NORTHWEST NATURAL GAS CO
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to____________

Commission file number 1-15973		Commission file number 1-38681	
NORTHWEST NATURAL GAS COMPANY		NORTHWEST NATURAL HOLDING COMPANY	
(Exact name of registrant as specified in its charter)		(Exact name of registrant as specified in its charter)	
Oregon	93-0256722	Oregon	82-4710680
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
220 N.W. Second Avenue, Portland, Oregon 97209		220 N.W. Second Avenue, Portland, Oregon 97209	
(Address of principal executive offices) (Zip Code)		(Address of principal executive offices) (Zip Code)	
Registrant’s telephone number: (503) 226-4211		Registrant’s telephone number: (503) 226-4211	

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 GAS COMPANY Yes[X] No[ ]	NORTHWEST NATURAL HOLDING COMPANY Yes[X] 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 GAS COMPANY Yes[X] No[ ]	NORTHWEST NATURAL HOLDING COMPANY Yes[X] No[ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting 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 GAS COMPANY	NORTHWEST NATURAL HOLDING COMPANY
Large Accelerated Filer [ ]	Large Accelerated Filer [X]
Accelerated Filer [ ]	Accelerated Filer [ ]
Non-accelerated Filer [X]	Non-accelerated Filer [ ]
Smaller Reporting Company [ ]	Smaller Reporting Company [ ]
Emerging Growth 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 GAS COMPANY Yes[ ] No[X]	NORTHWEST NATURAL HOLDING COMPANY Yes[ ] No[X]

At October 26, 2018, 28,844,682 shares of Northwest Natural Holding Company's Common Stock (the only class of Common Stock) were outstanding, and 28,844,190 shares of Northwest Natural Gas Company's Common Stock (the only class of Common Stock) were outstanding, all of which were held by Northwest Natural Holding Company.

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

NORTHWEST NATURAL GAS COMPANY
NORTHWEST NATURAL HOLDING COMPANY
For the Quarterly Period Ended September 30, 2018

TABLE OF CONTENTS

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, intends, plans, seeks, believes, estimates, expects, and similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements regarding the following:

- plans, projections and predictions;
- objectives, goals or strategies;
- assumptions, generalizations and estimates;
- ongoing continuation of past practices or patterns;
- future events or performance;
- trends;
- risks;
- timing and cyclicality;
- earnings and dividends;
- capital expenditures and allocation;
- capital or organizational structure, including restructuring as a holding company;
- climate change and our role in a low-carbon future;
- growth;
- customer rates;
- labor relations and workforce succession;
- commodity costs;
- gas reserves;
- operational and financial performance and costs;
- energy policy, infrastructure and preferences;
- public policy approach and involvement;
- efficacy of derivatives and hedges;
- liquidity, financial positions, and planned securities issuances;
- valuations;
- project and program development, expansion, or investment;
- business development efforts, including acquisitions and integration thereof;
- asset dispositions and outcomes thereof;
- pipeline capacity, demand, location, and reliability;
- adequacy of property rights and headquarter development;
- technology implementation and cybersecurity practices;
- competition;
- procurement and development of gas supplies;
- estimated expenditures;
- costs of compliance;
- credit exposures;
- seasonality of gas utility earnings;
- rate or regulatory outcomes, recovery or refunds;
- impacts or changes of laws, rules and regulations;
- tax liabilities or refunds, including effects of tax reform and related timing variances;
- 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 retirement plans;
- availability, adequacy, and shift in mix, of gas 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 operational or financial performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in NW Natural's 2017 Annual Report on Form 10-K, Part I, Item 1A “Risk Factors” and Part II, Item 7 and Item 7A, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures about Market Risk,” and in Part I, Items 2 and 3, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk”, respectively of Part II of this report.

Table of Contents

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our 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.

Table of Contents

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands, except per share data	2018	2017	2018	2017
Operating revenues	$91,239	$86,213	$479,441	$516,413
Operating expenses:				
Cost of gas	25,538	27,239	175,697	223,855
Operations and maintenance	37,569	34,267	115,120	106,710
Environmental remediation	1,022	1,355	7,528	10,920
General taxes	7,589	7,540	24,792	23,423
Revenue taxes	3,522	—	20,731	—
Depreciation and amortization	21,485	20,352	63,507	60,529
Other operating expenses	625	—	2,157	—
Total operating expenses	97,350	90,753	409,532	425,437
Income (loss) from operations	(6,111)	(4,540)	69,909	90,976
Other income (expense), net	(312)	139	(1,139)	(624)
Interest expense, net	9,006	9,208	27,051	28,311
Income (loss) before income taxes	(15,429)	(13,609)	41,719	62,041
Income tax (benefit) expense	(4,285)	(5,722)	11,191	24,456
Net income (loss) from continuing operations	(11,144)	(7,887)	30,528	37,585
Loss from discontinued operations, net of tax	(650)	(608)	(1,783)	(3,041)
Net income (loss)	(11,794)	(8,495)	28,745	34,544
Other comprehensive income:				
Amortization of non-qualified employee benefit plan liability, net of taxes of $55 and $98 for the three months ended and $166 and $275 for the nine months ended September 30, 2018 and 2017, respectively	154	150	461	423
Comprehensive income (loss)	$(11,640)	$(8,345)	$29,206	$34,967
Average common shares outstanding:				
Basic	28,815	28,678	28,787	28,653
Diluted	28,815	28,678	28,846	28,734
Earnings (loss) from continuing operations per share of common stock:				
Basic	$(0.39)	$(0.28)	$1.06	$1.32
Diluted	(0.39)	(0.28)	1.06	1.31
Loss from discontinued operations per share of common stock:				
Basic	$(0.02)	$(0.02)	$(0.06)	$(0.11)
Diluted	(0.02)	(0.02)	(0.06)	(0.11)
Earnings (loss) per share of common stock:				
Basic	$(0.41)	$(0.30)	$1.00	$1.21
Diluted	(0.41)	(0.30)	1.00	1.20

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	September 30, 2018	September 30, 2017	December 31, 2017
Assets:			
Current assets:			
Cash and cash equivalents	$29,965	$15,780	$3,472
Accounts receivable	25,125	21,930	66,236
Accrued unbilled revenue	16,351	15,974	62,381
Allowance for uncollectible accounts	(394)	(459)	(956)
Regulatory assets	41,241	49,504	45,781
Derivative instruments	2,871	2,073	1,735
Inventories	53,064	59,135	47,577
Gas reserves	16,916	16,218	15,704
Other current assets	20,376	17,285	24,949
Discontinued operations current assets (Note 16)	12,644	2,106	3,057
Total current assets	218,159	199,546	269,936
Non-current assets:			
Property, plant, and equipment	3,370,388	3,148,545	3,204,635
Less: Accumulated depreciation	996,994	954,782	960,477
Total property, plant, and equipment, net	2,373,394	2,193,763	2,244,158
Gas reserves	70,556	87,876	84,053
Regulatory assets	333,917	345,352	356,608
Derivative instruments	861	1,555	1,306
Other investments	65,113	69,245	66,363
Goodwill	6,563	—	—
Other non-current assets	12,844	4,192	6,505
Discontinued operations non-current assets (Note 16)	—	204,078	10,817
Total non-current assets	2,863,248	2,906,061	2,769,810
Total assets	$3,081,407	$3,105,607	$3,039,746

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	September 30, 2018	September 30, 2017	December 31, 2017
Liabilities and equity:			
Current liabilities:			
Short-term debt	$100,500	$—	$54,200
Current maturities of long-term debt	84,940	21,995	96,703
Accounts payable	80,143	87,123	111,021
Taxes accrued	13,074	11,933	18,883
Interest accrued	9,453	9,854	6,773
Regulatory liabilities	37,504	34,659	34,013
Derivative instruments	8,828	8,968	18,722
Other current liabilities	35,497	27,218	39,942
Discontinued operations current liabilities (Note 16)	13,003	1,201	1,593
Total current liabilities	382,942	202,951	381,850
Long-term debt	724,654	757,429	683,184
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	274,315	572,293	270,526
Regulatory liabilities	606,175	363,838	586,093
Pension and other postretirement benefit liabilities	212,249	212,259	223,333
Derivative instruments	3,016	3,926	4,649
Other non-current liabilities	140,475	134,123	135,292
Discontinued operations - non-current liabilities (Note 16)	—	12,106	12,043
Total deferred credits and other non-current liabilities	1,236,230	1,298,545	1,231,936
Commitments and contingencies (Note 15)			
Equity:			
Common stock - no par value; authorized 100,000 shares; issued and outstanding 28,844, 28,713, and 28,736 at September 30, 2018 and 2017, and December 31, 2017, respectively	455,499	447,129	448,865
Retained earnings	290,059	406,081	302,349
Accumulated other comprehensive loss	(7,977)	(6,528)	(8,438)
Total equity	737,581	846,682	742,776
Total liabilities and equity	$3,081,407	$3,105,607	$3,039,746

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
In thousands	2018	2017
Operating activities:		
Net income	$28,745	$34,544
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	63,507	60,529
Regulatory amortization of gas reserves	12,056	12,036
Deferred income taxes	3,954	17,287
Qualified defined benefit pension plan expense	4,450	3,923
Contributions to qualified defined benefit pension plans	(11,690)	(15,400)
Deferred environmental expenditures, net	(10,547)	(10,468)
Amortization of environmental remediation	7,528	10,920
Regulatory revenue deferral from the TCJA	6,983	—
Other	1,541	2,522
Changes in assets and liabilities:		
Receivables, net	83,194	90,311
Inventories	(5,134)	(5,372)
Income taxes	(5,809)	(216)
Accounts payable	(22,929)	(29,282)
Interest accrued	2,680	3,888
Deferred gas costs	2,372	13,419
Other, net	(3,588)	28
Discontinued operations	1,216	4,187
Cash provided by operating activities	158,529	192,856
Investing activities:		
Capital expenditures	(158,795)	(145,274)
Other	(1,661)	(1,131)
Discontinued operations	(619)	(167)
Cash used in investing activities	(161,075)	(146,572)
Financing activities:		
Repurchases related to stock-based compensation	—	(2,034)
Proceeds from stock options exercised	1,368	3,711
Long-term debt issued	50,000	100,000
Long-term debt retired	(22,000)	(40,000)
Change in short-term debt	46,300	(53,300)
Cash dividend payments on common stock	(38,387)	(40,390)
Stock purchases related to acquisitions	(7,951)	—
Other	(291)	(2,012)
Cash provided by (used in) financing activities	29,039	(34,025)
Increase in cash and cash equivalents	26,493	12,259
Cash and cash equivalents, beginning of period	3,472	3,521

Cash and cash equivalents, end of period	$29,965	$15,780
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalization	$22,821	$22,859
Income taxes paid, net of refunds	22,047	11,581

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL HOLDING COMPANY
CONSOLIDATED BALANCE SHEET (UNAUDITED)

In thousands, except share amounts	September 30, 2018
Assets:	
Current assets:	
Cash and cash equivalents	$ 20,000
Total current assets	20,000
Total assets	$ 20,000
Equity:	
Common stock - no par value; authorized 100,000,000 shares; 100 issued and outstanding at September 30, 2018	$ 20,000
Total equity	$ 20,000

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL HOLDING COMPANY
CONSOLIDATED STATEMENT OF CASH
FLOWS (UNAUDITED)

In thousands	Inception through September 30, 2018
Financing activities:	
Capital contributions	$ 20,000
Cash provided by financing activities	20,000
Increase in cash and cash equivalents	20,000
Cash and cash equivalents, at inception	—
Cash and cash equivalents, end of period	$ 20,000

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

On October 1, 2018, Northwest Natural Gas Company (NW Natural) and Northwest Natural Holding Company (NW Holdings) completed the reorganization into a holding company structure. NW Holdings is now the parent holding company of NW Natural, NW Natural Water Company, LLC (NWN Water) and other subsidiaries previously held by NW Natural. For further discussion, see Note 17. These financial statements and accompanying notes are for the period ending September 30, 2018 and reflect the organizational structure prior to the reorganization.

The accompanying consolidated financial statements represent the consolidated results of NW Natural and all companies NW Natural directly or indirectly controlled, either through majority ownership or otherwise as of September 30, 2018. NW Natural's regulated local gas distribution business, referred to as the utility segment, is NW Natural's core operating business and serves residential, commercial, and industrial customers in Oregon and southwest Washington. The other category primarily includes the non-utility portion of the Mist gas storage facility that provides storage services for utilities, gas marketers, electric generators, and large industrial users from facilities located in Oregon. In addition, prior to the reorganization NW Natural held regulated water services, other investments, and other non-utility activities reported as other.

NW Natural's direct and indirect wholly-owned subsidiaries as of September 30, 2018 include:

- NW Natural Energy, LLC (NWN Energy);
  - NW Natural Gas Storage, LLC (NWN Gas Storage);
  - Gill Ranch Storage, LLC (Gill Ranch), which is presented as a discontinued operation;
- Northwest Energy Corporation (Energy Corp);
  - NWN Gas Reserves LLC (NWN Gas Reserves);
- NNG Financial Corporation (NNG Financial);

- NW Natural Water Company, LLC (NWN Water);
  - Falls Water Co., Inc. (Falls Water);
  - Cascadia Water, LLC (Cascadia);
- Northwest Natural Holding Company (NW Holdings); and
  - NWN Merger Sub, Inc. (NWN Holdco Sub).

NW Holdings' direct and indirect wholly-owned subsidiaries as of the filing date of this report include:

- Northwest Natural Gas Company (NW Natural);
  - Northwest Energy Corporation (Energy Corp);
- NWN Gas Reserves LLC (NWN Gas Reserves);
- NW Natural Energy, LLC (NWN Energy);
  - NW Natural Gas Storage, LLC (NWN Gas Storage);
  - Gill Ranch Storage, LLC (Gill Ranch), which is presented as a discontinued operation;
- NNG Financial Corporation (NNG Financial);

- NW Natural Water Company, LLC (NWN Water);

Falls Water Co., Inc. (Falls Water);
Salmon Valley Water Company;
Cascadia Water, LLC (Cascadia);
NW Natural Water of Oregon, LLC (NWN Water of Oregon);
NW Natural Water of Washington, LLC; and
NW Natural Water of Idaho, LLC.

Investments in corporate joint ventures and partnerships that the registrant does not directly or indirectly control, and for which it is not the primary beneficiary, include NWN Energy's investment in Trail West Holdings, LLC (TWH), which is accounted for under the equity method, and NNG Financial's investment in Kelso-Beaver Pipeline. The consolidated financial statements are presented after elimination of all intercompany balances and transactions. In this report, the term “utility” is used to describe NW Natural's regulated gas distribution business, and the term “non-utility” is used to describe the non-utility portion of the Mist gas storage facility and other non-utility investments and business activities.

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 Natural's 2017 Annual Report on Form 10-K (2017 Form 10-K), taking into consideration the changes mentioned below in this Note 1 and in Notes 4 and 15, as reflected in Exhibit 99.1 to the Current Report on Form 8-K (Form 8-K) filed on September 24, 2018. A significant part of NW Natural's business is of a seasonal nature; therefore, results of operations for interim periods are not necessarily indicative of full year results.

During the second quarter of 2018, we moved forward with NW Natural's long-term strategic plans, which include a shift away from the California gas storage business. In June 2018, NWN Gas Storage, a wholly-owned subsidiary, entered into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in its wholly-owned subsidiary, Gill Ranch, subject to various regulatory approvals and closing conditions. We have concluded that the pending sale of Gill Ranch qualifies as assets and liabilities held for sale and discontinued operations. As such, for all periods presented, the results of Gill Ranch have been presented as a discontinued operation on the consolidated statements of comprehensive income and cash flows, and the assets and liabilities associated with Gill Ranch have been classified as discontinued operations assets and liabilities on the consolidated balance sheets. See Note 16 for additional information. Additionally, we reevaluated reportable segments and concluded that the remaining gas storage activities no longer meet the requirements to be separately reported as a segment. The non-utility portion of the Mist gas storage facility is now reported as other, and all prior periods reflect this change. See Note 4, which provides segment information. These reclassifications had no effect on the prior year's consolidated results of operations, financial condition, or cash flows.

NW Holdings was formed on March 7, 2018. The accompanying financial statements for NW Holdings are provided in accordance with Exchange Act Rules 13a-13 and 15d-13. There was no income statement activity for NW Holdings during the period ended September 30, 2018 and thus no income statement is provided for NW Holdings. Prior to completing the reorganization, NW Holdings received a $20.0 million capital contribution.

Notes to the consolidated financial statements reflect the activity of continuing operations for all periods presented, unless otherwise noted. Note 16 provides information regarding discontinued operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described in Note 2 of the 2017 Form 10-K. There were no material changes to those accounting policies during the nine months ended September 30, 2018 other than those incorporated in Note 5, Note 13, and Note 16 relating to revenue, business combinations and goodwill, and discontinued operations, respectively. The following are current updates to certain critical accounting policy estimates and new accounting standards.

Industry Regulation

In applying regulatory accounting principles, NW Natural capitalizes or defers certain costs and revenues as regulatory assets and liabilities pursuant to orders of the Oregon Public Utilities Commission (OPUC), Washington Utilities and Transportation Commission (WUTC) or Idaho Public Utilities Commission (IPUC), 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.

Table of Contents

Amounts deferred as regulatory assets and liabilities were as follows:

	Regulatory Assets		
	September 30,		December 31,
In thousands	2018	2017	2017
Current:			
Unrealized loss on derivatives(1)	$8,828	$8,887	$18,712
Gas costs	461	1,851	154
Environmental costs(2)	5,633	6,362	6,198
Decoupling(3)	11,990	15,663	11,227
Income taxes	2,217	4,378	2,218
Other(4)	12,112	12,363	7,272
Total current	$41,241	$49,504	$45,781
Non-current:			
Unrealized loss on derivatives(1)	$3,016	$3,926	$4,649
Pension balancing(5)	72,291	57,599	60,383
Income taxes	19,267	36,591	19,991
Pension and other postretirement benefit liabilities	165,741	172,687	179,824
Environmental costs(2)	63,464	63,339	72,128
Gas costs	14	48	84
Decoupling(3)	829	1,025	3,970
Other(4)	9,295	10,137	15,579
Total non-current	$333,917	$345,352	$356,608

	Regulatory Liabilities		
	September 30,		December 31,
In thousands	2018	2017	2017
Current:			
Gas costs	$20,716	$16,459	$14,886
Unrealized gain on derivatives(1)	2,862	2,020	1,674
Decoupling(3)	1,697	314	322
Other(4)	12,229	15,866	17,131
Total current	$37,504	$34,659	$34,013
Non-current:			
Gas costs	$1,409	$1,015	$4,630
Unrealized gain on derivatives(1)	861	1,555	1,306
Decoupling(3)	119	—	957
Income taxes(6)	223,841	—	213,306
Accrued asset removal costs(7)	375,257	356,106	360,929
Other(4)	4,688	5,162	4,965
Total non-current	$606,175	$363,838	$586,093

(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 utility rates as part of the annual Purchased Gas Adjustment (PGA) mechanism when realized at settlement.

(2) Refer to footnote (3) per the Deferred Regulatory Asset table in Note 15 for a description of environmental costs.

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

(4) Balances consist of deferrals and amortizations under approved regulatory mechanisms and typically earn a rate of return or carrying charge.
(5) Refer to footnote (1) of the Net Periodic Benefit Cost table in Note 8 for information regarding the deferral of pension expenses.
(6) This balance represents estimated amounts associated with the Tax Cuts and Jobs Act. See Note 9.
(7) Estimated costs of removal on certain regulated properties are collected through rates.

We believe all costs incurred and deferred at September 30, 2018 are prudent. All regulatory assets and liabilities are reviewed annually for recoverability, or more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then NW Natural would be required to write-off the net unrecoverable balances in the period such determination is made.

New Accounting Standards

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

Recently Adopted Accounting Pronouncements

STOCK COMPENSATION. On May 10, 2017, the FASB issued ASU 2017-09, "Stock Compensation - Scope of Modification Accounting." The purpose of the amendment is to provide clarity, reduce diversity in practice, and reduce the cost and complexity when applying the guidance in Topic 718, related to a change to the terms or conditions of a share-based payment award. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this update were effective for NW Natural beginning January 1, 2018, and will be applied prospectively to any award modified on or after the adoption date. The adoption did not have a material impact to financial statements or disclosures.

RETIREMENT BENEFITS. On March 10, 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost." The ASU requires entities to disaggregate current service cost from the other components of net periodic benefit cost and present it with other current compensation costs for related employees in the income statement. Additionally, the other components of net periodic benefit costs are to be presented elsewhere in the income statement and outside of income from operations, if that subtotal is presented. Only the service cost component of the net periodic benefit cost is eligible for capitalization. The amendments in this update were effective for us beginning January 1, 2018.

Upon adoption, the ASU required that changes to the income statement presentation of net periodic benefit cost be applied retrospectively, while changes to amounts capitalized must be applied prospectively. As such, the interest cost, expected return on assets, amortization of prior service costs, and other costs have been reclassified from operations and maintenance expense to other income (expense), net on the consolidated statement of comprehensive income for the three and nine months ended September 30, 2017. NW Natural did not elect the practical expedient which would have allowed us to reclassify amounts disclosed previously in the pension and other postretirement benefits footnote disclosure as the basis for applying retrospective presentation. As mentioned above, on a prospective basis, the other components of net periodic benefit cost will not be eligible for capitalization, however, they will continue to be included in the pension regulatory balancing mechanism.

The retrospective presentation requirement related to the other components of net periodic benefit cost affected the operations and maintenance expense and other income (expense), net lines on the consolidated statement of comprehensive income. For the three and nine months ended September 30, 2017, $1.4 million and $4.0 million of expense was reclassified from operations and maintenance expense and included in other income (expense), net, respectively.

GOODWILL. On January 26, 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." The ASU removes Step 2 from the goodwill impairment test and under the amended guidance an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount in which the carrying amounts exceeds the fair value of the reporting unit. The amendments in this standard are effective for us beginning January 1, 2020 and early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. NW Natural early adopted ASU 2017-04 in the third quarter ended September 30, 2018. The adoption of this ASU did not materially affect the financial statements and disclosures.

STATEMENT OF CASH FLOWS. On August 26, 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." The ASU adds guidance pertaining to the classification of certain cash receipts and payments on the statement of cash flows. The purpose of the amendment is to clarify issues that have been creating diversity in practice. The amendments in this standard were effective for us beginning January 1, 2018, and the adoption did not have a material impact to financial statements or disclosures as NW Natural's historical practices and presentation were consistent with the directives of this ASU.

FINANCIAL INSTRUMENTS. On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation, and disclosure. The new standard was effective for us beginning January 1, 2018, and the adoption did not materially impact financial statements or disclosures.

REVENUE RECOGNITION. On May 28, 2014, the FASB issued ASU 2014-09 "Revenue From Contracts with Customers." The underlying principle of the guidance requires entities to recognize revenue depicting the transfer of goods or services to customers at amounts the entity is expected to be entitled to in exchange for those goods or services. The ASU also prescribes a five-step approach to revenue recognition: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when, or as, each performance obligation is satisfied. The guidance also requires additional disclosures, both qualitative and quantitative, regarding the nature, amount, timing and uncertainty of revenue and cash flows.

The new accounting standard and all related amendments were effective for us beginning January 1, 2018. NW Natural applied the accounting standard to all contracts using the modified retrospective method. The new standard is primarily reflected in the consolidated statement of comprehensive income and Note 5. The implementation of the new revenue standard did not result in changes to how NW Natural currently recognizes revenue, and therefore, no cumulative effect or adjustment to the opening balance of retained earnings was required. The implementation did result in changes to the disclosures and presentation of revenue and expenses. The comparative information for prior years has not been restated. There is no material impact to financial results and no significant changes to NW Natural's control environment due to the adoption of the new revenue standard on an ongoing basis.

As previously discussed, the adoption of the new revenue standard did not impact the consolidated balance sheet or statement of cash flows but did result in changes to the presentation of the consolidated statements of comprehensive income. Had the adoption of the new revenue standard not occurred, operating revenues for the three and nine months ended September 30, 2018 would have been $87.7 million and $458.7 million, compared to the reported amounts of $91.2 million and $479.4 million under the new revenue standard, respectively. Similarly, absent the impact of the new revenue standard, operating expenses would have been $93.9 million and $388.8 million, compared to the reported amounts of $97.4 million and $409.5 million under the new revenue standard for the three and nine months ended September 30, 2018, respectively. The effect of the change was an increase in both operating revenues and operating expenses of $3.5 million and $20.7 million for the three and nine months ended September 30, 2018, respectively, due to the change in presentation of revenue taxes. As part of the adoption of the new revenue standard, we evaluated the presentation of revenue taxes under the new guidance and across NW Natural's peer group and concluded that the gross presentation of revenue taxes provides the greatest level of consistency and transparency. Prior to the adoption of the new revenue standard, a portion of revenue taxes was presented net in operating revenues and a portion was recorded directly on the balance sheet. During the three and nine months ended September 30, 2018, NW Natural recognized $3.5 million and $20.7 million in revenue taxes in operating revenues and operating expenses, respectively. In comparison, for the three and nine months ended September 30, 2017, NW Natural recognized $3.7 million and $23.0 million in revenue taxes, of which $2.3 million and $13.3 million were recorded in operating revenues and $1.4 million and $9.7 million were recorded on the balance sheet, respectively. The change in presentation of revenue taxes had no impact on utility margin, net income or earnings per share.

Recently Issued Accounting Pronouncements

CLOUD COMPUTING. On August 29, 2018, the FASB issued ASU 2018-15, "Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The purpose of the amendment is to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update are effective for us beginning January 1, 2020. Early adoption is permitted. The amended guidance can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the effect of this standard on financial statements and disclosures.

RETIREMENT BENEFITS. On August 28, 2018, the FASB issued ASU 2018-14, "Changes to the Disclosure Requirements for Defined Benefit Plans." The purpose of the amendment is to modify the disclosure requirements for defined benefit pension and other postretirement plans. The amendments in this update are effective for us beginning January 1, 2020. Early adoption is permitted. The amended presentation and disclosure guidance should be applied retrospectively. We are currently assessing the effect of this standard on disclosures.

FAIR VALUE MEASUREMENT. On August 28, 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement." The purpose of the amendment is to modify the disclosure requirements for fair value measurements. The amendments in this update are effective for us beginning January 1, 2020. Early adoption is permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively. We are currently assessing the effect of this standard on disclosures.

ACCUMULATED OTHER COMPREHENSIVE INCOME. On February 14, 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update was issued in response to concerns from certain stakeholders regarding the current requirements under U.S. GAAP that deferred tax assets and liabilities are adjusted for a change in tax laws or rates, and the effect is to be included in income from continuing operations in the period of the enactment date. This requirement is also applicable to items in accumulated other comprehensive income where the related tax effects were originally recognized in other comprehensive income. The adjustment of deferred taxes due to the new corporate income tax rate enacted through the Tax Cuts and Jobs Act (TCJA) on December 22, 2017 recognized in income from continuing operations causes the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects) to not reflect the appropriate tax rate. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA and require certain disclosures about stranded tax effects. The amendments in this update are effective for us beginning January 1, 2019, and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the federal corporate income tax rate in the TCJA is recognized. The reclassification allowed in this update is elective, and we are currently assessing whether NW Natural will make the reclassification. This update is not expected to have a material impact on financial condition.

DERIVATIVES AND HEDGING. On August 28, 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities." The purpose of the amendment is to more closely align hedge accounting with companies' risk management strategies. The ASU amends the accounting for risk component hedging, the hedged item in fair value hedges of interest rate risk, and amounts excluded from the assessment of hedge effectiveness. The guidance also amends the recognition and presentation of the effect of hedging instruments and includes other simplifications of hedge accounting. The amendments in this update are effective for us beginning January 1, 2019. Early adoption is permitted. The amended presentation and disclosure guidance is required prospectively. We are currently assessing the effect of this standard on financial statements and disclosures.

LEASES. On February 25, 2016, the FASB issued ASU 2016-02, "Leases," which revises the existing lease accounting guidance. Pursuant to the new standard, lessees will be required to recognize all leases, including operating leases that are greater than 12 months at lease commencement, on the balance sheet and record corresponding right-of-use assets and lease liabilities. Lessor accounting will remain substantially the same under the new standard. Quantitative and qualitative disclosures are also required for users of the financial statements to have a clear understanding of the nature of NW Natural's leasing activities. On November 29, 2017, the FASB proposed an additional practical expedient that would allow entities to apply the transition requirements on the effective date of the standard. Additionally, on January 25, 2018, the FASB issued ASU 2018-01, "Land Easement Practical Expedient for Transition to Topic 842", to address the costs and complexity of applying the transition provisions of the new lease standard to land easements. This ASU provides an optional practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under the current lease guidance. The standard and associated ASUs are effective for us beginning January 1, 2019. We are currently assessing NW Natural's lease population and material contracts to determine the effect of this standard on financial statements and disclosures. Refer to Note 14 of the 2017 Form 10-K for NW Natural's current lease commitments.

3. EARNINGS PER SHARE

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

Diluted earnings (loss) from continuing operations per share are calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands, except per share data	2018	2017	2018	2017
Net income (loss) from continuing operations	$(11,144)	$(7,887)	$30,528	$37,585
Average common shares outstanding - basic	28,815	28,678	28,787	28,653
Additional shares for stock-based compensation plans (See Note 6)	—	—	59	81
Average common shares outstanding - diluted	28,815	28,678	28,846	28,734
Earnings (loss) from continuing operations per share of common stock - basic	$(0.39)	$(0.28)	$1.06	$1.32

Earnings (loss) from continuing operations per share of common stock - diluted	$(0.39)	$(0.28)	$1.06	$1.31
Additional information:				
Antidilutive shares	73	96	4	15

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 utility segment. During the second quarter of 2018, we moved forward with long-term strategic plans, which include a shift away from the California gas storage business, by entering into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in Gill Ranch, subject to various regulatory approvals and closing conditions. As such, we reevaluated reportable segments and concluded that the gas storage activities no longer meet the requirements of a reportable segment. Ongoing, non-utility gas storage activities, which include interstate storage and asset management activities at the Mist gas storage facility, are now reported as other. NW Natural also has regulated water operations, other investments, and business activities not specifically related to the utility segment, which are aggregated and reported as other. We refer to NW Natural's local gas distribution business as the utility and all other activities as non-utility.

Local 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. As a regulated utility, NW Natural is responsible for building and maintaining a safe and reliable pipeline distribution system, purchasing sufficient gas supplies from producers and marketers, contracting for firm and interruptible transportation of gas over interstate pipelines to bring gas from the supply basins into its service territory, and re-selling the gas to customers subject to rates, terms, and conditions approved by the OPUC or WUTC. Gas distribution also includes taking customer-owned gas and transporting it from interstate pipeline connections, or city gates, to the customers' end-use facilities for a fee, which is approved by the OPUC or WUTC. As of December 31, 2017, approximately 89% of NW Natural's customers are located in Oregon and 11% in Washington. On an annual basis, residential and commercial customers typically account for around 60% of utility total volumes delivered and 90% of utility margin. Industrial customers largely account for the remaining volumes and utility margin. A small amount of utility margin is also derived from miscellaneous services, gains or losses from an incentive gas cost sharing mechanism, and other service fees.

Industrial sectors served by NW Natural include: pulp, paper, and other forest products; the manufacture of electronic, electrochemical and electrometallurgical products; the processing of farm and food products; the production of various mineral products; metal fabrication and casting; the production of machine tools, machinery, and textiles; the manufacture of asphalt, concrete, and rubber; printing and publishing; nurseries; government and educational institutions; and electric generation.

In addition to NW Natural's local gas distribution business, the utility segment also includes the utility portion of the Mist underground storage facility, the North Mist gas storage expansion in Oregon, and NWN Gas Reserves, which is a wholly-owned subsidiary of Energy Corp.

Other

Regulated water operations, non-utility investments, and other business activities are aggregated and reported as other. Other includes NWN Gas Storage, a wholly-owned subsidiary of NWN Energy, and the non-utility portion of the Mist facility in Oregon and third-party asset management services. Earnings from non-utility assets at the Mist facility are primarily related to firm storage capacity revenues. Earnings from the Mist facility also include revenue, net of amounts shared with utility customers, from management of utility assets at Mist and upstream pipeline capacity when not needed to serve utility customers. Under the Oregon sharing mechanism, NW Natural retains 80% of the pre-tax income from these services when the costs of the capacity have not been included in utility rates, or 33% of the pre-tax income when the costs have been included in utility rates. The remaining 20% and 67%, respectively, are recorded to a deferred regulatory account for crediting back to utility customers.

Other also includes NNG Financial, non-utility appliance retail center operations, NWN Water, which consolidates the regulated water operations and is pursuing other investments in the water sector itself and through its wholly-owned subsidiaries Falls Water and Cascadia, NWN Energy's equity investment in TWH, which is pursuing development of a cross-Cascades transmission pipeline project and NW Holdings, which was used in effecting the holding company reorganization of NW Natural through its wholly-owned subsidiary NWN Holdco Sub. See Note 1 for information regarding changes to NW Natural's organizational structure subsequent to September 30, 2018.

All prior period amounts have been retrospectively adjusted to reflect the change in reportable segments and the designation of Gill Ranch as a discontinued operation.

17

Table of Contents

Inter-segment transactions were immaterial for the periods presented. The following table presents summary financial information concerning the reportable segments of continuing operations. See Note 16 for information regarding the discontinued operation, Gill Ranch.

	Three Months Ended September 30,		
In thousands	Utility	Other	Total
2018			
Operating revenues	$85,077	$6,162	$91,239
Depreciation and amortization	21,127	358	21,485
Income (loss) from operations	(9,780)	3,669	(6,111)
Net income (loss) from continuing operations	(11,983)	839	(11,144)
Capital expenditures	55,914	511	56,425
2017			
Operating revenues	$81,126	$5,087	$86,213
Depreciation and amortization	20,023	329	20,352
Income (loss) from operations	(8,624)	4,084	(4,540)
Net income (loss) from continuing operations	(10,349)	2,462	(7,887)
Capital expenditures	50,009	932	50,941

	Nine Months Ended September 30,		
In thousands	Utility	Other	Total
2018			
Operating revenues	$461,525	$17,916	$479,441
Depreciation and amortization	62,436	1,071	63,507
Income from operations	59,521	10,388	69,909
Net income from continuing operations	24,930	5,598	30,528
Capital expenditures	156,609	2,186	158,795
Total assets at September 30, 2018(1)	2,972,066	96,697	3,068,763
2017			
Operating revenues	$503,947	$12,466	$516,413
Depreciation and amortization	59,541	988	60,529
Income from operations	81,661	9,315	90,976
Net income from continuing operations	31,980	5,605	37,585
Capital expenditures	143,128	2,146	145,274
Total assets at September 30, 2017(1)	2,835,860	63,563	2,899,423
Total assets at December 31, 2017(1)	2,961,326	64,546	3,025,872

(1) Total assets exclude assets related to discontinued operations of $12.6 million, $206.2 million, and $13.9 million as of September 30, 2018, September 30, 2017, and December 31, 2017, respectively.

Utility Margin

Utility margin is a financial measure used by the chief operating decision maker (CODM) consisting of utility operating revenues, reduced by the associated cost of gas, environmental recovery revenues, and revenue taxes. The cost of gas purchased for utility customers is generally a pass-through cost in the amount of revenues billed to regulated utility customers. Environmental recovery revenues represent collections received from customers through the environmental recovery mechanism in Oregon. These collections are offset by the amortization of environmental liabilities, which is presented as environmental remediation expense in operating expenses. Revenue taxes are collected from utility 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 utility operating revenues, utility margin provides a key metric used by the CODM in assessing the performance of the utility segment.

Table of Contents

The following table presents additional segment information concerning utility margin:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2018	2017	2018	2017
Utility margin calculation:				
Utility operating revenues	$85,077	$81,126	$461,525	$503,947
Less: Utility cost of gas	25,593	27,239	175,864	223,855
Environmental remediation expense	1,022	1,355	7,528	10,920
Revenue taxes[(1)]	3,522	—	20,731	—
Utility margin	$54,940	$52,532	$257,402	$269,172

(1) The change in presentation of revenue taxes was a result of the adoption of ASU 2014-09 "Revenue From Contracts with Customers" and all related amendments on January 1, 2018. This change had no impact on utility margin results as revenue taxes were previously presented net in utility operating revenue. For additional information, see Note 2.

5. REVENUE

The following table presents disaggregated revenue from continuing operations:

	Three months ended September 30, 2018		
In thousands	Utility	Other	Total
Local gas distribution revenue	$82,358	$—	$82,358
Gas storage revenue, net	—	2,415	2,415
Asset management revenue, net	—	2,714	2,714
Appliance retail center revenue	—	1,033	1,033
Revenue from contracts with customers	82,358	6,162	88,520
Alternative revenue	1,994	—	1,994
Leasing revenue	725	—	725
Total operating revenues	$85,077	$6,162	$91,239

	Nine months ended September 30, 2018		
In thousands	Utility	Other	Total
Local gas distribution revenue	$455,312	$—	$455,312
Gas storage revenue, net	—	7,189	7,189
Asset management revenue, net	—	6,974	6,974
Appliance retail center revenue	—	3,753	3,753
Revenue from contracts with customers	455,312	17,916	473,228
Alternative revenue	5,285	—	5,285
Leasing revenue	928	—	928
Total operating revenues	$461,525	$17,916	$479,441

Revenue is recognized when the obligation to customers is satisfied and in the amount we expect to receive in exchange for transferring goods or providing services. Revenue from contracts with customers contain 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 per 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 NW Natural will collect substantially all of the consideration to which it is entitled to receive.

NW Natural does 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 Natural does not have any material contract liabilities.

Revenue-based taxes are primarily franchise taxes, which are collected from utility customers and remitted to taxing authorities. Beginning January 1, 2018, revenue taxes are included in operating revenues with an equal and offsetting expense recognized in operating expenses in the consolidated statement of comprehensive income.

Utility Segment

Local gas distribution revenue. NW Natural's primary source of revenue is providing natural gas to customers in its service territory, which include residential, commercial, industrial and transportation customers. Gas distribution 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.

NW Natural applied the significant financing practical expedient and has not adjusted the consideration it expects to receive from utility 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, NW Natural does not disclose the value of unsatisfied performance obligations as of September 30, 2018.

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 rental revenue for small leases of utility-owned property to third parties. The transactions are accounted for as operating leases and the revenue is recognized on a straight-line basis over the term of the lease agreement. Lease revenue is excluded from revenue from contracts with customers.

Other

Gas storage revenue. NW Natural's gas storage activity includes the non-utility portion of the Mist facility, which is 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 utility customers.

Asset management revenue. Asset management revenue is generally 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. Revenues include the optimization of the storage assets and pipeline capacity provided, net of the profit sharing amount refunded to utility customers. Asset management accounts are settled on a monthly basis.

As of September 30, 2018, unrecognized revenue for the fixed component of the transaction price related to gas storage and asset management revenue was approximately $43.8 million. Of this amount, approximately $5.1 million will be recognized during the remainder of 2018, $11.9 million in 2019, $9.2 million in 2020, $8.3 million in 2021, $4.6 million in 2022 and $4.7 million thereafter. The amounts presented here are calculated using current contracted rates. On October 12, 2018, NW Natural filed a rate petition with FERC for revised maximum cost-based rates, which incorporated the new federal corporate income tax rate as well as an updated depreciation study. NW Natural does not expect the new FERC rates to have a significant financial impact.

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.

6. STOCK-BASED COMPENSATION

Stock-based compensation plans are designed to promote stock ownership in NW Natural, and after October 1, 2018, NW Holdings, by employees and officers of NW Natural and certain approved affiliates. These compensation plans include a Long Term Incentive Plan (LTIP), an Employee Stock Purchase Plan (ESPP), and a Restated Stock Option Plan. For additional information on stock-based compensation plans, see Note 6 in the 2017 Form 10-K and the updates provided below.

Table of Contents

Long Term Incentive Plan

Performance Shares

LTIP performance shares incorporate a combination of market, performance, and service-based factors. During the nine months ended September 30, 2018, no performance-based shares were granted under the LTIP for accounting purposes. In February 2018, the 2018 LTIP was awarded to participants; however, the agreement allows 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 quarter of 2020, there is not a mutual understanding of the award's key terms and conditions between NW Natural and the participants as of September 30, 2018, and therefore, no expense was recognized for the 2018 award. NW Natural will calculate the grant date fair value and recognize expense once the final performance factor has been approved.

For the 2018 LTIP, award 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 2018 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 the Russell 2500 Utilities Index over the three-year performance period. If the target was achieved for the 2018 award, NW Holdings would grant 34,702 shares in the first quarter of 2020.

As of September 30, 2018, there was $1.3 million of unrecognized compensation cost associated with the 2016 and 2017 LTIP grants, which is expected to be recognized through 2019.

Restricted Stock Units

During the nine months ended September 30, 2018, 31,490 RSUs were granted under the LTIP with a weighted-average grant date fair value of $57.37 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. Generally, an RSU obligates us, upon vesting, to issue the RSU holder one share of common stock plus 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. The fair value of an RSU is equal to the closing market price of common stock on the grant date. As of September 30, 2018, there was $3.4 million of unrecognized compensation cost from grants of RSUs, which is expected to be recognized over a period extending through 2023.

7. DEBT

Short-Term Debt

At September 30, 2018, NW Natural had short-term debt of $100.5 million, which was comprised entirely of commercial paper. The carrying cost of commercial paper approximates fair value using Level 2 inputs. See Note 2 in the 2017 Form 10-K for a description of the fair value hierarchy. At September 30, 2018, NW Natural's commercial paper had a maximum remaining maturity of 12 days and average remaining maturity of 7 days.

Long-Term Debt

At September 30, 2018, NW Natural had long-term debt of $809.6 million, which included $5.9 million of unamortized debt issuance costs. Utility long-term debt consists of first mortgage bonds (FMBs) with maturity dates ranging from 2018 through 2048, interest rates ranging from 1.545% to 9.05%, and a weighted average coupon rate of 4.690%. In March 2018, NW Natural retired $22.0 million of FMBs with a coupon rate of 6.60%, and in September 2018, NW Natural issued $50.0 million of FMBs with a coupon rate of 4.110%, due in 2048.

Fair Value of Long-Term Debt

NW Natural's outstanding debt does not trade in active markets. NW Natural estimates the fair value of long-term debt using utility companies with similar credit ratings, terms, and remaining maturities to NW Natural's long-term 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 2017 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:

	September 30,		December 31,
In thousands	2018	2017	2017
Gross long-term debt	$815,534	$786,700	$786,700
Unamortized debt issuance costs	(5,940)	(7,276)	(6,813)
Carrying amount	$809,594	$779,424	$779,887
Estimated fair value[1]	$833,962	$847,068	$853,339

[1] Estimated fair value does not include unamortized debt issuance costs.

21

Table of Contents

8. PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
In thousands	2018	2017	2018	2017	2018	2017	2018	2017
Service cost	$1,757	$1,881	$80	$98	$5,371	$5,621	$239	$295
Interest cost	4,336	4,484	241	274	12,702	13,428	723	822
Expected return on plan assets	(5,143)	(5,112)	—	—	(15,444)	(15,337)	—	—
Amortization of prior service costs	11	32	(117)	(117)	32	95	(351)	(351)
Amortization of net actuarial loss	5,650	3,656	110	138	14,697	10,899	332	415
Net periodic benefit cost	6,611	4,941	314	393	17,358	14,706	943	1,181
Amount allocated to construction	(659)	(1,581)	(27)	(136)	(2,026)	(4,660)	(82)	(403)
Amount deferred to regulatory balancing account[(1)]	(3,878)	(1,484)	—	—	(9,381)	(4,519)	—	—
Net amount charged to expense	$2,074	$1,876	$287	$257	$5,951	$5,527	$861	$778

(1) The deferral of defined benefit pension plan expenses above or below the amount set in rates was approved by the OPUC, with recovery of these deferred amounts through the implementation of a balancing account. On October 26, 2018 the OPUC ordered that the balancing account be frozen as of October 31, 2018, with recovery subject to future proceedings. Effective November 1, 2018 the OPUC authorized an additional $8.1 million to be included in rates for defined benefit pension plan expenses. Deferred pension expense balances include accrued interest at the utility's authorized rate of return, with the equity portion of the interest recognized when amounts are collected in rates. See Note 2 in the 2017 Form 10-K.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2018	2017	2018	2017
Beginning balance	$(8,131)	$(6,678)	$(8,438)	$(6,951)
Amounts reclassified from AOCL:				
Amortization of actuarial losses	209	248	627	698
Total reclassifications before tax	209	248	627	698
Tax (benefit) expense	(55)	(98)	(166)	(275)
Total reclassifications for the period	154	150	461	423
Ending balance	$(7,977)	$(6,528)	$(7,977)	$(6,528)

Employer Contributions to Company-Sponsored Defined Benefit Pension Plans

For the nine months ended September 30, 2018, NW Natural made cash contributions totaling $11.7 million to qualified defined benefit pension plans. NW Natural expects further plan contributions of $3.9 million during the remainder of 2018.

Defined Contribution Plan

The Retirement K Savings Plan is a qualified defined contribution plan under Internal Revenue Code Sections 401(a) and 401(k). Employer contributions totaled $5.0 million and $4.1 million for the nine months ended September 30, 2018 and 2017, respectively.

See Note 8 in the 2017 Form 10-K for more information concerning these retirement and other postretirement benefit plans.

9. 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.

Table of Contents

The effective income tax rate varied from the combined federal and state statutory tax rates due to the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in thousands	2018	2017	2018	2017
Income taxes at statutory rates (federal and state)	$(4,136)	$(5,440)	$11,097	$24,472
Increase (decrease):				
Differences required to be flowed-through by regulatory commissions	(266)	(302)	569	1,282
Other, net	117	20	(475)	(1,298)
Total provision (benefit) for income taxes on continuing operations	$(4,285)	$(5,722)	$11,191	$24,456
Effective tax rate for continuing operations	27.8 %	42.0 %	26.8 %	39.4 %

The effective income tax rate for the three and nine months ended September 30, 2018 compared to the same periods in 2017 decreased primarily as a result of the TCJA and lower pre-tax income. See "U.S. Federal TCJA Matters" below and Note 9 in the 2017 Form 10-K for more detail on income taxes and effective tax rates.

The IRS Compliance Assurance Process (CAP) examination of the 2016 tax year was completed during the first quarter of 2018. There were no material changes to the return as filed. The 2017 tax year is subject to examination under CAP and the 2018 tax year CAP application has been accepted by the IRS.

U.S. Federal TCJA Matters

On December 22, 2017, the TCJA was enacted and permanently lowered the U.S. federal corporate income tax rate to 21% from the previous maximum rate of 35%, effective for the tax year beginning January 1, 2018. The TCJA includes specific provisions related to regulated public utilities that provide for the continued deductibility of interest expense and the elimination of bonus depreciation on a prospective basis.

Under pre-TCJA law, business interest expense was generally deductible in the determination of taxable income. The TCJA imposes a new limitation on the deductibility of net business interest expense in excess of approximately 30% of adjusted taxable income beginning January 1, 2018. Taxpayers operating in the trade or business of public regulated utilities are excluded from these new interest expense limitations. There is ongoing uncertainty with regards to the application of the new interest expense limitation to non-regulated operations, primarily with respect to the allocation of interest between regulated and non-regulated trades or businesses. See Note 9 in the 2017 Form 10-K.

The TCJA generally provides for immediate full expensing for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023. This would generally provide for accelerated cost recovery for capital investments. However, the definition of qualified property excludes property used in the trade or business of a public regulated utility. The definition of utility trade or business is the same as that used by the TCJA with respect to the imposition of the net interest expense limitation discussed above. As a result, ongoing uncertainty exists with respect to the application of full expensing to non-regulated activities. See Note 9 in the 2017 Form 10-K.

NW Natural had an estimated regulatory liability of $216.6 million and $213.3 million for the change in regulated utility deferred taxes as a result of the TCJA as of September 30, 2018 and December 31, 2017, respectively. These balances included a gross-up for income taxes of $57.4 million and $56.5 million, respectively. It is possible that this estimated balance may increase or decrease in the future as additional authoritative interpretation of the TCJA becomes available, or as a result of regulatory guidance from the OPUC or WUTC. NW Natural anticipates that until such time that customers receive the direct benefit of this regulatory liability, the balance, net of the additional gross-up for income taxes, will continue to provide an indirect benefit to customers by reducing the utility rate base which is a component of customer rates. It is not yet certain when the final resolution of these regulatory proceedings will occur, and as result, this regulatory liability is classified as long-term.

As noted in the 2017 Form 10-K, Note 9, the determination to exclude all assets placed in service after September 27, 2017 from bonus depreciation was provisional as provided for under Staff Accounting Bulletin (SAB) 118. During the third quarter, the Internal Revenue Service and Treasury issued Proposed Regulations addressing additional first year tax depreciation under the TCJA. These Proposed Regulations, while not definitive, indicate the IRS' initial interpretation that additional first year bonus depreciation was available for regulated utility assets placed in service after September 27, 2017 but before January 1, 2018. On the basis of these proposed regulations, NW Natural revised the provisional estimate of deferred taxes and income taxes payable. NW Natural recognized increases to prepaid income tax of $7.3 million, deferred income tax liability of $4.0 million, and regulatory liability of $3.3 million during the third quarter of 2018.

Utility rates in effect include an allowance to provide for the recovery of the anticipated provision for income taxes incurred as a result of providing regulated services. As a result of the newly enacted 21% federal corporate income tax rate, NW Natural recorded an additional regulatory liability in 2018 reflecting the estimated net reduction in the provision for income taxes. This revenue deferral is based on the estimated net benefit to customers using forecasted regulated utility earnings, considering average weather and associated volumes, and includes a gross-up for income taxes. As of September 30, 2018, a regulatory liability of $7.2 million, including accrued interest, was recorded to reflect this estimated revenue deferral.

10. PROPERTY, PLANT, AND EQUIPMENT

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

	September 30,		December 31,
In thousands	2018	2017	2017
Utility plant in service	$3,068,234	$2,934,424	$2,975,217
Utility construction work in progress	227,200	145,148	159,924
Less: Accumulated depreciation	978,446	937,498	942,879
Utility plant, net	2,316,988	2,142,074	2,192,262
Other plant in service	69,449	64,929	65,372
Other construction work in progress	5,505	4,044	4,122
Less: Accumulated depreciation	18,548	17,284	17,598
Other plant, net [1]	56,406	51,689	51,896
Total property, plant, and equipment	$2,373,394	$2,193,763	$2,244,158
Capital expenditures in accrued liabilities [2]	$27,692	$41,675	$34,761

(1) Previously reported non-utility balances were restated due to the assets and liabilities associated with Gill Ranch now being classified as discontinued operations assets and liabilities on the consolidated balance sheets. See Note 16 for further discussion.

(2) Previously reported capital expenditures in accrued liabilities were restated due to the assets and liabilities associated with Gill Ranch now being classified as discontinued operations assets and liabilities on the consolidated balance sheets. Capital expenditures in accrued liabilities related to Gill Ranch were approximately $0.3 million, $0.1 million, and $0.2 million as of September 30, 2018, September 30, 2017, and December 31, 2017, respectively.

Other plant balances include long-lived assets associated with water operations and non-regulated activities.

Build-to-suit Assets

In October 2017, NW Natural entered into a 20-year operating lease agreement commencing in 2020 for the new headquarters location in Portland, Oregon. NW Natural's existing headquarters lease expires in 2020. The search and evaluation process focused on seismic preparedness, safety, reliability, least cost to customers, and a continued commitment to employees and the communities we serve. The lease was analyzed in consideration of build-to-suit lease accounting guidance, and we concluded that NW Natural is the accounting owner of the asset during construction. As a result, NW Natural recognized $16.0 million and $0.5 million in property, plant and equipment and an obligation in other non-current liabilities for the same amount in the consolidated balance sheet at September 30, 2018 and December 31, 2017, respectively. In 2019, pursuant to the new lease standard issued by the FASB, NW Natural expects to de-recognize the associated build-to-suit asset and liability. See Note 14 in the 2017 Form 10-K.

11. GAS RESERVES

NW Natural has invested approximately $188 million through the gas reserves program in the Jonah Field located in Wyoming as of September 30, 2018. Gas reserves are stated at cost, net of regulatory amortization, with the associated deferred tax benefits recorded as liabilities in the consolidated balance sheets. The investment in gas reserves provides long-term price protection for utility customers through the original agreement with Encana Oil & Gas (USA) Inc. under which NW Natural invested approximately $178 million and the amended agreement with Jonah Energy LLC under which an approximate additional $10 million was invested.

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

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

Table of Contents

The following table outlines net gas reserves investment:

	September 30,		December 31,
In thousands	2018	2017	2017
Gas reserves, current	$16,916	$16,218	$ 15,704
Gas reserves, non-current	170,391	171,318	171,832
Less: Accumulated amortization	99,835	83,442	87,779
Total gas reserves(1)	87,472	104,094	99,757
Less: Deferred taxes on gas reserves	19,377	29,298	22,712
Net investment in gas reserves	$68,095	$74,796	$ 77,045

(1) The net investment in additional wells included in total gas reserves was $5.0 million, $6.0 million and $5.8 million at September 30, 2018 and 2017 and December 31, 2017, respectively.

The investment is included in the consolidated balance sheets under gas reserves with a maximum loss exposure limited to the investment balance.

12. INVESTMENTS

Investments in Gas Pipeline
Trail West Pipeline, LLC (TWP), a wholly-owned subsidiary of TWH, is pursuing the development of a new gas transmission pipeline that would provide an interconnection with NW Natural's utility distribution system. NWN Energy, then a wholly-owned subsidiary of NW Natural, owns 50% of TWH, and 50% is owned by TransCanada American Investments Ltd., an indirect wholly-owned subsidiary of TransCanada Corporation.

Variable Interest Entity (VIE) Analysis
TWH is a VIE, with NW Natural's investment in TWP reported under equity method accounting. We have determined that NW Natural is not the primary beneficiary of TWH’s activities as it only has a 50% share of the entity, and there are no stipulations that allow a disproportionate influence over it. Investments in TWH and TWP are included in other investments in the balance sheet. If we do not develop this investment, the maximum loss exposure related to TWH is limited to the equity investment balance, less its share of any cash or other assets available as a 50% owner. The investment balance in TWH was $13.4 million at September 30, 2018 and 2017 and December 31, 2017. See Note 12 in the 2017 Form 10-K.

Other Investments
Other investments include financial investments in life insurance policies, which are accounted for at cash surrender value, net of policy loans. See Note 12 in the 2017 Form 10-K.

13. BUSINESS COMBINATIONS

On September 13, 2018, NWN Water, then a wholly-owned subsidiary of NW Natural, completed the acquisition of Falls Water Co., Inc., a privately-owned water utility in the Pacific Northwest for preliminary non-cash consideration of $8.5 million, subject to closing adjustments, in the form of 125,000 shares of NW Natural common stock. Falls Water became a wholly-owned subsidiary of NWN Water and marked its first acquisition in the regulated water utility sector. This acquisition aligns with our water sector strategy as the acquisition provides NWN Water entry into Idaho, expands service area, and opens further opportunity for growth. Falls Water is based in Idaho Falls, Idaho and serves approximately 5,300 connections.

Through the purchase of all of the outstanding shares of Falls Water, NWN Water acquired the net assets and 100% control of Falls Water. We determined that the Falls Water acquisition met the criteria of a business combination, and as such performed a preliminary allocation of the consideration to the acquired assets and assumed liabilities based on their fair value as of the acquisition date, the majority of which was allocated to goodwill. The allocation is considered preliminary as we continue to evaluate working capital adjustments, certain tax positions, and goodwill. We do not expect any subsequent adjustments to be significant, and expect any such adjustments to be completed within the one-year measurement period. The acquisition costs were insignificant and were expensed as incurred. The results of Falls Water are not material to the consolidated financial results.

Preliminary goodwill of $6.6 million was recognized from this acquisition and is attributable to Falls Water's regulated service territory and experienced workforce as well as the strategic benefits expected from this high-growth service territory. NW Natural has included this goodwill in other for segment reporting purposes, and it is not deductible for income tax purposes. No intangible assets aside from goodwill were acquired.

We allocate 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.

Table of Contents

An impairment analysis has not been performed in the current year, since all goodwill was acquired in the Falls Water acquisition, which closed in the third quarter of 2018. We anticipate that an annual impairment assessment of goodwill will occur in the fourth quarter of each year, beginning in the fourth quarter of 2018.

14. DERIVATIVE INSTRUMENTS

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

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

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

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

Notional Amounts

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

	September 30,		December 31,
In thousands	2018	2017	2017
Natural gas (in therms):			
Financial	513,850	521,080	429,100
Physical	760,925	750,650	520,268
Foreign exchange	$7,184	$6,933	$ 7,669

Purchased Gas Adjustment (PGA)

Derivatives entered into by the utility for the procurement or hedging of natural gas for future gas years generally receive regulatory deferral accounting treatment. In general, commodity hedging for the current gas year is completed prior to the start of the gas year, and hedge prices are reflected in weighted-average cost of gas in the PGA filing. Hedge contracts entered into after the start of the PGA period are subject to the PGA incentive sharing mechanism in Oregon. NW Natural entered the 2017-18 and 2016-17 gas year with forecasted sales volumes hedged at 49% and 48% in financial swap and option contracts, and 26% and 27% in physical gas supplies, respectively. Hedge contracts entered into prior to the PGA filing, in September 2017, were included in the PGA for the 2017-18 gas year. Hedge contracts entered into after the PGA filing, and related to subsequent gas years, may be included in future PGA filings and qualify for regulatory deferral.

Unrealized and Realized Gain/Loss

The following table reflects the income statement presentation for the unrealized gains and losses from derivative instruments:

	Three Months Ended September 30,			
	2018		2017	
In thousands	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
Benefit (expense) to cost of gas	$4,473	$ 210	$(2,566)	$ 51
Operating revenues	(286)	—	28	—
Amounts deferred to regulatory accounts on balance sheet	(4,285)	(210)	2,548	(51)
Total gain (loss) in pre-tax earnings	$(98)	$ —	$10	$ —

26

Table of Contents

	Nine Months Ended September 30,			
	2018		2017	
In thousands	Natural gas commodity	Foreign exchange	Natural gas commodity	Foreign exchange
Benefit (expense) to cost of gas	$1,384	$ —	$ (19,081	