial sales and transportation highlights include:

	Three Months Ended June 30,		Six Months Ended June 30,			
<i>In thousands</i>	2024	2023	2024	2023	QTD Change	YTD Change
Volumes (therms)						
Firm and interruptible sales	22,192	23,984	49,762	54,622	(1,792)	(4,860)
Firm and interruptible transportation	89,579	89,405	189,012	191,151	174	(2,139)
Total volumes - sales and transportation	<u>111,771</u>	<u>113,389</u>	<u>238,774</u>	<u>245,773</u>	<u>(1,618)</u>	<u>(6,999)</u>
NGD margin						
Firm and interruptible sales	\$ 2,998	\$ 2,942	\$ 6,999	\$ 7,045	\$ 56	\$ (46)
Firm and interruptible transportation	4,903	5,048	10,437	10,691	(145)	(254)
Total margin - sales and transportation	<u>\$ 7,901</u>	<u>\$ 7,990</u>	<u>\$ 17,436</u>	<u>\$ 17,736</u>	<u>\$ (89)</u>	<u>\$ (300)</u>

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Industrial sales and transportation margin decreased \$0.1 million compared to the prior period primarily driven by lower sales volumes. Volumes decreased 1.6 million therms primarily due to lower usage from multiple customers, most notably in the chemical manufacturing and forest products industries, partially offset by higher usage from the pulp and paper industry.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Industrial sales and transportation margin decreased \$0.3 million compared to the prior period primarily driven by lower sales and transportation volumes. Volumes decreased 7.0 million therms primarily due to lower usage from multiple customers, most notably in the pulp and paper, forest products, and food processing industries.

Cost of Gas

Cost of gas highlights include:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
Cost of gas	\$ 73,026	\$ 102,490	\$ 248,799	\$ 308,295	\$ (29,464)	\$ (59,496)
Volumes sold (therms) ⁽¹⁾	139,482	146,961	469,051	508,264	(7,479)	(39,213)
Average cost of gas (cents per therm)	\$ 0.52	\$ 0.70	\$ 0.53	\$ 0.61	\$ (0.18)	\$ (0.08)
Gain from gas cost incentive sharing ⁽²⁾	\$ 700	\$ 731	\$ 1,500	\$ 3,074	\$ (31)	\$ (1,574)

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

⁽²⁾ For additional information regarding NW Natural's gas cost incentive sharing mechanism, see Part II, Item 7 "Results of Operations—Regulatory Matters—Rate Mechanisms—Gas Reserves" in NW Natural's 2023 Form 10-K.

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Cost of gas decreased \$29.5 million primarily due to a 26% decrease in average cost of gas and a 5% decrease in volumes sold. Volumes sold decreased 7.5 million therms due to lower usage driven by comparatively warmer weather.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Cost of gas decreased \$59.5 million primarily due to a 13% decrease in average cost of gas and a 8% decrease in volumes sold. Volumes sold decreased 39.2 million therms due to lower usage driven by comparatively warmer weather. The gain from the Oregon gas cost incentive sharing mechanism declined \$1.6 million due to tighter market spreads compared to the PGA 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 June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
North Mist storage services	\$ 4,807	\$ 4,663	\$ 9,614	\$ 9,325	\$ 144	\$ 289
Other services	74	63	142	110	11	32
Total other regulated services	\$ 4,881	\$ 4,726	\$ 9,756	\$ 9,435	\$ 155	\$ 321

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 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. See Note 7 for information regarding North Mist expansion lease accounting.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Other regulated services margin increased \$0.3 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 June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
NW Natural other - net income	\$ 2,563	\$ 2,055	\$ 4,406	\$ 5,644	\$ 508	\$ (1,238)
Other NW Holdings activity	(2,363)	(540)	(6,098)	(4,409)	(1,823)	(1,689)
NW Holdings other - net income (loss)	\$ 200	\$ 1,515	\$ (1,692)	\$ 1,235	\$ (1,315)	\$ (2,927)
Diluted earnings (loss) per share - NW Holdings - other	\$ 0.01	\$ 0.04	\$ (0.05)	\$ 0.03	\$ (0.03)	\$ (0.08)

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Other net income increased \$0.5 million at NW Natural and decreased \$1.3 million at NW Holdings. The increase at NW Natural was primarily due to higher asset management revenue in the current period. The decrease at other NW Holdings was driven by a gain from a settlement recognized in the prior year.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Other net income decreased \$1.2 million at NW Natural and \$2.9 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 decrease at other NW Holdings was driven by a gain from a settlement recognized in the prior year and higher interest expense at NW Holdings, partially offset by lower contributions to fund community outreach programs.

Consolidated Operations

Operations and Maintenance

Operations and maintenance highlights include:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,		QTD	YTD
	2024	2023	2024	2023	Change	Change
NW Natural	\$ 56,751	\$ 60,238	\$ 122,260	\$ 125,627	\$ (3,487)	\$ (3,367)
Other NW Holdings operations and maintenance	8,199	6,581	16,304	13,009	1,618	3,295
NW Holdings	<u>\$ 64,950</u>	<u>\$ 66,819</u>	<u>\$ 138,564</u>	<u>\$ 138,636</u>	<u>\$ (1,869)</u>	<u>\$ (72)</u>

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Operations and maintenance expense decreased \$3.5 million at NW Natural. The decrease at NW Natural was driven by the following:

- \$2.4 million decrease related to lower payroll and benefit costs and other employee-related expenses; and
- \$1.2 million decrease in contract labor costs; partially offset by
- \$0.5 million increase in amortization expense related to cloud computing arrangements; and
- \$0.4 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.

Operations and maintenance expense decreased \$1.9 million at NW Holdings primarily due to the following:

- \$3.5 million decrease in operations and maintenance expense at NW Natural as discussed above; partially offset by
- \$1.6 million increase in other NW Holdings operations and maintenance expense primarily due to costs associated with recently acquired water and wastewater subsidiaries.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Operations and maintenance expense decreased \$3.4 million at NW Natural primarily due to the following:

- \$4.8 million decrease related to lower benefit costs and other employee-related expenses; and
- \$1.0 million decrease in contract labor costs; partially offset by
- \$2.0 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
- \$1.1 million increase in amortization expense related to cloud computing arrangements.

Operations and maintenance expense decreased \$0.1 million at NW Holdings primarily due to the following:

- \$3.4 million decrease in operations and maintenance expense at NW Natural as discussed above; partially offset by
- \$3.3 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 June 30,		Six Months Ended June 30,		QTD	YTD
	2024	2023	2024	2023	Change	Change
NW Natural	\$ 31,658	\$ 29,880	\$ 62,765	\$ 60,024	\$ 1,778	\$ 2,741
Other NW Holdings depreciation	2,104	1,413	4,095	2,734	691	1,361
NW Holdings	<u>\$ 33,762</u>	<u>\$ 31,293</u>	<u>\$ 66,860</u>	<u>\$ 62,758</u>	<u>\$ 2,469</u>	<u>\$ 4,102</u>

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Depreciation expense increased \$1.8 million at NW Natural primarily due to additional capital investments in the distribution system, such as installing new mains and meters, replacing equipment, and upgrading and improving facilities. In addition, NW Natural continued to invest in information technology projects in 2023 and 2024.

Depreciation expense increased \$2.5 million at NW Holdings, primarily due to a \$0.7 million increase in other NW Holdings depreciation related to capital expenditures at water and wastewater utilities and a \$1.8 million increase at NW Natural as discussed above.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Depreciation expense increased \$2.7 million at NW Natural primarily due to additional capital investments in the distribution system, such as installing new mains and meters, replacing equipment, and upgrading and improving facilities. In addition, NW Natural continued to invest in information technology projects in 2023 and 2024.

Depreciation expense increased \$4.1 million at NW Holdings, primarily due to a \$1.4 million increase in other NW Holdings depreciation related to capital expenditures at water and wastewater utilities and a \$2.7 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 June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
NW Natural other income (expense), net	\$ (430)	\$ 3,832	\$ (1,752)	\$ 6,277	\$ (4,262)	\$ (8,029)
Other NW Holdings activity	436	2,786	624	1,947	(2,350)	(1,323)
NW Holdings other income (expense), net	<u>\$ 6</u>	<u>\$ 6,618</u>	<u>\$ (1,128)</u>	<u>\$ 8,224</u>	<u>\$ (6,612)</u>	<u>\$ (9,352)</u>

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Other income, net decreased \$4.3 million at NW Natural primarily due to \$1.5 million of higher pension non-service costs, \$1.3 million of lower interest income from a lower level of invested cash and a \$0.8 million decline from the equity portion of AFUDC. Costs related to our defined benefit pension plan for the three months ended June 30, 2024 increased compared to the prior year due to an increase in amortization of actuarial losses.

Other income, net decreased \$6.6 million at NW Holdings driven by the decrease at NW Natural discussed above and a \$2.7 million gain from a settlement recognized in the prior year.

Other income (expense), net primarily consists of regulatory interest, pension and other postretirement non-service costs, gains from company-owned life insurance, the equity portion of AFUDC, interest income and donations.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Other income, net decreased \$8.0 million at NW Natural primarily due to \$3.4 million of higher pension non-service costs, \$1.7 million of lower interest income from a lower level of invested cash and a \$1.1 million decline from the equity portion of AFUDC. Costs related to our defined benefit pension plan for the six months ended June 30, 2024 increased compared to the prior year due to an increase in amortization of actuarial losses.

Other income, net decreased \$9.4 million at NW Holdings driven by the decrease at NW Natural discussed above and a \$2.7 million gain from a settlement recognized in the prior year, 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 June 30,		Six Months Ended June 30,		QTD Change	YTD Change
	2024	2023	2024	2023		
NW Natural	\$ 15,336	\$ 15,028	\$ 31,414	\$ 29,639	\$ 308	\$ 1,775
Other NW Holdings interest expense, net	3,975	3,946	8,428	7,631	29	797
NW Holdings	<u>\$ 19,311</u>	<u>\$ 18,974</u>	<u>\$ 39,842</u>	<u>\$ 37,270</u>	<u>\$ 337</u>	<u>\$ 2,572</u>

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Interest expense, net increased \$0.3 million at NW Natural primarily due to higher interest expense on a higher level of long-term debt.

Interest expense, net increased \$0.3 million at NW Holdings due to the increase at NW Natural discussed above.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Interest expense, net increased \$1.8 million at NW Natural primarily due to higher interest expense on a higher level of long-term debt.

Interest expense, net increased \$2.6 million at NW Holdings due to the increase at NW Natural discussed above and higher interest expense at NW Holdings.

Income Tax Expense

Income tax expense highlights include:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,		QTD	YTD
	2024	2023	2024	2023	Change	Change
NW Natural income tax expense	\$ 44	\$ 322	\$ 25,717	\$ 26,744	\$ (278)	\$ (1,027)
NW Holdings income tax (benefit) expense	\$ (812)	\$ 243	23,527	25,390	\$ (1,055)	(1,863)

THREE MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Income tax expense decreased \$0.3 million at NW Natural and \$1.1 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.

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Income tax expense decreased \$1.0 million at NW Natural and \$1.9 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 June 30, 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. See "*Most Recent Completed Rate Cases*" below.

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 1st.

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 2022 Rate Case (effective 11/1/2022)	Washington 2021 Rate Case (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 2022-23 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 June 30, 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 \$1.5 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 8% and 49% for annual requirements, which consists of between 9% and 53% in Oregon and between 0% and 16% 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.

As of May 1, 2024, core customers recalled non-utility Mist gas storage capacity of 0.2 million therms per day of deliverability and 1.15 Bcf of associated storage capacity to serve core utility customer needs. Customer impacts of this recall will begin on November 1, 2024, when the next PGA year begins, pending approval of the OPUC.

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, which was approved by the OPUC in July 2024. NW Natural does not expect a customer refund adjustment for 2024 based on results of the earnings test.

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 2022 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 June 30, 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 ⁽¹⁾
\$5.0 million insurance + interest on insurance
Total deferred annual spend subject to earnings test
Less: over-earnings adjustment, if any
Add: deferred interest on annual spend ⁽²⁾
Total amount transferred to post-review

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

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

To the extent the NGD business earns at or below its authorized ROE as defined in the SRRM, the total amount transferred to post-review is recoverable through the SRRM. To the extent more than authorized ROE is earned in a year, the amount transferred to post-review would be reduced by those earnings that exceed its authorized ROE. NW Natural concluded there was no earnings test adjustment for 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 \$20.8 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, Northwest Natural Gas Company (NW Natural), a wholly owned subsidiary of Northwest Natural Holding Company (NW Holdings), filed a request for a general rate case (Rate Case) with the Public Utility Commission of Oregon (OPUC). The filing requested a \$154.9 million annual revenue requirement increase, which included \$34.0 million related to an updated depreciation study.

On July 24, 2024, NW Natural, the OPUC staff, the Oregon Citizens' Utility Board (CUB), the Alliance of Western Energy Consumers (AWEC), the Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club (Coalition), which comprise all of the parties to the rate case, filed a stipulation (Second Stipulation) with the OPUC which addresses the majority of issues in the Rate Case.

Prior to the Second Stipulation, NW Natural, the OPUC staff, CUB and AWEC reached a partial settlement on the cost of long-term debt of 4.712% (First Stipulation and together with the Second Stipulation, the Stipulations).

The Second Stipulation provides for a total revenue requirement increase of \$95.0 million over revenues from existing rates, which includes \$9.6 million related to an updated depreciation study, subject to completion of capital projects identified as being placed in service prior to the rate effective date. The revenue requirement is based on the following assumptions:

- Capital structure of 50% common equity and 50% long-term debt;
- Return on equity of 9.4%;
- Cost of capital of 7.056%; and
- Average rate base of \$2.11 billion or an increase of \$357 million since the last rate case.

The Stipulations do not address all aspects of the Rate Case. We expect the remaining items of the original request to be subject to the ongoing regulatory litigation process, including, among other items, NW Natural's line extension allowance policy, other remaining contested issues, and certain non-revenue items. The Stipulations are subject to the review and approval of the OPUC. For new rates to be effective, the OPUC must issue an order, which may approve or deny the terms of the Stipulations or be issued under the OPUC's own terms. NW Natural expects new rates 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. The Second Stipulation executed in July 2024 modifies the bill discount percentages in the table below. 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 June 30, 2024 was approximately \$3.4 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 June 30, 2024 was approximately \$0.6 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%

METER MODERNIZATION PROGRAM. In January 2024, NW Natural filed a request with the OPUC and WUTC to defer the incremental costs to replace approximately 600,000 meters over four years. The deferral was granted by the WUTC in the first quarter of 2024. The filing is pending with the OPUC. The amount deferred to a regulatory asset as of June 30, 2024 was approximately \$0.6 million.

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. NW Natural expects to file an update to the 2022 IRP in August 2024. 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 June 30, 2024, NW Natural has invested approximately \$45.6 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 nearly 185,000 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. In the second quarter of 2024, NWN Water signed a purchase agreement for a water utility with approximately 200 connections in Oregon. NWN Water filed the application with the OPUC and the acquisition is expected to close by the end of the first quarter of 2025.

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

- In October 2023, Foothills water and sewer utilities filed general rate cases with the ACC. The parties filed a settlement agreement in July 2024, with rates proposed to go into effect on November 1, 2024.
- In February 2024, Cascadia Water filed a general rate case with the WUTC. The WUTC has suspended the effective date of rates pending further review.
- In March 2024, Sunriver Water filed a general rate case with the OPUC. The parties filed a settlement agreement, with rates proposed to go into effect on November 1, 2024.
- In June 2024, Avion Water filed a general rate case with the OPUC. The OPUC has suspended the effective date of rates until April 28, 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.

These and other federal regulations, programs and executive actions regarding GHG emissions could be affected by the elections in November 2024.

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, and if determined to be valid are expected to make installation of gas appliances significantly more costly than their electric counterparts, likely affecting the selection of natural gas by developers and builders. The new modified rules are currently subject to legal challenge by a number of companies, organizations and utilities, including NW Natural.

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. 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. A statewide initiative to repeal the CCA has qualified to be on the ballot in November 2024.

Another statewide initiative, I-2066, has qualified to be on the ballot in November 2024. I-2066 would require utilities and local governments to provide natural gas to eligible customers, prohibit restrictions on natural gas usage, and repeal sections of state law that limit gas service, rebates and incentives.

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 expect to include in rates compliance costs for 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 the rescission, the City Council directed the Eugene City Manager to develop a plan to address GHG emissions and align incentives around GHG emissions. Subsequently, the City Council has directed the City Manager to engage in a number of actions, including identifying potential revenue sources as well as potential consequences of implementing the prior directive. 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 2% of NW Natural's annual sales volume in Oregon. This percentage is subject to change as projects are awarded, canceled or modified.

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:

	June 30,		December 31,
	2024	2023	2023
Common equity	46.1 %	44.7 %	44.9 %
Long-term debt (including current maturities)	53.9	55.3	55.1
Total	100.0 %	100.0 %	100.0 %

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

	June 30,		December 31,
	2024	2023	2023
Common equity	48.1 %	47.7 %	47.5 %
Long-term debt (including current maturities)	51.9	52.3	52.5
Total	100.0 %	100.0 %	100.0 %

As of June 30, 2024 and 2023, and December 31, 2023, NW Holdings' consolidated capital structure included common equity of 44.8%, 44.0% and 43.5%; long-term debt of 52.5%, 46.0% and 48.3%; and short-term debt including current maturities of long-term debt of 2.7%, 10.0% and 8.2%, respectively. As of June 30, 2024 and 2023, and December 31, 2023, NW Natural's consolidated capital structure included common equity of 48.1%, 47.7%, and 47.2%; long-term debt of 51.9%, 48.8% and 52.2%; and short-term debt including current maturities of long-term debt of 0.0%, 3.5%, and 0.6%, respectively.

Liquidity and Capital Resources

At June 30, 2024 and 2023, NW Holdings had approximately \$65.2 million and \$137.8 million, and NW Natural had approximately \$19.2 million and \$131.8 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 mid-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 June 30, 2024, NW Holdings issued and sold 620,000 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$22.8 million, net of fees and commissions paid to agents of \$0.3 million. During the six months ended June 30, 2024, NW Holdings issued and sold 953,000 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$35.0 million, net of fees and commissions paid to agents of \$0.6 million. As of June 30, 2024, NW Holdings had \$7.9 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 June 30, 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 June 30, 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. In July 2024, NW Natural Renewables and EDL executed amendments to the original agreements. Under the amended agreements, Ohio Renewables is committed to make cash payments of approximately \$25 million per facility to partially fund the infrastructure required to condition biogas upon the facilities reaching substantial completion, or at Ohio Renewables' election, at an earlier date upon the facilities reaching specified production levels over a defined period. 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. Under the amended agreements, we currently estimate the amount of RNG purchases based on prices and quantities specified in the agreements to be as follows: approximately \$3.1 million in 2024, \$18.9 million in 2025, \$18.9 million in 2026, \$22.8 million in 2027, \$22.8 million in 2028 and \$561.1 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 3,000,000 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.

Collective Bargaining Agreement

At December 31, 2023, 614 of NW Natural's natural gas distribution employees were members of the Office and Professional Employees International Union (OPEIU) Local No. 11. In May 2024, union employees ratified a new collective bargaining agreement that took effect on June 1, 2024, expires on May 31, 2028, and is effective thereafter from year to year unless either party serves notice of its intent to negotiate modifications to the collective bargaining agreement. The terms of the collective bargaining agreement include the following items: a 6.0% wage increase effective June 1, 2024 and scheduled wage increases effective December 1 of each subsequent year of 4.0%; a 401(k) contribution of 4% for employees hired after our pension plan was closed on December 31, 2009; and a 401(k) match of 50% of the first 8% of savings.

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 June 30, 2024, June 30, 2023 and December 31, 2023, short-term debt consisted of the following:

In millions	June 30, 2024		June 30, 2023		December 31, 2023	
	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾	Balance Outstanding	Weighted Average Interest Rate ⁽¹⁾
NW Natural:						
Commercial paper	\$ —	— %	\$ —	— %	\$ 16.8	5.5 %
Other (NW Holdings):						
Credit agreement	79.0	6.4 %	41.0	6.2 %	73.0	6.4 %
NW Holdings	<u>\$ 79.0</u>		<u>\$ 41.0</u>		<u>\$ 89.8</u>	

⁽¹⁾ Weighted average interest rate on outstanding short-term debt

Credit Agreements

NW Holdings

At June 30, 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 June 30, 2024 as follows:

In millions	
Lender rating, by category	Loan Commitment
AA/Aa	\$ 200
Total	<u>\$ 200</u>

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 June 30, 2024, June 30, 2023 and December 31, 2023, \$79.0 million, \$41.0 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 June 30, 2024 and 2023, with consolidated indebtedness to total capitalization ratios of 55.1% and 56.0%, 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 June 30, 2024 and 2023.

NW Natural

At June 30, 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 June 30, 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 June 30, 2024, June 30, 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 June 30, 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 June 30, 2024 and 2023, with consolidated indebtedness to total capitalization ratios of 51.9% and 52.3%, 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 June 30, 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 May 2024, NW Natural issued a \$0.6 million letter of credit under the LC facility, which expired July 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 June 30, 2024, NW Holdings and NW Natural had long-term debt outstanding of \$1,575.6 million and \$1,365.1 million, respectively, which included \$10.4 million and \$9.6 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 June 30, 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 Agreement

In January 2023, NWN Water entered into an interest rate swap agreement with a major financial institution for \$55.0 million that effectively converted variable-rate debt to a fixed rate of 3.8%. Interest payments made between the effective date and expiration date are hedged by the swap agreement. The interest rate swap agreement expires in June 2026.

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 June 30, 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>	Six Months Ended June 30,		YTD Change
	2024	2023	
NW Natural cash provided by operating activities	\$ 232,199	\$ 288,005	\$ (55,806)
NW Holdings cash provided by operating activities	246,076	297,854	(51,778)

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Cash provided by operating activities decreased \$51.8 million at NW Holdings and \$55.8 million at NW Natural. The significant factors contributing to the decrease at NW Natural were as follows:

- \$48.2 million decrease in accounts receivable due to comparatively warmer weather in the current year;
- \$18.7 million increase in asset optimization revenue sharing bill credits to customers;
- \$14.8 million decrease in inventories due to higher priced gas and more gas withdrawn from storage in the prior year; and
- \$10.2 million decrease in net income; partially offset by
- \$38.8 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 made \$3.4 million of cash contributions to its qualified defined benefit pension plans during the six months ended June 30, 2024 and no cash contributions during the six months ended June 30, 2023. NW Natural expects to make cash contributions of approximately \$17.2 million during the remainder of 2024. 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

<i>In thousands</i>	Six Months Ended June 30,		YTD Change
	2024	2023	
NW Natural cash used in investing activities	\$ (179,772)	\$ (131,726)	\$ (48,046)
NW Holdings cash used in investing activities	(200,441)	(151,540)	(48,901)

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Cash used in investing activities increased \$48.9 million at NW Holdings and \$48.0 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 as we continue to invest in our natural gas, water and wastewater utility systems.

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.

In June 2024, NW Natural Water agreed to acquire Infrastructure Capital Holdings, which includes the assets of Puttman Infrastructure, for approximately \$34 million in cash consideration. The acquisition will add approximately 4,200 water, wastewater and recycled water customers across Oregon, Idaho and California. The transaction is expected to close in the third quarter of 2024 and will be included as cash paid for acquisitions in NW Holdings' statement of cash flows.

Financing Activities

<i>In thousands</i>	Six Months Ended June 30,		YTD Change
	2024	2023	
NW Natural cash used in financing activities	\$ (53,936)	\$ (31,873)	\$ (22,063)
NW Holdings cash used in financing activities	(14,220)	(32,195)	17,975

SIX MONTHS ENDED JUNE 30, 2024 COMPARED TO JUNE 30, 2023. Cash used in financing activities decreased \$18.0 million at NW Holdings and increased \$22.1 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 and lower dividend payments on common stock.

The decrease in cash used in financing activities at NW Holdings was primarily driven by lower payments on short-term debt and higher proceeds from common stock issuances, partially offset by a decrease in long-term debt issuances and payments made to retire long-term debt.

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 June 30, 2024, NW Natural's total estimated liability related to environmental sites is \$109.3 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 six months ended June 30, 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 June 30, 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 June 30, 2024:

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
Balance forward			2,124,528	\$ 16,732,648
04/01/24-04/30/24	—	—	—	—
05/01/24-05/31/24	—	—	—	133,267,352
06/01/24-06/30/24	—	—	—	—
Total	—	\$ —	2,124,528	\$ 150,000,000

⁽¹⁾ During the quarter ended June 30, 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 June 30, 2024, no shares of NW Holdings common stock were purchased on the open market to meet the requirements of share-based compensation programs.

⁽²⁾ During the quarter ended June 30, 2024, no shares of NW Holdings common stock were repurchased pursuant to the Board-approved share repurchase program. Effective May 23, 2024, NW Holdings' Board authorized a new share repurchase program under which NW Holdings may repurchase in open market or privately negotiated transactions up to an aggregate of 5 million shares or an amount not to exceed \$150 million. The new share repurchase program is authorized to continue until the program is used, terminated or replaced. The repurchase program replaces the Company's previously authorized share repurchase program, which commenced in 2000 and authorized the repurchase of up to 2.8 million shares, or an amount not to exceed \$100 million, in the aggregate. For more information on our prior program, refer to Note 5 in the 2023 Form 10-K.

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 June 30, 2024

Exhibit Index

Exhibit Number	Document
3.1	Amended and Restated Bylaws of Northwest Natural Gas Company.
3.2	Amended and Restated Bylaws of Northwest Natural Holding Company (incorporated by reference to Exhibit 3.1 to the Form 8-K dated May 29, 2024, File No. 1-38681).
4	Supplemental Indenture No. 27 to the Mortgage and Deed of Trust, dated as of July 1, 2024.
31.1	Certification of Principal Executive Officer of Northwest Natural Gas Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer of Northwest Natural Gas Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Principal Executive Officer of Northwest Natural Holding Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Principal Financial Officer of Northwest Natural Holding Company Pursuant to Rule 13a-14(a)/15-d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Principal Executive Officer and Principal Financial Officer of Northwest Natural Gas Company Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Principal Executive Officer and Principal Financial Officer of Northwest Natural Holding Company Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) Consolidated Statements of Income; (ii) Consolidated Balance Sheets; (iii) Consolidated Statements of Cash Flows; and (iv) Related notes. The instance document does not appear in the interactive data file because XBRL tags are embedded within the Inline XBRL document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 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: August 2, 2024

/s/ Brody J. Wilson

Brody J. Wilson

Principal Accounting Officer

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

NORTHWEST NATURAL HOLDING COMPANY

(Registrant)

Dated: August 2, 2024

/s/ Brody J. Wilson

Brody J. Wilson

Principal Accounting Officer

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