Control Number: 51999

Item Number: 3

Addendum StartPage: 0

Application for Sale, Transfer, or Merger of a Retail Public Utility

RECEIVED

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.239

2021 APR -9 PM 4:42

Sale, Transfer, or Merger (STM) Application Instructions

PUBLIC UTILITY COMMISSION FILING CLERK

I. **COMPLETE**: In order for the Commission to find the application sufficient for filing, the Applicant should:
   i. Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
   ii. Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
   iii. Provide all mapping information as detailed in Part G: Mapping & Affidavits.

II. **FILE**: Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
   i. ***SEND TO***: Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records).

III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
   i. ***DEFICIENT** (Administratively Incomplete):* Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. ***Application is not accepted for filing***.
   ii. ***SUFFICIENT** (Administratively Complete):* Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. ***Application is accepted for filing.***

IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.
   HEARING ON THE MERITS: An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.

V. **TRANSACTION TO PROCEED**: at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an update in the docket to the ALJ every 30 days following the approval of the transaction. The transaction must be completed within six (6) months from the ALJ's order (Note: The Applicants may request an extension to the 6 month provision for good cause).

VI. **FILE**: Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.

VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

FAQ:

Who can use this form?

Any retail public utility that provides water or wastewater service in Texas.

Who is required to use this form?

A retail public utility that is an investor owned utility (IOU) or a water supply corporation (WSC) prior to any STM of a water or sewer system, or utility, or prior to the transfer of a portion of a certificated service area.

Terms

Transferor: Seller

Transferee: Purchaser

CCN: Certificate of Convenience and Necessity

STM: Sale, Transfer, or Merger

IOU: Investor Owned Utility

Application Summary

Transferor: Belle Oaks Water and Sewer Co., Inc.
(selling entity)
CCN No.s: 13067 and 20965

☒ Sale ☒ Transfer ☐ Merger ☐ Consolidation ☐ Lease/Rental

Transferee: T&W Water Service Company
(acquiring entity)
CCN No.s: 12892; need new sewer CCN

☒ Water ☒ Sewer ☒ All CCN ☐ Portion CCN ☒ Facilities transfer

County(ies): Jefferson

Table of Contents

Please mark the items included in this filing

☒	Contract, Lease, Purchase, or Sale Agreement	Part A: Question 1
☒	Tariff including Rate Schedule	Part B: Question 4
☐	List of Customer Deposits	Part B: Question 5
☐	Partnership Agreement	Part C: Question 7
☐	Articles of Incorporation and By-Laws (WSC)	Part C: Question 7
☐	Certificate of Account Status	Part C: Question 7
☐	Financial Audit	Part C: Question 10
☐	Application Attachment A & B	Part C: Question 10
☐	Disclosure of Affiliated Interests	Part C: Question 10
☐	Capital Improvement Plan	Part C: Question 10
☒	List of Assets to be Transferred	Part D: 11.B
☐	Developer Contribution Contracts or Agreements	Part D: 11.D
☒	Enforcement Action Correspondence	Part E: Question 18 (Part D: Q12)
☒	TCEQ Compliance Correspondence	Part F: Question 22
☐	TCEQ Engineering Approvals	Part F: Question 24
☐	Purchased Water Supply or Treatment Agreement	Part F: Question 26
☒	Detailed (large scale) Map	Part G: Question 29
☒	General Location (small scale) Map	Part G: Question 29
☒	Digital Mapping Data	Part G: Question 29
☒	Signed & Notarized Oath	Page 13-14

Part A: General Information

1. Describe the proposed transaction, including the effect on all CCNs involved, and provide details on the existing or expected land use in the area affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreements:

See Attachment 1.

2. The proposed transaction will require (check all applicable):

For **Transferee** (Purchaser) CCN:

- ☒ Obtaining a NEW CCN for Purchaser
- ☒ Transfer all CCN into Purchaser's CCN (Merger)
- ☐ Transfer Portion of CCN into Purchaser's CCN
- ☐ Transfer all CCN to Purchaser and retain Seller CCN
- ☐ Uncertificated area added to Purchaser's CCN

For **Transferor** (Seller) CCN:

- ☒ Cancellation of Seller's CCN
- ☐ Transfer of a Portion of Seller's CCN to Purchaser
- ☐ Only Transfer of Facilities, No CCN or Customers
- ☐ Only Transfer of Customers, No CCN or Facilities
- ☐ Only Transfer CCN Area, No Customers or Facilities

Part B: Transferor Information

Questions 3 through 5 apply only to the *transferor* (current service provider or seller)

3. **A.** Name: Belle Oaks Water and Sewer Co., Inc.
(individual, corporation, or other legal entity)
☐ Individual ☒ Corporation ☐ WSC ☐ Other: ______

B. Mailing Address: 8385 Chemical Road, Beaumont, Texas 77705

Phone: (409) 842-6768 Email: ______

C. Contact Person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Bryan Phelps Title: President

Mailing Address: 8385 Chemical Road, Beaumont, Texas 77705

Phone: (409) 842-6768 Email: ______

4. If the utility to be transferred is an Investor Owned Utility (IOU), for the most recent rate change, attach a copy of the current tariff and complete A through B: **See Attachment 4 for copy of Belle Oaks' current tariffs.**

A. Effective date for most recent rates: March 1, 2004

B. Was notice of this increase provided to the Public Utility Commission of Texas (Commission) or a predecessor regulatory authority?

☐ No ☒ Yes Application or Docket Number: TCEQ Application No. 34710-C

If the transferor is a Water Supply or Sewer Service Corporation, provide a copy of the current tariff.

5. For the customers that will be transferred following the approval of the proposed transaction, check all that apply:

☐ There are *no* customers that will be transferred

☒ # of customers without deposits held by the transferor 49

☐ # of customers with deposits held by the transferor* ______

*Attach a list of all customers affected by the proposed transaction that have deposits held, and include a customer indicator (name or account number), date of each deposit, amount of each deposit, and any unpaid interest on each deposit.

Part C: Transferee Information

Questions 6 through 10 apply only to the *transferee* (purchaser or proposed service provider)

6. **A.** Name: T&W Water Service Company

(individual, corporation, or other legal entity)

☐ Individual ☐ Corporation ☐ WSC ☐ Other:

B. Mailing Address: 12284 FM 3083, Conroe, Texas 77301

Phone: (281) 367-9566 Email: ______

C. Contact Person. Provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Geoffrey P. Kirshbaum Title: Attorney

Address: Terrill & Waldrop, 810 West 10th Street, Austin, Texas 78701

Phone: (512) 474-9100 Email: gkirshbaum@terrillwaldrop.com

D. If the transferee is someone other than a municipality, is the transferee current on the Regulatory Assessment Fees (RAF) with the Texas Commission on Environmental Quality (TCEQ)?

☐ No ☒ Yes ☐ N/A

E. If the transferee is an IOU, is the transferee current on the Annual Report filings with the Commission?

☐ No ☒ Yes ☐ N/A

7. The legal status of the transferee is:

☐ Individual or sole proprietorship

☐ Partnership or limited partnership (*attach* Partnership agreement)

☒ Corporation
Charter number (as recorded with the Texas Secretary of State): Filing No. 46041000; Tax ID 17420569893

☐ Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]
Charter number (as recorded with the Texas Secretary of State): ______
☐ Articles of Incorporation and By-Laws established (*attach*)

☐ Municipally-owned utility

☐ District (MUD, SUD, WCID, FWSD, etc.)

☐ County

☐ Affected County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)

☐ Other (please explain): ______

8. If the transferee operates under any d/b/a, provide the name below:

Name: ______

9. If the transferee's legal status is anything other than an individual, provide the following information regarding the officers, members, or partners of the legal entity applying for the transfer:

Name: Justin B. Palfreyman
Position: President — Ownership % (if applicable): 0 00%
Address: 250 SW Taylot St , Portland, Oregon 97204
Phone: ______ Email: ______

Name: Brody J. Wilson
Position: Treasurer — Ownership % (if applicable): 0 00%
Address: 250 SW Taylor St., Portland, Oregon 97204
Phone: ______ Email: ______

Name: Shawn M. Filippi
Position: Secretary — Ownership % (if applicable): 0.00%
Address: 250 SW Taylor St., Portland, Oregon 97204
Phone: ______ Email: ______

Name: ______
Position: ______ Ownership % (if applicable): 0.00%
Address: ______
Phone: ______ Email: ______

10. **Financial Information**

The transferee Applicant must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection taking the historical information of the transferor Applicant into consideration when establishing the projections.

Historical Financial Information may be shown by providing any combination of the following that includes necessary information found in a balance sheet, income statement, and statement of cash flows:

1. Completed Appendix A;
2. Documentation that includes all of the information required in Appendix A in a concise format; or
3. Audited financial statements issued within 18 months of the application filing date. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

See Attachment 5 - NW Natural Holdings 2020 10K.

Projected Financial Information may be shown by providing any of the following:

1. Completed Appendix B;
2. Documentation that includes all of the information required in Appendix B in a concise format;
3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test (16 Tex. Admin. Code § 24.11(e)(3)) for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

N/A – While investment in plant and connection additions may occur after the transaction just as before, the proposed transaction that is the subject of this application will have no impact on whether such investment or connections occur.

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: $ ________ **See Attachments 2 and 3.**

If the transferee Applicant is an investor owned utility (IOU) provide answers to B through D.

B. Transferee has a copy of an inventory list of assets to be transferred (*attach*):

☐ No ☒ Yes ☐ N/A

Total Original Cost of Plant in Service: $ ________

Accumulated Depreciation: $ ________

Net Book Value: $ ________

C. **Customer contributions in aid of construction (CIAC):** Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.

☐ No ☐ Yes

See Attachment 6 for information on Customer CIAC and developer CIAC.

Total Customer CIAC: $ ________
Accumulated Amortization: $ ________

D. **Developer CIAC:** Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.

☐ No ☐ Yes

Total developer CIAC: $ ________
Accumulated Amortization: $ ________

12. **A.** Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.

☒ No ☐ Yes

B. If yes, describe the source and availability of funds and provide an estimated timeline for the construction of any planned or required improvements:

Not applicable.

13. Provide any other information concerning the nature of the transaction you believe should be given consideration:

See Attachment 1, Overview. Also, the utility intends to record offsetting CIAC entries equal to the undepreciated asset value after the acquisition.

14. Complete the following proposed entries (listed below) as shown in the books of the Transferee (purchaser) after the acquisition. Debits (positive numbers) should equal credits (negative numbers) so that all line items added together equal zero. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations:

Utility Plant in Service:	$
Accumulated Depreciation of Plant:	$
Cash:	$
Notes Payable:	$
Mortgage Payable:	$
(Proposed) Acquisition Adjustment*:	$
Other (NARUC account name & No.):	
Other (NARUC account name & No.):	

See Attachment 6, Depreciation Schedule.

* Acquisition Adjustments will be subject to review under 16 TAC § 24.41(d) and (e)

15. **A.** Explain any proposed billing change (NOTE: If the acquiring entity is an IOU, the IOU may not change the rates charged to the customers through this STM application. Rates can only be changed through the approval of a rate change application.)

No billing change is proposed to take place as a result of the proposed transaction except that bills will come from T&W instead of Belle Oaks.

B. If transferee is an IOU, state whether or not the transferee intends to file with the Commission, or an applicable municipal regulatory authority, an application to change rates for some or all of its customers as a result of the transaction within the next twelve months. If so, provide details below:

Transferee does not intend to file an application to change rates for any customers as a result of the proposed transaction. Other factors would drive any decision regarding rate changes.

Part E: CCN Obtain or Amend Criteria Considerations	
16.	Describe, in detail, the anticipated impact or changes in the quality of retail public utility service in the requested area as a result of the proposed transaction: The quality of service will remain at a high level due to the experienced operators employed by T&W and will meet or exceed current levels. T&W will deal promptly with any service issues which may arise.
17.	Describe the transferee's experience and qualifications in providing continuous and adequate service. This should include, but is not limited to: other CCN numbers, water and wastewater systems details, and any corresponding compliance history for all operations. See Attachment 1, Overview. A report describing the compliance status for T&W water systems is included as Attachment 7. A TCEQ Compliance History Report for T&W is included as Attachment 8. T&W will provide additional system detail information to the Commission upon request
18.	Has the transferee been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes? Attach copies of any correspondence with the applicable regulatory agency(ies) ☐ No ☒ Yes
19.	Explain how the environmental integrity or the land will be impacted or disrupted as a result of the proposed transaction: There will be no change with respect to environmental intergrity of land impact/disruption as a result of the proposed transaction.
20.	How will the proposed transaction serve the public interest? See Attachment 1, Overview.
21.	List all neighboring water or sewer utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service within <u>two (2) miles</u> from the outer boundary of the requested area affected by the proposed transaction: See Attachment 9.

Part F: TCEQ Public Water System or Sewer (Wastewater) Information

Complete Part F for EACH Public Water or Sewer system to be transferred subject to approval of the transaction. Attach a separate sheet with this information if you need more space for additional systems being transferred.

22. A. For Public Water System (PWS):

TCEQ PWS Identification Number: 1230075 (7 digit ID)

Name of PWS: Belle Oaks Water

Date of last TCEQ compliance inspection: **Not applicable** (attach TCEQ letter)

Subdivisions served: The Cove at Taylor Landing

B. For Sewer service:

TCEQ Water Quality (WQ) Discharge Permit Number: WQ 00 - 13565001 (8 digit ID)

Name of Wastewater Facility: Belle Oaks Sewer

Name of Permitee: Belle Oaks Water and Sewer Co., Inc.

Date of last TCEQ compliance inspection: **Not applicable** (attach TCEQ letter)

Subdivisions served: The Cove at Taylor Landing

Date of application to transfer permit *submitted* to TCEQ: ______

23. List the number of *existing* connections, by meter/connection type, to be affected by the proposed transaction:

Water				**Sewer**	
	Non-metered	1	2"	44	Residential
48	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 ½"		Other		Other
	Total Water Connections:		49	Total Sewer Connections:	44

24. A. Are any improvements required to meet TCEQ or Commission standards?

☒ No ☐ Yes

B. Provide details on each required major capital improvement necessary to correct deficiencies to meet the TCEQ or Commission standards (attach any engineering reports or TCEQ approval letters):

Description of the Capital Improvement:	Estimated Completion Date:	Estimated Cost:

C. Is there a moratorium on new connections?

☒ No ☐ Yes:

25. Does the system being transferred operate within the corporate boundaries of a municipality?

☒ No ☐ Yes: ______ *(name of municipality)*

If yes, indicate the number of customers within the municipal boundary.

Water: ______ Sewer: ______

26. **A.** Does the system being transferred purchase water or sewer treatment capacity from another source?

☐ No ☒ Yes: If yes, attach a copy of purchase agreement or contract.

Capacity is purchased from: **See Attachment 11.**

Water: W Jefferson County MWD

Sewer: N/A

B. Is the PWS required to purchase water to meet capacity requirements or drinking water standards?

☐ No ☒ Yes

C. What is the amount of water supply or sewer treatment purchased, per the agreement or contract? What is the percent of overall demand supplied by purchased water or sewer treatment (if any)?

	Amount in Gallons	Percent of demand
Water:	200,000.00	100.00%
Sewer:		0 00%

D. Will the purchase agreement or contract be transferred to the Transferee?

☐ No ☒ Yes:

27. Does the PWS or sewer treatment plant have adequate capacity to meet the current and projected demands in the requested area?

☐ No ☒ Yes:

28. List the name, class, and TCEQ license number of the operator that will be responsible for the operations of the water or sewer utility service:

Name (as it appears on license)	Class	License No.	Water or Sewer
Charles Adam Jr	B	WS0000698	Water
Charles Adam Jr	A	WW0015804	Sewer

Part G: Mapping & Affidavits

ALL applications require mapping information to be filed in conjunction with the STM application.
Read question 29 A and B to determine what information is required for your application.

29. **A.** For applications requesting to transfer an entire CCN, without a CCN boundary adjustment, provide the following mapping information with each of the seven (7) copies of the application:

1. A general location (small scale) map identifying the requested area in reference to the nearest county boundary, city, or town. The following guidance should be adhered to:

See Attachment 10.

i. If the application requests to transfer certificated service areas for both water and sewer, separate maps must be provided for each.

ii. A hand drawn map, graphic, or diagram of the requested area is not considered an acceptable mapping document.

iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.

2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made and natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:

   i. The map must be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made or natural landmarks must be labeled and marked on the map as well.

   ii. If the application requests an amendment for both water and sewer certificated service area, separate maps need to be provided for each.

   iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.

   iv. The outer boundary of the requested area should not be covered by any labels, roads, city limits or extraterritorial jurisdiction (ETJ) boundaries.

B. For applications that are requesting to include area not currently within a CCN, or for applications that require a CCN amendment (any change in a CCN boundary), such as the transfer of only a portion of a certificated service area, provide the following mapping information with each of the seven (7) copies of the application:

1. A general location (small scale) map identifying the requested area with enough detail to locate the requested area in reference to the nearest county boundary, city, or town. Please refer to the mapping guidance in part A 1 (above).

2. A detailed (large scale) map identifying the requested area with enough detail to accurately locate the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, or railroads. Please refer to the mapping guidance in part A 2 (above).

3. One of the following identifying the requested area:

   i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part A 2 (above);

   ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part A 2 (above); or

   iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:

      a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.

      b. A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).

      c. The digital mapping data shall be filed on a data disk (CD or USB drive), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

Part H: Notice Information

The following information will be used to generate the proposed notice for the application.
DO NOT provide notice of the application until it is found sufficient and the Applicants are ordered to provide notice.

30. Complete the following using verifiable man-made or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:

The total acreage of the requested area is approximately: 450.00

Number of customer connections in the requested area: 49

Affected subdivision : The Cove at Taylor Landing

The closest city or town: Taylor Landing

Approximate mileage to closest city or town center: 1

Direction to closest city or town: Within and surrounding

The requested area is generally bounded on the North by: Taylor Bayou

on the East by: 0.75 miles east of Port Arthur Country Club Road

on the South by: State Highway 73/ H O Mills Highway

on the West by: 0 6 miles west of Port Arthur County Club Road

31. A copy of the proposed map will be available at: T&W Water Service Company, 12284 FM 3083, Conroe, Texas 77301

32. What effect will the proposed transaction have on an average bill to be charged to the affected customers? Take into consideration the average consumption of the requested area, as well as any other factors that would increase or decrease a customer's monthly bill.

- [x] All of the customers will be charged the same rates they were charged before the transaction.
- [ ] All of the customers will be charged different rates than they were charged before the transaction.
  - [ ] higher monthly bill [ ] lower monthly bill
- [ ] Some customers will be charged different rates than they were charged before (i.e. inside city limit customers)
  - [ ] higher monthly bill [ ] lower monthly bill

Oath for Transferor (Transferring Entity)

STATE OF TEXAS

COUNTY OF JEFFERSON

I, Bryan Phelps being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as President

(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have been provided with a copy of the 16 TAC § 24.239 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

Bryan Phelps

AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas **this day the** 8 **of** April, **20**21

SEAL

SUZANNE HOLUBECK
ID #3153072
My Commission Expires
October 26, 2021
NOTARY PUBLIC STATE OF TEXAS

Suzanne Holubeck

NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS

Suzanne Holubeck

PRINT OR TYPE NAME OF NOTARY

My commission expires: 10-26-21

Oath for Transferee (Acquiring Entity)

STATE OF Texas

COUNTY OF Montgomery

I, Ron Payne being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as General Manager
(owner, member of partnership, title as officer of corporation, or authorized representative)
I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have been provided with a copy of the 16 TAC § 24.239 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas
this day the 8 **of** April **, 20** 21

SEAL

Deanna Degeyter
My Commission Expires
11/14/2021
ID No 129626163

Deanna Degeyter
NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS

Deanna Degeyter
PRINT OR TYPE NAME OF NOTARY

My commission expires: 11/14/2021

Application for Sale, Transfer, or
Merger of a Retail Public Utility

Table of Contents

Attachment
1

ATTACHMENT 1
OVERVIEW

General Information

The proposed transaction this application requests approval for involves the water and sewer CCN service areas and assets used and useful for the Belle Oaks Water and Sewer Co., Inc. ("Belle Oaks") public drinking water system (Belle Oaks Water - PWS ID No. 1230075) and wastewater system (TPDES Permit No. WQ0013565001) in Jefferson County, Texas. The Transferor is Belle Oaks, together with its sole shareholder, Mr. Bryan Phelps. The CCNs to be transferred are issued in the name of Belle Oaks.

The Applicant, T&W Water Service Company ("T&W"), is a subsidiary of NW Natural Water of Texas, LLC, a wholly owned subsidiary of NW Natural Water Company LLC. NW Natural Water Company LLC is a wholly owned subsidiary of NW Natural Holding Company, a publicly traded company on the New York Stock Exchange. The transaction strictly involves an asset sale/acquisition/transfer between T&W, Belle Oaks, and Mr. Bryan Phelps. While legal ownership and responsibility for the assets will be placed under a different corporate entity, day-to-day utility operations and applicable retail public utility rates will not change as a result of the proposed transaction or this Application.

The executed documents that support the proposed transaction are included in **Attachments 2 and 3**. Final documents evidencing closing of the transaction will be prepared if the Commission provides approval for the transaction to close. Existing land uses in the areas affected by the application are residential. Existing land uses are not anticipated to change as a result of the application.

T&W's experience in providing continuous and adequate service:

T&W operates 22 water systems in Harris, Liberty, and Montgomery counties, Texas, and holds water CCN No. 12892. This will be T&W's first wastewater system acquisition and T&W is requesting issuance of a new sewer CCN. T&W was originally incorporated in 1979. 100% of T&W's stock was acquired by NW Natural Water of Texas, LLC in early 2020.

NW Natural Holding Company ("NW Natural Holdings") is headquartered in Portland, Oregon, and through its subsidiaries has been doing business for 162 years. NW Natural Holdings owns Northwest Natural Gas Company d/b/a NW Natural ("NW Natural Gas"), NW Natural Water Company, LLC ("NW Natural Water"), and other business interests and activities. NW Natural Water owns NW Natural Water of Texas, LLC, which is now the parent of T&W. NW Natural Holdings, the ultimate parent of T&W, is a publicly-owned company with a market cap of approximately $1.6 billion, and it has revolving credit facilities totaling approximately $400 million in the aggregate. T&W, through its parent companies, will be able to provide enhanced investment for the Belle Oaks systems as needed, which will benefit its customers.

The NW Natural Holdings organization includes NW Natural Gas and NW Natural Water. NW Natural Gas is a local natural gas distribution company serving more than 140 communities through approximately 775,000 meters in Oregon and Southwest Washington with one of the most modern pipeline systems in the nation. NW Natural Gas leads the industry with high J.D. Power & Associates customer satisfaction scores. NW Natural Water currently provides water distribution and wastewater services to a diverse range of communities. NW Natural Water serves over 62,000 people through approximately 25,000 connections.

NW Natural Holdings' water and gas utility businesses rely on maintenance of and investment in critical pipe infrastructure to drive organic growth. NW Natural Water and NW Natural Water of Texas, LLC, now including T&W, understand how to plan for and build an efficient pipeline system and how to maintain that system to ensure safe and reliable service. In addition, both the water distribution and gas distribution businesses are largely regulated by public utility commissions—a regulatory environment with which NW Natural Water, NW Natural Water of Texas, LLC, and T&W are familiar. Thus, T&W's ownership of Belle Oaks will result in a stronger, and more financially sound water company.

From the perspective of Belle Oaks customers, the transition of ownership from Belle Oaks to T&W will be seamless. After the closing, there will be no change to the water or wastewater service or rates for Belle Oaks customers as a result of the proposed transaction. While T&W will undertake management of Belle Oaks after the closing, T&W anticipates that Belle Oaks' current contract water and wastewater operator, Charles Adam, Jr., will continue to operate the Belle Oaks systems.

Attachment

2

Asset Purchase Agreement

This Asset Purchase Agreement (this "**Agreement**") is made between T&W Water Service Company, a Texas corporation ("**Buyer**"), Belle Oaks Water and Sewer Co., Inc. a Texas corporation ("**Seller**") and Bryan Phelps, the sole shareholder of Seller ("**Shareholder**"), effective as of December 28, 2020 (the "**Signing Date**"). Capitalized terms used in this Agreement are defined where they are first used or in **Schedule 1**.

Seller owns and operates a water supply and distribution system and wastewater system in or near Jefferson County, Texas (the "**Business**"). Seller wishes to sell, and Buyer wishes to purchase, and to assume and take subject to specified liabilities, substantially all of the assets of the Business. The parties, therefore, agree as follows.

1. **Assets; Assumed Liabilities.** At Closing, Buyer will buy, and Seller will sell and transfer, the assets of the Business, including without limitation, the items listed on **Schedule 2,** other than the Excluded Assets (defined below) (the "**Assets**"). At Closing, Buyer will assume the liabilities of Seller in respect of Assigned Contracts only to the extent required to be performed after the Closing, incurred in the ordinary course of business, and unrelated to any failure to perform, improper performance, or other default or violation by Seller before Closing, (the "**Assumed Liabilities**"). Seller and Shareholder, jointly and severally represent and warrant to Buyer that the statements set forth on **Schedule 3** are true and correct on Signing Date and will be true and correct on the Closing Date.
2. **Excluded Assets; Excluded Liabilities.** At Closing, Buyer will not buy, and Seller will not sell, corporate seals, organizational documents, minute books, stock books, Tax Returns, books of account or other records having to do with the corporate organization of Seller; benefit plans and assets attributable thereto; accounts receivable; short-term investments cash and cash equivalents (other than Closing Working Capital); and the rights that accrue to Seller under the Transaction Documents (the "**Excluded Assets**"). Buyer will not assume and will not be responsible to pay, perform or discharge any liabilities, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured, or otherwise ("**Liabilities**") of Seller or any of its affiliates other than the Assumed Liabilities (the "**Excluded Liabilities**").
3. **Purchase Price.**

[redacted]

   d. At least three Business Day before the Closing, Seller shall deliver to Buyer a statement setting forth the total amount of approved Interim Capital Expenditures (together with any supporting documentation) made by Seller since October 20, 2020 . Buyer will reimburse Seller (by increasing the Purchase Price as described in Section 3(b)) only for those Interim Capital Expenditures that are: (i) prudently incurred by Seller; (ii) supported by adequate documentation; (iii) subject to a reasonable competitive bid process performed by Seller in accordance with Seller's normal business practices; and (iv) do not exceed the Cap. Prior to making any Interim Capital Expenditures over and above the Cap, Seller will obtain the written approval of Buyer.

e. The allocation of the Purchase Price among the Assets and Assumed Liabilities (plus other capitalizable amounts) for all Tax purposes in accordance with **Schedule 4**. Each party will file all Tax Returns (including Internal Revenue Service Form 8594) and information reports in a manner consistent with that allocation.

f. Each party will bear its own costs and expenses, including of its Representatives, incurred in connection with the transactions contemplated by this Agreement (the "**Transaction**") and related due diligence, whether or not Closing occurs.

g. All payments under Section 3(a) will be by wire transfer of immediately available funds pursuant to written instructions provided by the Seller at least five Business Days before the payment date. Buyer is entitled to deduct and withhold from the Purchase Price all Taxes that Buyer may be required to deduct and withhold under any applicable Tax Law. All withheld amounts will be treated as delivered to Seller under this Agreement.

4. **Closing.** The Transaction will close (the "**Closing**") at a time agreed by the parties two Business Days after all of the Closing conditions are met or waived or at another date and time agreed by the parties. The Closing is deemed effective as of 12:01 a.m. on the date of Closing (the "**Closing Date**").

5. **Closing Conditions.** Buyer's obligation to close the Transaction is subject to (a) Buyer's satisfactory due diligence, (b) receipt of all necessary government approvals and consents (including Commission Approval) and any consents required to transfer Permits); (c) receipt of a title commitment from a nationally recognized title insurance company to issue an owner's title insurance policy insuring fee simple title to the Owned Real Property, free and clear of all Encumbrances other than Permitted Encumbrances; (d) documents signed by Seller to transfer the Assets, including a grant deed transferring all Owned Real Property, a bill of sale, and an assignment and assumption agreement; (e) written confirmation from the Seller and Shareholder that the representations and warranties were true and complete on the Signing Date and the Closing Date, that Seller and Shareholder complied with the covenants in this Agreement, and that there has been no material adverse effect on the Business since the Signing Date; (f) an affidavit, signed by Seller under penalty of perjury, stating that it is not a foreign person within the meaning of Section 1445 of the Code, dated as of the Closing Date and in form and substance required under Code Section 1445 and related regulations; (g) a completed Form W-9 from each Person receiving payment at Closing; (h) documentation of the extension through August 18, 2024 of the Water Supply Agreement, and (i) all other documents signed by Seller and Shareholder reasonably requested by Buyer to complete the Transaction. From the Signing Date until the Closing or the termination of this Agreement, each party will use commercially reasonable efforts to take actions necessary to promptly satisfy the Closing conditions

6. **Termination.** The Agreement may be terminated before Closing (a) by the written agreement of Seller and Buyer; (b) by either Seller or Buyer if there is a Law that makes Closing illegal or prohibited or if the Closing is enjoined in a final, non-appealable Order; (c) by Buyer with written notice to Seller if: (i) Buyer is not satisfied with the results of its due diligence investigation by June 28, 2021, (ii) Seller or Shareholder has materially breached this Agreement in a manner that would cause the Closing conditions not to be met, or (iii) any of the Closing conditions are not met by June 28, 2021; (d) by Seller with written notice to Buyer if: (i) Buyer has materially breached this Agreement in a manner that would cause the Closing conditions not to be met or (ii) any of the

Closing conditions are not met by June 28, 2021. If this Agreement is terminated, it will be void and no party will have any liability under it except that (x) this sentence, Sections 10 and 13-19 will survive and (y) no party will be relieved of its liability for willful breach of this Agreement.

7. **Interim Covenants.**

   a. From the Signing Date until Closing, Seller and Shareholder will (i) preserve the Business and its goodwill, (ii) operate the Business in the ordinary course of business consistent in nature, scope, and magnitude with past practices, (iii) comply with Law; (iv) make all reasonable capital expenditures required to provide water and wastewater services to the Phase I Development; and (v) afford Buyer and its Representatives reasonable access to and the right to inspect all of the real property, properties, assets, premises, and other documents and data related to Seller, including, if Buyer desires, a Phase II environmental audit(s). From the Signing Date until Closing, Seller will not sell or acquire any Assets valued at more than $5,000 without Buyer's prior written approval. Each party will promptly, and in coordination with the other party, (i) make all filings and submissions required under any Law applicable it or any of its affiliates; and (ii) use commercially reasonable efforts to obtain all Orders and approvals from all Governmental Authorities that may be necessary under the Transaction Documents and for the Closing. Each party will cooperate fully with the other parties in promptly seeking to obtain such Orders and approvals. No party will take any action that would have the effect of materially impeding the receipt of any required Orders or approvals.

   b. Except as required by applicable Law, Seller and Shareholder will not, and will not authorize or allow any of their affiliates or Representatives to, directly or indirectly, (i) encourage, solicit, initiate, facilitate or continue inquiries regarding an Acquisition Proposal; (ii) enter into discussions or negotiations with, or provide any information to, any Person concerning a possible Acquisition Proposal; or (iii) enter into any arrangements (whether or not binding) regarding an Acquisition Proposal. Seller and Shareholder will, and will cause their affiliates and Representatives, to immediately stop all existing discussions or negotiations with any Persons conducted before the Signing Date with respect to an Acquisition Proposal. An "**Acquisition Proposal**" means any inquiry, proposal or offer from any Person (other than Buyer or any of its affiliates) concerning (1) a merger, consolidation, liquidation, recapitalization, share exchange or other business combination transaction involving Seller; (2) the issuance or acquisition of equity securities of Seller; or (3) the sale, lease, exchange or other disposition of any significant portion of the properties or assets of Seller. In addition, within three Business Days of receipt, Seller and Shareholder will advise Buyer in writing of any Acquisition Proposal, any request for information with respect to any Acquisition Proposal, or any inquiry with respect to or which could reasonably be expected to result in an Acquisition Proposal; the material terms and conditions of the proposal, inquiry, or request; and the identity of the Person making it.

8. **Further Assurances.** Without additional consideration, each party will sign and deliver any additional instruments and perform additional acts that are or may become necessary to effect this Agreement or as may reasonably be request to more effectively carry out the intent and purpose of this Agreement, including, for example, transfer of Seller's rights to, title in, or ownership of the Utility System and Assets, whether the Assets were unknown at the time of Closing or were erroneously omitted from this Agreement.

9. **Non-Compete; Non-Solicit.** For five years after the Closing Date (the "**Restricted Period**"), Seller and Shareholder will not, and will not permit any of its or his affiliates to, directly or indirectly, (i) engage in or assist others in engaging in the ownership or operation of a water utility (the "**Restricted Business**") in Texas (the "**Territory**"); (ii) have an interest in any Person that engages directly or indirectly in the Restricted Business in the Territory in any capacity, including as an owner, employee, principal, agent, trustee or consultant; or (iii) intentionally interfere in any material

respect with the business relationships (whether formed before or after the Signing Date) between the Business and customers or suppliers of the Business. During the Restricted Period, neither Seller nor Shareholder will, or will permit any of its affiliates to, directly or indirectly, hire or solicit any employee or consultant of the Business or Buyer or encourage any such Person to terminate his relationship with the Business or Buyer or hire any such Person who has left such relationship, except pursuant to a general solicitation that is not directed specifically to those Persons. Shareholder and Seller acknowledge that the restrictions contained in this Section are reasonable and necessary to protect the legitimate interests of Buyer and constitute a material inducement to Buyer to enter into this Agreement and complete the Transaction. If any covenant contained in this Section is adjudicated to exceed the time, geographic, product or service, or other limitations permitted by applicable Law in any jurisdiction, then any court is expressly empowered to reform such covenant, and such covenant will be deemed reformed, in that jurisdiction to the maximum time, geographic, product or service, or other limitations permitted by applicable Law. The covenants contained in this Section are severable and distinct covenants. The invalidity or unenforceability of any covenant in this Section as written will not invalidate or render unenforceable the remaining covenants, and any invalidity or unenforceability in any jurisdiction will not invalidate or render unenforceable the covenant in any other jurisdiction.

10. **Confidentiality.** No party will publicly disclose the contents of this Agreement, except to the extent required by Law. After Closing, Seller and Shareholder will keep all information concerning the Business confidential unless that information is known by the public through no fault of its own, its agents or affiliates. Seller and Shareholder will ensure its affiliates and agents comply with the obligations under this provision to the same extent as if they were the Seller or Shareholder. If Seller or Shareholder is compelled to disclose any confidential information by Law, it or he must notify Buyer of the requirement and will only disclose that information its legal counsel advises is legally required to be disclosed.

11. **Taxes.**

    a. **Transfer Taxes.** Seller will pay when due all transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax). Seller will, at its own expense, timely file any Tax Return or other document with respect to such Taxes or fees (and the Buyer and Shareholder shall cooperate with respect thereto as necessary).

    b. **Tax Indemnification.** Shareholder and Seller will, jointly and severally, indemnify Buyer Indemnitees and hold them harmless from and against (a) any Loss attributable to any failure to timely, completely, and correctly file any Tax Returns required to be filed by or with respect to Seller, the Business or the Assets or a failure to pay any Taxes due or owing, or asserted to be due and owing by a Governmental Authority, by or with respect to Seller, the Business or the Assets on or before the Closing; (b) any Loss attributable to any breach or violation of, or failure to fully perform, any covenant, agreement, undertaking or obligation in this Section 11; (c) all Pre-Closing Taxes, determined in accordance with Section 11(c); (d) all Taxes for which Shareholder or Seller is liable pursuant to Section 11(a) and (e) any and all Taxes of any person imposed on or with respect to the Business or the Assets arising under the principles of transferee or successor liability or by Contract, relating to an event or transaction occurring before the Closing Date, in each of the above cases, together with any out-of-pocket fees and expenses (including attorneys' and accountants' fees) incurred in connection therewith. Shareholder and Seller shall reimburse each Buyer Indemnitee for any Taxes that are the responsibility of Seller and Shareholder pursuant to this Section 11(b) within 15 Business Days after payment of such Taxes by Buyer Indemnitee. All indemnity payments pursuant to this Section 11(b) shall be made on an after-tax, grossed-up basis, such that the total amount received by Buyer Indemnitee places Buyer

Indemnitee in the same after-tax position it would have occupied if it had not suffered such Loss or been liable for such Taxes.

c. **Straddle Period.** In the case of Taxes that are payable with respect to a taxable period that begins before and ends after the Closing Date, the portion of any such Taxes that are treated as Pre-Closing Taxes for purposes of this Agreement shall: (a) in the case of Taxes based upon, or related to, income, receipts, profits, wages, capital, net worth, or sales, transfers or assignments of property, be deemed equal to the amount which would be payable if the taxable year or period with respect to the Business ended with the Closing Date; and (b) in the case of other Taxes, be deemed to be the amount of such Taxes for the entire taxable period multiplied by a fraction the numerator of which is the number of days in the period ending on the Closing Date and the denominator of which is the number of days in the entire taxable period.

d. **Cooperation and Exchange of Information.** Shareholder, Seller, and Buyer shall provide each other with such cooperation and information as any of them reasonably may request of the other in filing any Tax Return or in connection with any audit or other proceeding in respect of Taxes. Such cooperation and information shall include providing copies of relevant Tax Returns or portions thereof, together with accompanying schedules, related work papers and documents relating to rulings or other determinations by tax authorities. Seller and Buyer shall retain all Tax Returns, schedules and work papers, records and other documents in its possession relating to Tax matters of Seller for any taxable period beginning before the Closing Date until the expiration of the statute of limitations of the taxable periods to which such Tax Returns and other documents relate, without regard to extensions except to the extent notified by the other parties in writing of such extensions for the respective Tax periods.

e. **Survival.** Despite anything in this Agreement to the contrary, this **Section 11** will survive for the full period of all applicable statutes of limitation (giving effect to any waiver, mitigation or extension thereof) plus 90 days.

12. **Indemnity.** All representations, warranties, and covenants set forth in the Transaction Documents will remain in full force and effect after Closing. The right to indemnification or other remedy will not be affected by any investigation conducted or any knowledge acquired at any time, whether before or after the Signing Date or the Closing Date. Seller and Shareholder will, jointly and severally, indemnify Buyer and its officers, directors, affiliates, successors and assigns (the "**Buyer Indemnitees**") and hold them harmless from all Losses suffered by the Buyer Indemnitees arising out of or related to: (a) any breach or inaccuracy in any representation or warranty made by Seller or Shareholder in any Transaction Document; (b) any breach or non-fulfillment of any obligation of Seller or Shareholder in any Transaction Document; (c) any pre-Closing Taxes; (d) Excluded Assets; or (e) Excluded Liabilities. "**Losses**" means losses, damages, Liabilities, deficiencies, judgments, interest, awards, penalties, fees, or fines, or costs or expenses relating to the foregoing, including reasonable attorneys' fees (including reasonable attorney's fees associated with the cost of enforcing any indemnity right and the cost of pursuing any insurance providers). "Losses" does not include punitive, incidental, consequential or special damages, except in the case of fraud or to the extent actually awarded to a Governmental Authority or other third party. Seller and Shareholder will not have the right to defend or direct the defense of any third-party claim that (i) is asserted by or on behalf of a supplier or customer of Seller, the Business, or a Governmental Authority or (ii) seeks an injunction or other equitable relief against the Indemnified Party. Seller will not settle any indemnifiable third-party claim without the Buyer Indemnitee's prior written consent. All indemnification payments made under this Agreement will be treated for all Tax purposes as adjustments to the Purchase Price, unless otherwise required by Law.

13. **Remedies.** Remedies under the Transaction Documents are cumulative. No right or remedy of the parties under the Transaction Documents is intended to be exclusive of any other right or remedy. A

party would be irreparably damaged by reason of a failure of the other party to perform its obligations under the Transaction Documents in accordance with its terms. Each party is entitled, therefore, to equitable relief in the event of a breach or threatened breach (without any requirement to post bond), in addition to any other remedy to which it is entitled at law or in equity.

14. **Guaranty.** Shareholder hereby absolutely, unconditionally and irrevocably guarantees to Buyer the payment, observance and performance by Seller of all of Seller's obligations under or arising out of this Agreement. Shareholder's obligations are primary and not that of collection.

15. **Amendment; Waiver.** Provisions of this Agreement may only be amended waived in a writing signed by the parties specifically identifying the provision to be amended or waived. The waiver of any condition will not affect the right to indemnification or other remedy related thereto.

16. **Assignment.** This Agreement may not be assigned or otherwise transferred (including a change of voting control and a transfer by operation of law) without the prior written consent of the other party. However, Buyer may transfer its rights and obligations to an affiliate without the prior written consent of Seller.

17. **Notices**. All notices must be in writing. Notice is deemed given when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); on the date sent by email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient (otherwise on the next Business Day); or on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Notice is only effective if sent to the address or email addresses set forth on the signature page of this Agreement. Each party may change its address and email address for notices by giving notice in accordance with this paragraph.

18. **Governing Law; Venue.** The Transaction Documents are to be construed and enforced in accordance with Oregon law, without giving effect to any conflict of law rule. Any Action arising out of the Transaction Documents must be brought in the federal or state courts located in Multnomah County, Oregon. The parties waive any objection to the jurisdiction or those courts. Each party waives any right it may have to trial by jury in respect of any Action arising out for the Transaction Documents.

19. **Entire Agreement.** This Agreement, Schedules 1-4, the Non-Disclosure Agreement between Seller and NW Natural Water Company, LLC, dated August 3, 2020, and the Transaction Documents delivered by Seller to Buyer at Closing, embody the entire agreement and understanding of the parties related to its subject matter and supersedes all prior approvals, correspondence, and agreements relating to its subject matter.

T&W WATER SERVICE COMPANY	BELLE OAKS WATER AND SEWER CO., INC.
By:	By:
Name: Justin Palfreyman	Name: Bryan Phelps
Title: President	Title: President
	Bryan Phelps, Shareholder

Communications to Buyer:

NW Natural Water Company, LLC
250 SW Taylor Street
Portland, Oregon 97204
Attn: Justin Palfreyman
Email: Justin.Palfreyman@nwnatural.com

With copies, which will not constitute notice to:

NW Natural Water Company, LLC
250 SW Taylor Street
Portland, Oregon 97204
Attn: Darren Nakata
Email: Darren.Nakata@nwnatural.com

Communications to Seller and Owners:

Belle Oaks Water and Sewer Co., Inc.
8385 Chemical Road
Beaumont, Texas 77705
Attn: Bryan Phelps

Schedule 1 Defined Terms

For purposes of this Agreement, (a) the words "include," "includes" and "including" are deemed to be followed by the words "without limitation"; (b) the word "or" is not exclusive; and (c) words denoting any gender include all genders. Unless the context otherwise requires, references: (i) to sections and Schedules mean the sections of, and Schedules attached to, this Agreement; (ii) to an agreement or other document means the agreement or other document as amended, supplemented and modified from time to time to the extent permitted by its provisions and (iii) to a statute means the statute as amended from time to time and includes any successor legislation and any regulations promulgated under the statute and successor legislation.

"**Action**" means any claim, action, cause of action, demand, lawsuit, arbitration, audit, notice of violation, proceeding, litigation, citation, summons, subpoena or governmental investigation for which written notice has been given to Seller of any nature, civil, criminal, administrative, regulatory or otherwise, whether at law or in equity.

"**Books and Records**" means books and records, including financial and accounting records, maintenance files, customer and supplier lists, quality control records, customer complaints, research files, correspondence with Governmental Authorities, and real property and environmental surveys.

"**Business Day**" means any day except Saturday, Sunday or any other day on which commercial banks located in Portland, Oregon are authorized or required by Law to be closed for business.

"**CERCLA**" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. § 9601 et seq.

"**Closing Working Capital**" means $2,000.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Commission Approval**" means a final decision and Order by the Public Utility Commission of Texas (the "**Commission**") that is (i) is final and reasonable and (ii) approves all of the relief requested in the application to the Commission (the "**Commission Application**"). The Commission's decision and Commission Approval will not be deemed to be final and reasonable, or an approval of all of the relief requested in the Commission Application, if (a) it is not an unconditional approval, (b) it denies or defers ruling on any part of the Commission Application or purports to amend, modify or supplement any of the terms and conditions of the Transaction, or (c) if the decision and Order is subject to further appeal or any party to the proceeding in which the decision and Order is issued, or other aggrieved Person with the right to appeal, intends to, and is legally entitled to, seek a change in the decision and Order through motion or appeal.

"**Encumbrance**" means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, security interest, mortgage, Easement, encroachment, right of way, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"**Environmental Claim**" means any Action, Order, lien, fine, penalty, or, as to each, any settlement or judgment arising therefrom, by or from any Person alleging liability of whatever kind or nature (including liability or responsibility for the costs of enforcement proceedings, investigations, cleanup, governmental response, removal or remediation, natural resources damages, property damages, personal injuries, medical monitoring, penalties, contribution, indemnification and injunctive relief) arising out of, based on or resulting from: (a) the presence of, Release of, or exposure to any Hazardous Materials or (b) any actual or alleged non-compliance with any Environmental Law or term or condition of any Environmental Permit.

"**Environmental Laws**" means any applicable Law and any Order or binding agreement with any Governmental Authority: (a) relating to pollution (or the cleanup thereof) or the protection of natural resources, endangered or threatened species, human health or safety (but only as it related to the environment), or the environment (including ambient air, soil, surface water or groundwater, or subsurface strata); or (b) concerning the presence of, exposure to, or the management, manufacture, use, containment, storage, recycling, reclamation, reuse, treatment, generation, discharge, transportation, processing, production, disposal or remediation of any Hazardous Materials.

"**Environmental Notice**" means any Order, written directive, written request for information, notice of violation or infraction, or written notice respecting any Environmental Claim relating to actual, alleged or potential non-compliance with any Environmental Law or any Environmental Permit.

"**Environmental Permit**" means any Permit issued, granted, given, authorized by or made pursuant to any Environmental Law.

"**Facilities**" means any real property owned or operated or formerly owned or operated by Seller and any buildings, plants, structures, or equipment (including motor vehicles, tank cars, and rolling stock) owned or operated or formerly owned or operated by Seller.

"**Governmental Authority**" means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of the government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or Orders of that organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

"**Hazardous Materials**" means: (a) any material, substance, chemical, waste, product, derivative, compound, mixture, solid, liquid, mineral or gas, in each case, whether naturally occurring or manmade, that is hazardous, acutely hazardous, toxic, or words of similar import or regulatory effect under any Environmental Law; and (b) any petroleum or petroleum-derived products, radon, radioactive materials or wastes, asbestos in any form, lead or lead-containing materials, urea formaldehyde foam insulation, and polychlorinated biphenyls.

"**Law**" means any statute, law, act, ordinance, regulation, rule, code, Order, constitution, treaty, principle of common law, judgment, decree, Order of general applicability or other requirement or rule of law of any Governmental Authority, including rules and regulations promulgated thereunder.

"**Order**" means any order, writ, judgment, injunction, decree, determination, ruling, assessment, or award entered by or with any Governmental Authority or arbitrator.

"**Permitted Encumbrance**" means (a) liens for Taxes, assessments or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings; (b) mechanics, carriers', workmen's, repairmen's or other like liens or similar Encumbrances arising or incurred in the ordinary course of business consistent with past practice for amounts that are not delinquent; (c) covenants, exceptions, restrictions, Easements, zoning ordinances, rights of way, and other similar encumbrances affecting Real Property that appear in a preliminary title report delivered by Seller Representative to Buyer no less than 30 calendar days before the earlier of the Closing Date and the date listed in Section 6(b)(i), except that no such encumbrance shall be considered a Permitted Encumbrance if Buyer notifies Seller Representative at least 14 calendar days before the Closing Date that Buyer is unwilling to accept title subject to such encumbrance. If Seller fails to cause an encumbrance described under clause (c) of the preceding sentence to be cured or otherwise removed from an updated preliminary title report before the Closing Date, Buyer shall have the right to either (i) waive Buyer's objection and proceed to close, or (ii) terminate this Agreement.

"**Person**" means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

"**Phase I Development**" means the first 50 homes connected to the Utility System.

"**Phase II Development**" means any new service connections to the Utility System added beyond Phase I Development.

"**Post-Closing Tax Period**" means any taxable period beginning after the Closing Date and, with respect to any taxable period beginning before and ending after the Closing Date, the portion of that taxable period beginning after the Closing Date.

"**Pre-Closing Tax Period**" means any taxable period ending on or before the Closing Date and, with respect to any taxable period beginning before and ending after the Closing Date, the portion of that taxable period ending on and including the Closing Date.

"**Pre-Closing Taxes**" means Taxes of Seller for any Pre-Closing Tax Period, determined in accordance with Section 11(c).

"**Release**" means any actual or threatened release, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, abandonment, disposing or allowing to escape or migrate into or through the environment, including ambient air (indoor or outdoor), surface water, groundwater, land surface or subsurface strata or within any building, structure, facility or fixture.

"**Representative**" means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of the Person.

"**Seller's Knowledge**" or any other similar knowledge qualification, means the actual knowledge of Shareholder or any director or officer of Seller, in each case after reasonable inquiry and investigation.

"**Tax**" or "**Taxes**" means all federal, state, local, foreign and other income, gross receipts, sales, use, production, ad valorem, transfer, franchise, registration, profits, license, lease, service, service use, withholding, payroll, employment, unemployment, unclaimed property, escheat, estimated, excise, severance, environmental, stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, together with any interest, additions to tax or penalties with respect thereto and any interest in respect of those additions to tax or penalties.

"**Tax Claim**" means the assertion of any claim, or the commencement of any Action, in respect of which an indemnity may be sought by a Buyer Indemnitee pursuant to Section 11(b).

"**Tax Return**" means any return, declaration, report, claim for refund, information return or statement or other document relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"**Transaction Documents**" means this Agreement and each other agreement, instrument, certificate or document delivered pursuant hereto or thereto.

"**Transaction Expenses**" means all fees and expenses incurred by or on behalf of Seller or Shareholder at or before the Closing in connection with the preparation, negotiation and execution of Transaction Documents and the Closing, including the fees and expenses of their Representatives, those required to transfer Permits and Water Rights, real property recording fees, and transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees.

"**Utility System**" means all potable water supply, treatment, storage and distribution systems and wastewater collection, transmission, treatment, disposals and reuse systems owned by Seller.

"**Water Right**" means any right, entitlement or authorization to divert, appropriate, store or use surface water or groundwater granted or recognized by a Governmental Authority, including, without limitation, all claims, licenses, permits, certificates, decrees and pending permit and transfer applications.

"**Water Supply Agreement**" means the Water Supply Agreement between Seller and West Jefferson County Municipal Water District, executed as of August 18, 2004.

Schedule 2. Assets

(a) the Closing Working Capital;

(b) all furniture, fixtures, equipment, machinery, tools, vehicles, office equipment, supplies, computers, telephones and other tangible personal property of Seller ("**Tangible Personal Property**") None

(c) all of real property owned by Seller and used in or necessary for the conduct of the Business as currently conducted, together with all buildings, fixtures, structures and improvements situated thereon and all Easements, rights-of-way, Water Rights, and other rights and privileges appurtenant thereto ("**Owned Real Property**"), including the following: See attached Schedule 2 Attachment

(d) real property leased by Seller (as a lessee, sub-lessee, or assignee) and used in or necessary for the conduct of the Business as currently conducted together with all rights, title and interest of Seller in and to leasehold improvements relating thereto, including, but not limited to, security deposits, reserves or prepaid rents paid in connection therewith ("**Leased Real Property**," and together with Owned Real Property, the "**Real Property**"), including the following: None

(e) all rights, privileges, easements, licenses, rights-of-way, and rights to use public and private roads, highways, streets, railroads and other areas owned or used by Seller in connection with the construction, reconstruction, installation, expansion, maintenance and operation of the Utility System ("**Easements**"), including the following: All easements provided on behalf of Belle Oaks Water and Sewer Co., Inc. as recorded in Jefferson County

(f) all permits, licenses, franchises, approvals, authorizations, registrations, certificates, variances and similar rights obtained from Governmental Authorities ("**Permits**) held by the Seller and required for the conduct of the Business as currently conducted or for the ownership and use of the Assets, including the following: Waste Water Discharge Permit with TPDES Permit No. WQ0013565001, Certificate of Convenience and Necessity number 13067 (water) and Certificate of Convenience and Necessity number 20965 (sewer)

(g) all right, entitlement or authorization to divert, appropriate, store or use surface water or groundwater granted or recognized by a Governmental Authority, including, without limitation, all claims, licenses, permits, certificates, decrees and pending permit and transfer applications ("**Water Right**") held by the Seller and required for the conduct of the Business as currently conducted or for the ownership and use of the Assets, including the following: None

(h) all contracts and other agreements, commitments and legally binding arrangements ("**Contracts**") of the Business (the "**Assigned Contracts**"), including the following: Water Supply Agreement

(i) all rights to any Actions of any nature available to or being pursued by Seller to the extent related to the Business, the Assets or the Assumed Liabilities, whether arising by way of counterclaim or otherwise;

(j) all prepaid expenses, credits, advance payments, claims, security, refunds, rights of recovery, rights of set-off, rights of recoupment, deposits, charges, sums and fees (including any of those items relating to the payment of Taxes)

(k) all of Seller's rights under warranties, indemnities and all similar rights against third parties to the extent related to any Assets.

(l) all insurance benefits, including rights and proceeds, arising from or relating to the Business, the Assets or the Assumed Liabilities.

(m) all intellectual property assets;

(n) inventory, supplies, parts and other inventories;

(o) originals, or where not available, copies, of all books and records (other than the Excluded Assets) of Seller and the Business; and

(p) all goodwill and the going concern value of the Business

Schedule 2 - Attachment

Current list of assets / infrastructure owned and operated by Belle Oaks Water and Sewer Co., Inc.

Included is the estimated cost to construct facilities.

Sanitary Sewer System

Description	Qty	Unit	Cost	Total
WWTP 14,000 GPD	1	EA	$ 178,557.00	$ 178,557.00
Liftstation @ Plant	1	EA	$ 58,060.00	$ 58,060.00
Influent Piping to Plant - 3" Force Main	130	LF	$ 18.00	$ 2,340.00
Effluent Piping from Plant - 10" HDPE DR11	275	LF	$ 80.00	$ 22,000.00
Gravity Collection System - 8" PVC SDR26	6932	LF	$ 42.50	$ 294,610.00
Force Main - 3" PVC SDR21	1550	LF	$ 18.50	$ 28,675.00
Fiberglass San Sewer Manholes - 4' Dia	20	EA	$ 4,000.00	$ 80,000.00
Lift Station Phase II	1	EA	$ 89,373.00	$ 89,373.00
Sanitary Sewer Taps to Lots	119	EA	$ 700.00	$ 83,300.00
				$ 836,915.00

Water System

Description	Qty	Unit	Cost	Total
Connection to W Jefferson Co MWD	1	EA	$ 6,855.00	$ 6,855.00
Bore under Bayou - 8" HDPE SDR11	2350	LF	$ 72.00	$ 169,200.00
Water Main - 8" PVC C-900	4750	LF	$ 22.00	$ 104,500.00
Water Main - 6" PVC C-900	5190	LF	$ 20.00	$ 103,800.00
Fire Hydrant Assembly	8	EA	$ 3,800.00	$ 30,400.00
Current Meters	47	EA	$ 263.16	$ 12,368.52
Current Taps for Meters	68	EA	$ 625.00	$ 42,500.00
				$ 469,623.52

Land - Owned by developer, developer will agree to sell land in conjunction with APA

Description	Qty	Unit	Cost	Total

Raw Land - WWTP Site	1.31	ACRE	$ 40,000.00	$ 52,288.00
				$ 52,288.00

Schedule 3 Seller's Representations and Warranties

a. **Authority.** Seller is a corporation, duly formed in Texas. Seller has the authority to operate the Business, own or use the Assets, and sign this Agreement and take the actions contemplated by this Agreement. The Transaction Documents are enforceable against Seller and Shareholder in accordance with their terms, except as enforceability may be limited by applicable bankruptcy or similar Laws affecting creditors' rights or by principles governing the availability of equitable remedies. Seller does not have any subsidiaries or an ownership interest in any other Person. Seller is not engaged in business in any jurisdiction other than Texas. Seller is a regulated public utility in Texas and is legally authorized by the State of Texas to sell and distribute water in or near Jefferson County, Texas. This authorization is not limited by time and is not subject to any restrictions. Since December 28, 2013, the Commission has not denied a request of Seller to recover any costs of utility service.

b. **Sufficiency of Assets.** Seller has good and valid title to, or a valid leasehold interest in, all Assets. All Assets (including leasehold interests) are free and clear of Encumbrances, except for Permitted Encumbrances. The Assets are all the assets used in connection with the operation of the Business. The Assets are sufficient for the continued conduct of the Business after the Closing in substantially the same manner as conducted before the Closing and constitute all of the rights, property and assets necessary to conduct the Business as currently conducted. None of the Excluded Assets are material to the Business. All fixed assets of the Business and Assigned Contracts are listed on **Schedule 2**.

c **Condition of Assets.** The Tangible Personal Property are structurally sound, in good operating condition and repair, and adequate for the uses to which they are being put, and none of that Tangible Personal Property needs maintenance or repairs, except for ordinary, routine maintenance and repairs that are not material in nature or cost.

d. **Real Property.** All Real Property is listed on **Schedule 2.** Seller holds legally enforceable Easements sufficient to own and operate the Utility System. Seller has not granted to any other Person any right to the possession, lease, occupancy or enjoyment of any Real Property. All buildings, plants, and structures owned by Seller lie wholly within the boundaries of the Real Property (except for structures subject to valid Easements) and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person. No assessment for public improvements has been served upon Seller with respect to any Real Property that remains unpaid. To Seller's Knowledge, no public improvements have been ordered to be made to any Real Property that have not been completed, assessed and paid for. No third party has a right to acquire any interest in the Owned Real Property or in Seller's interests in the Leased Real Property. To Seller's Knowledge, there is no existing or proposed plan to modify or realign any street or highway or any existing or proposed eminent domain proceeding that would result in the taking of all or any part of any parcel of Real Property or that would prevent or hinder the continued use of any parcel of Real Property as presently used by Seller.

e. **Environmental Conditions.** The drinking water supplied by Seller to its customers is and has been in compliance in all material respects with all applicable federal and state drinking water standards and regulations, and Seller has all rights necessary to extract and deliver water to its customers under the Assigned Contracts or applicable Law. Seller has no reason to believe that any of those rights will be lost, revoked or compromised or will not be satisfied. There is no condition, event or circumstance related to Environmental Laws or Environmental Permits that might prevent or impede, after the Closing Date, the conduct of the Business as currently conducted or the ownership, lease, operation or use of the Assets. Seller has not received any Environmental Notice or written communication regarding any adverse change in the status or terms and conditions of the Environmental Permits. None of the Business, Assets or real property currently or formerly owned, operated or leased by Seller is listed on, or has been proposed for listing on, the National Priorities List (or CERCLIS) under CERCLA, or any similar state list. There has been no Release of Hazardous Materials in contravention of any Environmental Law with respect to the Businesses, Assets or any real property owned, operated or leased at any time by the Seller. No Seller has received an Environmental Notice that any of the Business, Assets, or any real property owned, operated or leased at any time by the Seller (including soils, groundwater, surface water, buildings and other structure located on any such real property) has been contaminated with any Hazardous Material which could reasonably be expected to result in an Environmental Claim against, or a material violation of any Environmental Law or term of any Environmental Permit by, the Seller. There is no condition, event or circumstance concerning the Release or use of Hazardous Materials that might, after the Closing Date, prevent or materially increase the costs associated with the current conduct of the Business or the ownership, lease, operation, performance or use of the Assets. Except as used by Seller in the ordinary course of business and in compliance with Law, there is no Hazardous Material present on or under the Facilities or Easements. None of the Facilities contains any (i) above-ground or underground storage tanks used to store substances other than potable water in connection with operation of the Utility System; or (ii) landfills, surface impoundments, or disposal areas.

f. **Water Rights.** The Water Rights are listed on **Schedule 2**. Seller has not violated the terms or conditions of any Water Right, including by pumping or diverting in excess of the instantaneous and annual quantities authorized under the Water Rights. No Water Right is subject to abandonment, forfeiture or cancellation, in whole or in part. With respect to each Water Right, Seller has Easements for all sources of water, points of diversion or appropriation, diversion or appropriation works and facilities, and distribution, storage and delivery facilities.

g **Permits.** Seller has all Permits necessary to lawfully own, operate and maintain the Utility System, to conduct the Business as currently conducted, and to own and use the Assets. All of the Permits owned or held by Seller or that relate to the Business are listed in **Schedule 2** and are valid and in full force and effect. Seller has filed on a timely basis with the appropriate Governmental Authorities all applications required to have been filed for the renewal or reissuance of the Permits necessary to permit the Seller to continue to conduct its Business as currently conducted and all other filings required to have been made with respect to the Permits.

h. **Actions.** There are no Actions pending nor, to Seller's Knowledge, threatened in writing against or (i) relating to or affecting the Assets or the Assumed Liabilities, including in the nature of or in lieu of condemnation or eminent domain proceedings or (ii) that challenge or seek to prevent, enjoin or otherwise delay the Transactions. No event has occurred, or circumstances exist that may give rise to, or serve as a basis for, any such Action. There are no outstanding Orders and no unsatisfied judgments, penalties or awards against or affecting the Business.

i. **Compliance with Laws.** Seller has always complied, and is now complying, with all Laws applicable to the conduct of the Business or the ownership and use of the Assets, including all Permits. Seller has made all filings required to be made by it sinceDecember 28, 2013 under all Laws, including for the renewal or reissuance of Permits. Seller has received no notice, written or oral, from any Person, including any Governmental Authority, regarding actual, alleged, or potential violation of Law, Order, Permit, Easement, Contract, covenant, or the like by Seller or the Business. No event has occurred or circumstance exists that would result in a breach, termination right, modification right, acceleration right, loss of any benefit or penalty under any Law, Permit, Order, Contract, Easement, or other right. No event has occurred or circumstance exists that gives rise to an obligation on Seller to take, or bear the cost of, any remedial action. Seller has not been debarred, suspended or otherwise made ineligible from doing business with the United States government or any government contractor.

j. **No Undisclosed Liabilities.** Seller has no Liabilities, except (i) those which are adequately reflected or reserved against in the balance sheet of the Seller as of December 31, 2019, a true and complete copy of which has been made available to Buyer, and (ii) those which have been incurred in the ordinary course of business consistent in nature, scope, and magnitude with past practice since

December 31, 2019 and that are not, individually or in the aggregate, material in amount. Seller has no "employee benefit plan" as defined by Section 3(3) of Employee Retirement Income Security Act of 1974, or any other employee severance, retirement, pension, or fringe benefit plan, agreement, practice, policy or arrangement, sponsored, maintained, contributed to or required to be contributed to by Seller for the benefit of its directors, officers, employees or former employees and their dependents or beneficiaries.

k. **Absence of Changes.** Since December 31, 2019 there has not been any: (i) event, occurrence or development that has had, or could reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Business; (ii) sale or lease of any assets of the Business; (iii) (A) action to make, change or rescind any Tax election; (B) action to amend any Tax Return or take any new position on any Tax Return; or (C) action, omission or entrance into any transaction that would have the effect of increasing the Tax liability or reducing any Tax asset of Buyer or Seller in respect of any Post-Closing Tax Period; or (iv) agreement to do any of the foregoing.

l. **No Conflicts; Consents.** Entering into this Agreement or taking actions contemplated by this Agreement, including Closing, will not (i) conflict with or violate (or give any person a right to challenge the Transaction, to exercise a remedy or obtain relief) under any Law; (ii) require consent of, notice to, or other action by any other person; (iii) give rise to a breach, termination right, modification right, acceleration right, loss of any benefit or penalty under any Permit, Order, Contract, Easement, or other right; or (iv) result in the imposition or creation of a lien on any of the Assets.

Schedule 4 Allocation Schedule

[redacted]

Attachment

3

FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT

This FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT (this "**First Amendment**") is made and entered into effective as of this 8th day of April, 2021, between T&W Water Service Company ("**Buyer**"), Belle Oaks Water and Sewer Co., Inc. ("**Seller**") and Bryan Phelps ("**Shareholder**").

RECITALS:

A. The parties entered into that certain Asset Purchase Agreement effective as of December 28, 2020 (the "**Agreement**"). Each capitalized term set forth in this First Amendment that is not otherwise defined herein shall have the meaning ascribed to it in the Agreement.

B. The parties desire to amend the Agreement as provided in this First Amendment.

NOW, THEREFORE, in consideration of the terms, conditions and covenants contained herein, and of certain other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Recitals Incorporated. The recitals set forth above are incorporated in this Section 1 and shall be deemed terms and provisions of this First Amendment.

2. Schedule 4. Schedule 4 of the Agreement, titled "Allocation Schedule," shall be deleted in its entirety and replaced with the following:

[redacted]

3. Execution. This First Amendment may be executed in multiple counterparts, each of which, when assembled to include a signature by each party contemplated to sign this First Amendment, shall constitute one (1) complete and fully executed First Amendment. Counterparts to this First Amendment may be executed and delivered by e-mail or facsimile transmission.

4. Headings. Section headings contained herein are for convenience or reference only and shall not govern the interpretation of any of the provisions contained herein.

[Remainder of Page Intentionally Left Blank]

[Signatures on Following Page(s)]

IN WITNESS WHEREOF, the parties hereto have set their hands and seals as of the day and year first referenced above.

T& W WATER SERVICE COMPANY

By:______________________

Name. Justin Palfreyman

Title: President

Date: 04/08/2021

BELLE OAKS WATER AND SEWER CO., INC.

By: ______________________

Name: Bryan Phelps

Title: President

Date. 4/8/21

____

(Signature)

Name: Bryan Phelps as SHAREHOLDER

Date: 4/8/21

[Signature to First Amendment to Asset Purchase Agreement]

Attachment 4

SECTION 1.0 -- RATE SCHEDULE

Section 1.01 - Rates

Meter Size	Monthly Minimum Charge	Gallonage Charge
5/8" or 3/4"	$35.00 (Includes 0 gallons)	$4.85 per 1000 gallons
1"	$40.00	
1 ½ "	$65.00	
2"	$105.00	
3"	$175.00	
4"	$310.00	

FORM OF PAYMENT: The utility will accept the following forms of payment:
Cash X , Check X , Money Order X , Credit Card_____, Other (specify)_______
THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT PAYMENTS MADE USING MORE THAN $1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN FOR CASH PAYMENTS.

REGULATORY ASSESSMENT 1.0%
TCEQ RULES REQUIRE THE UTILITY TO COLLECT A FEE OF ONE PERCENT OF THE RETAIL MONTHLY BILL.

Section 1.02 - Miscellaneous Fees

TAP FEE $900.00
TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL 5/8" or 3/4" METER. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF.

TAP FEE (Unique costs) .... Actual Cost
FOR EXAMPLE, A ROAD BORE FOR CUSTOMERS OUTSIDE OF SUBDIVISIONS OR RESIDENTIAL AREAS.

TAP FEE (Large meter) .... Actual Cost
TAP FEE IS THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR METER SIZE INSTALLED.

METER RELOCATION FEE .... Actual Relocation Cost, Not to Exceed Tap Fee
THIS FEE MAY BE CHARGED IF A CUSTOMER REQUESTS THAT AN EXISTING METER BE RELOCATED.

RATES LISTED ARE EFFECTIVE ONLY
IF THIS PAGE HAS TCEQ APPROVAL STAMP

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
54710C CCN 13067 [illegible] 3 '04
APPROVED TARIFF BY [illegible]/DR

SECTION 1.0 -- RATE SCHEDULE (Continued)

METER TEST FEE $25.00

THIS FEE WHICH SHOULD REFLECT THE UTILITY'S COST MAY BE CHARGED IF A CUSTOMER REQUESTS A SECOND METER TEST WITHIN A TWO-YEAR PERIOD AND THE TEST INDICATES THAT THE METER IS RECORDING ACCURATELY. THE FEE MAY NOT EXCEED $25.

RECONNECTION FEE

THE RECONNECT FEE MUST BE PAID BEFORE SERVICE CAN BE RESTORED TO A CUSTOMER WHO HAS BEEN DISCONNECTED FOR THE FOLLOWING REASONS (OR OTHER REASONS LISTED UNDER SECTION 2.0 OF THIS TARIFF):

a) Non payment of bill (Maximum $25.00) $25.00
b) Customer's request that service be disconnected $15.00

TRANSFER FEE $15.00

THE TRANSFER FEE WILL BE CHARGED FOR CHANGING AN ACCOUNT NAME AT THE SAME SERVICE LOCATION WHEN THE SERVICE IS NOT DISCONNECTED

LATE CHARGE (EITHER $5.00 OR 10% OF THE BILL) $5.00

TCEQ RULES ALLOW A ONE-TIME PENALTY TO BE CHARGED ON DELINQUENT BILLS. A LATE CHARGE MAY NOT BE APPLIED TO ANY BALANCE TO WHICH THE PENALTY WAS APPLIED IN A PREVIOUS BILLING

RETURNED CHECK CHARGE $10.00

RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST

CUSTOMER DEPOSIT RESIDENTIAL (Maximum $50) $50.00

COMMERCIAL & NON-RESIDENTIAL DEPOSIT .. .. 1/6TH OF ESTIMATED ANNUAL BILL

GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE:

WHEN AUTHORIZED IN WRITING BY TCEQ AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING. [30 TAC 291.21(K)(2)]

LINE EXTENSION AND CONSTRUCTION CHARGES:

REFER TO SECTION 3.0--EXTENSION POLICY FOR TERMS, CONDITIONS, AND CHARGES WHEN NEW CONSTRUCTION IS NECESSARY TO PROVIDE SERVICE.

RATES LISTED ARE EFFECTIVE ONLY
IF THIS PAGE HAS TCEQ APPROVAL STAMP

TEXAS COMM. ON ENVIRONMENTAL QUALITY
34710C CCN 13067 [illegible] 3'04
APPROVED TARIFF BY Lm / DR

SECTION 1.0 - RATE SCHEDULE

Meter Size	Monthly Minimum Charge	Gallonage Charge
5/8" or 3/4"	$35.00 (Includes 2000 gallons)	$4.85 per 1000 gallons, 1st 500,000 gallons
1"	$40.00	
1 ½ "	$45.00	
2"	$50.00	
3"	$55.00	
4"	$60.00	

Volume charges are determined based on average consumption for winter period which includes the following months: October thru March

FORM OF PAYMENT: The utility will accept the following forms of payment:
Cash X , Check X , Money Order X , Credit Card_____, Other (specify)_______
THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT PAYMENTS MADE USING MORE THAN $1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN FOR CASH PAYMENTS.

REGULATORY ASSESSMENT 1.0%
TCEQ RULES REQUIRE THE UTILITY TO COLLECT A FEE OF ONE PERCENT OF THE RETAIL MONTHLY BILL.

Section 1.02 - Miscellaneous Fees

TAP FEE $900.00
TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL CONNECTION. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF.

TAP FEE (Large Connection Tap) .... Actual Cost
TAP FEE IS THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR TAP SIZE INSTALLED.

RATES LISTED ARE EFFECTIVE ONLY
IF THIS PAGE HAS TCEQ APPROVAL STAMP

TEXAS COMM. ON ENVIRONMENTAL QUALITY
34711 0 CCN 20960 NOV 3 '04
APPROVED TARIFF BY Lm/DR

SECTION 1.0 - RATE SCHEDULE

RECONNECTION FEE

THE RECONNECT FEE MUST BE PAID BEFORE SERVICE CAN BE RESTORED TO A CUSTOMER WHO HAS BEEN DISCONNECTED FOR THE FOLLOWING REASONS (OR OTHER REASONS LISTED UNDER SECTION 2.0 OF THIS TARIFF):

a) Non payment of bill (Maximum $25.00) $25.00
b) Customer's request that service be disconnected $15.00

TRANSFER FEE $15.00

THE TRANSFER FEE WILL BE CHARGED FOR CHANGING AN ACCOUNT NAME AT THE SAME SERVICE LOCATION WHEN THE SERVICE IS NOT DISCONNECTED

LATE CHARGE (EITHER $5.00 OR 10% OF THE BILL) $5.00

TCEQ RULES ALLOW A ONE-TIME PENALTY TO BE CHARGED ON DELINQUENT BILLS A LATE CHARGE MAY NOT BE APPLIED TO ANY BALANCE TO WHICH THE PENALTY WAS APPLIED IN A PREVIOUS BILLING.

RETURNED CHECK CHARGE $10.00

RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST

CUSTOMER DEPOSIT RESIDENTIAL (Maximum $50) $50.00

COMMERCIAL & NON-RESIDENTIAL DEPOSIT .... 1/6TH OF ESTIMATED ANNUAL BILL

GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE:

WHEN AUTHORIZED IN WRITING BY TCEQ AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING. [30 TAC 291.21(K)(2)]

LINE EXTENSION AND CONSTRUCTION CHARGES:

REFER TO SECTION 3.0--EXTENSION POLICY FOR TERMS, CONDITIONS, AND CHARGES WHEN NEW CONSTRUCTION IS NECESSARY TO PROVIDE SERVICE.

RATES LISTED ARE EFFECTIVE ONLY
IF THIS PAGE HAS TCEQ APPROVAL STAMP

TEXAS COMM ON ENVIRONMENTAL QUALITY
34710 CCN 20961 NOV 5 '04
APPROVED TARIFF BY [signature] /DR

Attachment 5

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020
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	NW Natural
NORTHWEST NATURAL HOLDING COMPANY	**NORTHWEST NATURAL GAS COMPANY**
(Exact name of registrant as specified in its charter)	(Exact name of registrant as specified in its charter)
Commission file number 1-38681	Commission file number 1-15973
Oregon (State or other jurisdiction of incorporation or organization)	**Oregon** (State or other jurisdiction of incorporation or organization)
82-4710680 (I.R.S. Employer Identification No.)	**93-0256722** (I.R.S. Employer Identification No.)
250 S.W. Taylor Street, Portland, Oregon (Address of principal executive offices)	**250 S.W. Taylor Street, Portland, Oregon** (Address of principal executive offices)
97204 (Zip Code)	**97204** (Zip Code)
Registrant's telephone number: **(503) 226-4211**	Registrant's telephone number: **(503) 226-4211**

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

Registrant	Title of each class	Trading Symbol	Name of each exchange on which registered
Northwest Natural Holding Company	Common Stock	NWN	New York Stock Exchange
Northwest Natural Gas Company	None	None	None

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
NORTHWEST NATURAL HOLDING COMPANY Yes ☒ No ☐ NORTHWEST NATURAL GAS COMPANY Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
NORTHWEST NATURAL HOLDING COMPANY Yes ☐ No ☒ NORTHWEST NATURAL GAS COMPANY Yes ☐ No ☒

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		NORTHWEST NATURAL GAS COMPANY	
Large Accelerated Filer	☒	Large Accelerated Filer	☐
Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☐	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.
NORTHWEST NATURAL HOLDING COMPANY Yes ☒ No ☐ NORTHWEST NATURAL GAS COMPANY Yes ☐ No ☒

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 ☒

As of the end of the second quarter of 2020, the aggregate market value of the shares of Common Stock of Northwest Natural Holding Company (based upon the closing price of these shares on the New York Stock Exchange on June 30, 2020) held by non-affiliates was $1,682,261,011.

At February 16, 2021, 30,606,665 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-K 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 meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore filing this report with the reduced disclosure format.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Northwest Natural Holding Company's Proxy Statement, to be filed in connection with the 2021 Annual Meeting of Shareholders, are incorporated by reference in Part III.

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GLOSSARY OF TERMS AND ABBREVIATIONS

AFUDC	Allowance for Funds Used During Construction
AOCI / AOCL	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update as issued by the FASB
Average Weather	The 25-year average of heating degree days based on temperatures established in our last Oregon general rate case
Bcf	Billion cubic feet, a volumetric measure of natural gas, where one Bcf is roughly equal to 10 million therms
CNG	Compressed Natural Gas
CODM	Chief Operating Decision Maker, which for accounting purposes is defined as an individual or group of individuals responsible for the allocation of resources and assessing the performance of the entity's business units
Core NGD Customers	Residential, commercial, and industrial customers receiving firm service from the Natural Gas Distribution business
Cost of Gas	The delivered cost of natural gas sold to customers, including the cost of gas purchased or withdrawn/produced from storage inventory or reserves, gains and losses from gas commodity hedges, pipeline demand costs, seasonal demand cost balancing adjustments, and regulatory gas cost deferrals
Decoupling	A natural gas billing rate mechanism, also referred to as a conservation tariff, which is designed to allow a utility to encourage industrial and small commercial customers to conserve energy while not adversely affecting the utility's earnings due to reductions in sales volumes
Demand Cost	A component in NGD customer rates representing the cost of securing firm pipeline capacity, whether the capacity is used or not
EE/CA	Engineering Evaluation / Cost Analysis
Encana	Encana Oil & Gas (USA) Inc.
Energy Corp	Northwest Energy Corporation, a wholly-owned subsidiary of Northwest Natural Gas Company
EPA	Environmental Protection Agency
EPS	Earnings per share
ECRM	Environmental Cost Recovery Mechanism, a billing rate mechanism for recovering prudently incurred environmental site remediation costs allocable to Washington customers through NGD customer billings
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission; the entity regulating interstate storage services offered by the Mist gas storage facility
Firm Service	Natural gas service offered to customers under contracts or rate schedules that will not be disrupted to meet the needs of other customers
FMBs	First Mortgage Bonds
General Rate Case	A periodic filing with state or federal regulators to establish billing rates for utility customers
GHG	Greenhouse gases
GTN	Gas Transmission Northwest, LLC which owns a transmission pipeline serving California and the Pacific Northwest
Heating Degree Days	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
Interruptible Service	Natural gas service offered to customers (usually large commercial or industrial users) under contracts or rate schedules that allow for interruptions when necessary to meet the needs of firm service customers
Interstate Storage Services	The portion of the Mist gas storage facility not used to serve NGD customers, instead serving utilities, gas marketers, electric generators, and large industrial users
IPUC	Public Utility Commission of Idaho; the entity that regulates NW Holdings' regulated water businesses with respect to rates and terms of service, among other matters
IRP	Integrated Resource Plan
KB	Kelso-Beaver Pipeline, of which 10% is owned by KB Pipeline Company, a subsidiary of NNG Financial Corporation
LNG	Liquefied Natural Gas, the cryogenic liquid form of natural gas. To reach a liquid form at atmospheric pressure, natural gas must be cooled to approximately negative 260 degrees Fahrenheit

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MAP-21	A federal pension plan funding law called the Moving Ahead for Progress in the 21st Century Act, July 2012
Moody's	Moody's Investors Service, Inc., credit rating agency
NAV	Net Asset Value
NGD	Natural Gas Distribution, a segment of Northwest Natural Holding Company and Northwest Natural Gas Company that provides regulated natural gas distribution services to residential, commercial, and industrial customers in Oregon and Southwest Washington
NGD Margin	A financial measure used by NW Natural's CODM consisting of NGD operating revenues less the associated cost of gas, franchise taxes, and environmental recoveries
NNG Financial	NNG Financial Corporation, a wholly-owned subsidiary of NW Holdings
NOL	Net Operating Loss
NRD	Natural Resource Damages
NW Holdings	Northwest Natural Holding Company
NW Natural	Northwest Natural Gas Company, a wholly-owned subsidiary of NW Holdings
NWN Energy	NW Natural Energy, LLC, a wholly-owned subsidiary of NW Holdings
NWN Gas Reserves	NWN Gas Reserves LLC, a wholly-owned subsidiary of Energy Corp
NWN Gas Storage	NW Natural Gas Storage, LLC, a wholly-owned subsidiary of NWN Energy
ODEQ	Oregon Department of Environmental Quality
OPEIU	Office and Professional Employees International Union Local No. 11, AFL-CIO, the Union which represents NW Natural's bargaining unit employees
OPUC	Public Utility Commission of Oregon; the entity that regulates our Oregon natural gas and regulated water businesses with respect to rates and terms of service, among other matters; the OPUC also regulates the Mist gas storage facility's intrastate storage services
PBGC	Pension Benefit Guaranty Corporation
PGA	Purchased Gas Adjustment, a regulatory mechanism primarily used to adjust natural gas customer rates to reflect changes in the forecasted cost of gas and differences between forecasted and actual gas costs from the prior year
Portland General	Portland General Electric; primary customer of the North Mist gas storage facility
PHMSA	U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration
PRP	Potentially Responsible Parties
PUCT	Public Utility Commission of Texas; the entity that regulates NW Holdings' regulated water businesses with respect to rates and terms of service, among other matters
RI/FS	Remedial Investigation / Feasibility Study
RNG	Renewable Natural Gas, a source of natural gas derived from organic materials which may be captured, refined, and distributed on natural gas pipeline systems
RNG Hold Co	NW Natural RNG Holding Company, LLC, a wholly-owned subsidiary of Northwest Natural Gas Company
ROD	Record of Decision
ROE	Return on Equity, a measure of corporate profitability, calculated as net income or loss divided by average common equity. Authorized ROE refers to the equity rate approved by a regulatory agency for use in determining utility revenue requirements
ROR	Rate of Return, a measure of return on utility rate base. Authorized ROR refers to the rate of return approved by a regulatory agency and is generally discussed in the context of ROE and capital structure
S&P	Standard & Poor's Financial Services LLC, a credit rating agency and a subsidiary of S&P Global Inc.
Sales Service	Service provided whereby a customer purchases both natural gas commodity supply and transportation from the NGD business
SEC	U.S. Securities and Exchange Commission
SRRM	Site Remediation and Recovery Mechanism, a billing rate mechanism for recovering prudently incurred environmental site remediation costs allocable to Oregon through NGD customer billings, subject to an earnings test
TCJA	The Tax Cuts and Jobs Act enacted on December 22, 2017
Therm	The basic unit of natural gas measurement, equal to one hundred thousand British thermal units
Transportation Service	Service provided whereby a customer purchases natural gas directly from a supplier but pays the utility to transport the gas over its distribution system to the customer's facility
U.S. GAAP	Accounting principles generally accepted in the United States of America

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WARM	An Oregon billing rate mechanism applied to natural gas residential and commercial customers to adjust for temperature variances from average weather
WUTC	Washington Utilities and Transportation Commission, the entity that regulates our Washington natural gas and regulated water businesses with respect to rates and terms of service, among other matters.

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

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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 at Item 1A., "Risk Factors" of Part I and 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, of Part II of this report.

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

PART I

FILING FORMAT

This annual report on Form 10-K is a combined report being filed by two separate registrants: Northwest Natural Holding Company (NW Holdings), and Northwest Natural Gas Company (NW Natural). Except where the content clearly indicates otherwise, any reference in the report to "we," "us" or "our" is to the consolidated entity of NW Holdings and all of its subsidiaries, including NW Natural, which is a distinct SEC registrant that is a wholly-owned subsidiary of NW Holdings. Each of NW Holdings' subsidiaries is a separate legal entity with its own assets and liabilities. Information contained herein relating to any individual registrant or its subsidiaries is filed by such registrant on its own behalf. Each registrant makes representations only as to itself and its subsidiaries and makes no other representation whatsoever as to any other company.

Item 8 in this Annual Report on Form 10-K includes separate financial statements (i.e. balance sheets, statements of comprehensive income, statements of cash flows, and statements of equity) for NW Holdings and NW Natural, in that order. References in this discussion to the "Notes" are to the Notes to the Consolidated Financial Statements in Item 8 of this report. The Notes to the Consolidated Financial Statements are presented on a combined basis for both entities except where expressly noted otherwise. All Items other than Item 8 are combined for the reporting companies.

ITEM 1. BUSINESS

OVERVIEW

On October 1, 2018, we completed a reorganization into a holding company structure. In this reorganization, shareholders of NW Natural (the predecessor publicly held parent company) became shareholders of NW Holdings, on a one-for-one basis, with the same number of shares and same ownership percentage as they held in NW Natural immediately prior to the reorganization. NW Natural became a wholly-owned subsidiary of NW Holdings. Additionally, certain subsidiaries of NW Natural were transferred to NW Holdings. As required under generally accepted accounting principles, these subsidiaries are presented as discontinued operations in the 2018 consolidated results of NW Natural within this report.

NW Holdings is a holding company headquartered in Portland, Oregon and owns NW Natural, NW Natural Water Company, LLC (NWN Water), and other businesses and activities. NW Natural is NW Holdings' largest subsidiary. NW Natural owns NW Natural RNG Holding Company, LLC, a holding company established to invest in the development and procurement of renewable natural gas.

NW Natural distributes natural gas to residential, commercial, and industrial customers in Oregon and southwest Washington. NW Natural and its predecessors have supplied gas service to the public since 1859, was incorporated in Oregon in 1910, and began doing business as NW Natural in 1997. NW Natural's natural gas distribution activities are reported in the natural gas distribution (NGD) segment. All other business activities, including certain gas storage activities, water businesses, and other investments and activities are aggregated and reported as "other" at their respective registrant.

In addition, NW Holdings reported discontinued operations results related to the sale of Gill Ranch Storage, LLC (Gill Ranch). NW Natural Gas Storage, LLC (NWN Gas Storage), an indirect wholly-owned subsidiary of NW Holdings, entered into a Purchase and Sale Agreement during the second quarter of 2018 that provides for the sale of all membership interests in Gill Ranch. Gill Ranch owns a 75% interest in the natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility. On December 4, 2020, NWN Gas Storage closed the sale of all of the membership interests in Gill Ranch. See Note 19 of the Consolidated Financial Statements in Item 8 of this report for more information.

NATURAL GAS DISTRIBUTION (NGD) SEGMENT

Both NW Holdings and NW Natural have one reportable segment, the NGD segment, which is operated by NW Natural. NGD provides natural gas service through approximately 770,000 meters in Oregon and southwest Washington. Approximately 88% of customers are located in Oregon and 12% are located in southwest Washington.

NW Natural has been allocated an exclusive service territory by the Oregon Public Utility Commission (OPUC) and Washington Utilities and Transportation Commission (WUTC), which includes the major population centers in western Oregon, including the Portland metropolitan area, most of the Willamette Valley, the Coastal area from Astoria to Coos Bay, and portions of Washington along the Columbia River. Portland serves as a major West Coast port and is a key distribution center. Major businesses located in NW Natural's service territory include retail, manufacturing, and high-technology industries.

Customers

The NGD business serves residential, commercial, and industrial customers with no individual customer accounting for more than 10% of NW Natural's or NW Holdings' revenues. On an annual basis, residential and commercial customers typically account for approximately 60% of NGD volumes delivered and approximately 90% of margin. Industrial and other customers largely account for the remaining volumes and margin.

The following table presents summary meter information for the NGD segment as of December 31, 2020:

	Number of Meters	% of Volumes	% of Margin
Residential	704,675	38 %	64 %
Commercial	68,812	21 %	24 %
Industrial	989	41 %	7 %
Other(1)	N/A	N/A	5 %
Total	774,476	100 %	100 %

(1) NGD margin is also affected by other items, including miscellaneous revenues, gains or losses from NW Natural's gas cost incentive sharing mechanism, other margin adjustments, and other regulated services.

Generally, residential and commercial customers purchase both their natural gas commodity (gas sales) and natural gas delivery services (transportation services) from the NGD business. Industrial customers also purchase transportation services, but may buy the gas commodity either from NW Natural or directly from a third-party gas marketer or supplier. Gas commodity cost is primarily a pass-through cost to customers; therefore, profit margins are not materially affected by an industrial customer's decision to purchase gas from NW Natural or from third parties. Industrial and large commercial customers may also select between firm and interruptible service levels, with firm services generally providing higher profit margins compared to interruptible services.

To help manage gas supplies, industrial tariffs are designed to provide some certainty regarding industrial customers' volumes by requiring an annual service election, special charges for changes between elections, and in some cases, a minimum or maximum volume requirement before changing options.

Customer growth rates for natural gas utilities in the Pacific Northwest historically have been among the highest in the nation due to lower market saturation as natural gas became widely available as a residential heating source after other fuel options. We estimate natural gas was in approximately 63% of single-family residential homes in NW Natural's service territory in 2020. Customer growth in our region comes mainly from the following sources: single-family housing, both new construction and conversions; multifamily housing new construction; and commercial buildings, both new construction and conversions. Single-family new construction has consistently been our largest source of growth. Continued customer growth is closely tied to the comparative price of natural gas to electricity and fuel oil and the economic health of Portland, Oregon and Vancouver, Washington. We believe there is potential for continued growth as natural gas is a preferred direct energy source due to its affordability, reliability, comfort, convenience, and clean qualities.

Competitive Conditions

In its service areas, the NGD business has no direct competition from other natural gas distributors. However, it competes with other forms of energy in each customer class. This competition among energy suppliers is based on price, efficiency, reliability, performance, preference, market conditions, technology, federal, state, and local energy policy, and environmental impacts.

For residential and small to mid-size commercial customers, the NGD business competes primarily with providers of electricity, fuel oil, and propane.

In the industrial and large commercial markets, the NGD business competes with all forms of energy, including competition from wholesale natural gas marketers. In addition, large industrial customers could bypass NW Natural's natural gas distribution system by installing their own direct pipeline connection to the interstate pipeline system. NW Natural has designed custom transportation service agreements with several large industrial customers to provide transportation service rates that are competitive with the customer's costs of installing their own pipeline.

Seasonality of Business

The NGD business is seasonal in nature due to higher gas usage by residential and commercial customers during the cold winter heating months. Other categories of customers experience similar seasonality in their usage but to a lesser extent.

Regulation and Rates

The NGD business is subject to regulation by the OPUC and WUTC. These regulatory agencies authorize rates and allow recovery mechanisms to provide the opportunity to recover prudently incurred capital and operating costs from customers, while also earning a reasonable return on investment for investors. In addition, the OPUC and WUTC also regulate the system of accounts and issuance of securities by NW Natural.

NW Natural files general rate cases and rate tariff requests periodically with the OPUC and WUTC to establish approved rates, an authorized return on equity (ROE), an overall rate of return (ROR) on rate base, an authorized capital structure, and other revenue/cost deferral and recovery mechanisms.

NW Natural is also regulated by the Federal Energy Regulatory Commission (FERC). Under NW Natural's Mist interstate storage certificate with FERC, NW Natural is required to file either a petition for rate approval or a cost and revenue study every five years to change or justify maintaining the existing rates for the interstate storage service.

For further discussion on our most recent general rate cases, see Part II, Item 7, "Results of Operations—Regulatory Matters—*Regulation and Rates.*"

Gas Supply

NW Natural strives to secure sufficient, reliable supplies of natural gas to meet the needs of customers at the lowest reasonable cost, while maintaining price stability, managing gas purchase costs prudently and supporting our core value of environmental stewardship. This is accomplished through a comprehensive strategy focused on the following items:

- **Reliability** - ensuring gas resource portfolios are sufficient to satisfy customer requirements under extreme cold weather conditions;
- **Diverse Supply** - providing diversity of supply sources;
- **Diverse Contracts** - maintaining a variety of contract durations, types, and counterparties;
- **Cost Management and Recovery** - employing prudent gas cost management strategies; and
- **Environmental Stewardship** - striving to reduce the carbon content and environmental impacts of the energy we deliver.

Reliability

The effectiveness of the natural gas distribution system ultimately rests on whether reliable service is provided to NGD customers. To ensure effectiveness, the NGD business has developed a risk-based methodology in which it uses a planning standard to serve the highest firm sales demand day in any year with 99% certainty.

The projected maximum design day firm NGD customer sales is approximately 10 million therms. Of this total, the NGD business is currently capable of meeting about 56% of requirements with gas from storage located within or adjacent to its service territory, while the remaining supply requirements would come from gas purchases under firm gas purchase contracts and recall agreements.

NW Natural segments transportation capacity, which is a natural gas transportation mechanism under which a shipper can leverage its firm pipeline transportation capacity by separating it into multiple segments with alternate delivery routes. The reliability of service on these alternate routes will vary depending on the constraints of the pipeline system. For those segments with acceptable reliability, segmentation provides a shipper with increased flexibility and potential cost savings compared to traditional pipeline service. The NGD business relies on segmentation of firm pipeline transportation capacity that flows from Stanfield, Oregon to various points south of Molalla, Oregon.

We believe gas supplies would be sufficient to meet existing NGD firm customer demand in the event of maximum design day weather conditions.

The following table shows the sources of supply projected to be used to satisfy the design day sales for the 2020-21 winter heating season:

Therms in millions	Therms	Percent
Sources of NGD supply:		
Firm supply purchases	3.4	34 %
Mist underground storage (NGD only)	3.1	32 %
Company-owned LNG storage	1.9	19 %
Off-system storage contract	0.5	5 %
Pipeline segmentation capacity	0.6	6 %
Recall agreements	0.4	4 %
Total	9.9	100 %

The OPUC and WUTC have Integrated Resource Planning (IRP) processes in which utilities define different growth scenarios and corresponding resource acquisition strategies in an effort to evaluate supply and demand resource requirements, consider uncertainties in the planning process and the need for flexibility to respond to changes, and establish a plan for providing reliable service at the least cost.

NW Natural generally files a full IRP biennially for Oregon and Washington with the OPUC and the WUTC, respectively, and files updates between filings. The OPUC acknowledges NW Natural's action plan, whereas the WUTC provides notice that the IRP has met the requirements of the Washington Administrative Code. OPUC acknowledgment of the IRP does not constitute ratemaking approval of any specific resource acquisition strategy or expenditure. However, the OPUC Commissioners generally indicate that they would give considerable weight in prudence reviews to actions consistent with acknowledged plans. The WUTC has indicated the IRP process is one factor it will consider in a prudence review. For additional information see Part II, Item 7, "Results of Operations—*Regulatory Matters*."

Diversity of Supply Sources
NW Natural purchases gas supplies primarily from the Alberta and British Columbia provinces of Canada and multiple receipt points in the U.S. Rocky Mountains to protect against regional supply disruptions and to take advantage of price differentials. For 2020, 62% of gas supply came from Canada, with the balance primarily coming from the U.S. Rocky Mountain region. The extraction of shale gas has increased the availability of gas supplies throughout North America. We believe gas supplies available in the western United States and Canada are adequate to serve NGD customer requirements for the foreseeable future. NW Natural continues to evaluate the long-term supply mix based on projections of gas production and pricing in the U.S. Rocky Mountain region as well as other regions in North America. NW Natural has also announced its intent to incorporate renewable natural gas (RNG) into its supply portfolio. See "*Environmental Matters*" below.

NW Natural supplements firm gas supply purchases with gas withdrawals from gas storage facilities, including underground reservoirs and LNG storage facilities. Storage facilities are generally injected with natural gas during the off-peak months in the spring and summer, and the gas is withdrawn for use during peak demand months in the winter.

The following table presents the storage facilities available for NGD business supply:

	Maximum Daily Deliverability (therms in millions)	Designed Storage Capacity (Bcf)
Gas Storage Facilities		
Owned Facility		
Mist, Oregon (Mist Facility)[(1)]	3.1	10.6
Mist, Oregon (North Mist Facility)[(2)]	1.3	4.1
Contracted Facility		
Jackson Prairie, Washington[(3)]	0.5	1.1
LNG Facilities		
Owned Facilities		
Newport, Oregon	0.6	1.0
Portland, Oregon	1.3	0.6
Total	6.8	17.4

(1) The Mist gas storage facility has a total maximum daily deliverability of 5.4 million therms and a total designed storage capacity of about 16.0 Bcf, of which 3.1 million therms of daily deliverability and 10.6 Bcf of storage capacity are reserved for NGD business customers.
(2) The North Mist facility is contracted to exclusively serve Portland General Electric, a local electric utility, and may not be used to serve other NGD customers. See "*North Mist Gas Storage Facility*" below for more information.
(3) The storage facility is located near Chehalis, Washington and is contracted from Northwest Pipeline, a subsidiary of The Williams Companies.

The Mist facility serves NGD segment customers and is also used for non-NGD purposes, primarily for contracts with gas storage customers, including utilities and third-party marketers. Under regulatory agreements with the OPUC and WUTC, gas storage at Mist can be developed in advance of NGD customer needs but is subject to recall when needed to serve such customers as their demand increases. When storage capacity is recalled for NGD purposes it becomes part of the NGD segment. In 2020, the NGD business did not recall additional deliverability or associated storage capacity to serve customer needs. The North Mist facility is contracted for the exclusive use of Portland General Electric, a local electric utility, and may not be used to serve other NGD customers. See "*North Mist Gas Storage Facility*" below.

Diverse Contract Durations and Types
NW Natural has a diverse portfolio of short-, medium-, and long-term firm gas supply contracts and a variety of contract types including firm and interruptible supplies as well as supplemental supplies from gas storage facilities.

The portfolio of firm gas supply contracts typically includes the following gas purchase contracts: year-round and winter-only baseload supplies; seasonal supply with an option to call on additional daily supplies during the winter heating season; and daily or monthly spot purchases.

During 2020, a total of 757 million therms were purchased under contracts with durations as follows:

Contract Duration (primary term)	Percent of Purchases
Long-term (one year or longer)	39 %
Short-term (more than one month, less than one year)	23
Spot (one month or less)	38
Total	100 %

Gas supply contracts are renewed or replaced as they expire. During 2020, no individual supplier provided 10% or more of the NGD business gas supply requirements.

Gas Cost Management
The cost of gas sold to NGD customers primarily consists of the following items, which are included in annual Purchased Gas Adjustment (PGA) rates: gas purchases from suppliers; charges from pipeline companies to transport gas to our distribution system; gas storage costs; gas reserves contracts; and gas commodity derivative contracts.

The NGD business employs a number of strategies to mitigate the cost of gas sold to customers. The primary strategies for managing gas commodity price risk include:
- negotiating fixed prices directly with gas suppliers;
- negotiating financial derivative contracts that: (1) effectively convert floating index prices in physical gas supply contracts to fixed prices (referred to as commodity price swaps); or (2) effectively set a ceiling or floor price, or both, on floating index priced physical supply contracts (referred to as commodity price options such as calls, puts, and collars);
- buying physical gas supplies at a set price and injecting the gas into storage for price stability and to minimize pipeline capacity demand costs; and
- investing in gas reserves for longer term price stability. See Note 13 for additional information about our gas reserves.

NW Natural also contracts with an independent energy marketing company to capture opportunities regarding storage and pipeline capacity when those assets are not serving the needs of NGD business customers. Asset management activities provide opportunities for cost of gas savings for customers and incremental revenues for NW Natural through regulatory incentive-sharing mechanisms. These activities, net of the amount shared, are included in other for segment reporting purposes.

Gas Cost Recovery
Mechanisms for gas cost recovery are designed to be fair and reasonable, with an appropriate balance between the interests of customers and NW Natural. In general, natural gas distribution rates are designed to recover the costs of, but not to earn a return on, the gas commodity sold. Risks associated with gas cost recovery are minimized by resetting customer rates annually through the PGA and aligning customer and shareholder interests through the use of sharing, weather normalization, and conservation mechanisms in Oregon. See Part II, Item 7, "Results of Operations—*Regulatory Matters*" and "Results of Operations—Business Segments—Natural Gas Distribution Operations—*Cost of Gas*".

Environmental Stewardship
Part of our gas supply strategy is working to reduce the carbon content and the environmental impacts of the energy we deliver. To that end, NW Natural developed and implemented an emissions screening tool that uses Environmental Protection Agency (EPA) data to calculate the relative emissions intensity of gas producer operations and prioritize purchases from lower emitting producers. Beginning in 2019, we began using this emissions intensity screening tool alongside other purchasing criteria such as price, credit worthiness and geographic diversity. The result has been a cost-neutral way to reduce carbon emissions associated with our natural gas supply.

In addition, NW Natural is actively working to procure RNG contracts under Oregon Senate Bill 98, and is engaging in longer-term efforts to increase the amount of RNG on our system and explore the development of renewable hydrogen through power to gas. See "*Environmental Matters*" below.

Transportation of Gas Supplies
NW Natural's gas distribution system is reliant on a single, bi-directional interstate transmission pipeline to bring gas supplies into the natural gas distribution system. Although dependent on a single pipeline, the pipeline's gas flows into the Portland metropolitan market from two directions: (1) the north, which brings supplies from the British Columbia and Alberta supply basins; and (2) the east, which brings supplies from Alberta as well as the U.S. Rocky Mountain supply basins.

NW Natural incurs monthly demand charges related to firm pipeline transportation contracts. These contracts have expiration dates ranging from 2021 to 2061. The largest pipeline agreements are with Northwest Pipeline. NW Natural actively works with Northwest Pipeline and others to renew contracts in advance of expiration to ensure gas transportation capacity is sufficient to meet customer needs.

Rates for interstate pipeline transportation services are established by FERC within the U.S. and by Canadian authorities for services on Canadian pipelines.

Gas Distribution
Safety and the protection of employees, customers, and our communities at large are, and will remain, top priorities. NW Natural constructs, operates, and maintains its pipeline distribution system and storage operations with the goal of ensuring natural gas is delivered and stored safely, reliably, and efficiently.

NW Natural has one of the most modern distribution systems in the country with no identified cast iron pipe or bare steel main. Since the 1980s, NW Natural has taken a proactive approach to replacement programs and partnered with the OPUC and WUTC on progressive regulation to further safety and reliability efforts for the distribution system. In the past, NW Natural had a cost recovery program in Oregon that encompassed programs for bare steel replacement, transmission pipeline integrity management, and distribution pipeline integrity management as appropriate.

Natural gas distribution businesses are likely to be subject to greater federal and state regulation in the future. Additional operating and safety regulations from the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) are currently under development. In 2016, PHMSA issued safety requirements for natural gas transmission pipelines. In 2019, PHMSA issued the first of three portions of these regulations which went into effect on July 1, 2020 and include up to a 15-year timeline for compliance. The remaining portions of the regulations are anticipated to be issued in 2021. NW Natural intends to continue to work diligently with industry associations as well as federal and state regulators to ensure the safety of the system and compliance with new laws and regulations. The costs associated with compliance with federal, state, and local laws and regulations are expected to be recovered in rates.

North Mist Gas Storage Facility
In May 2019, NW Natural completed an expansion of its existing gas storage facility near Mist, Oregon. The North Mist facility provides long-term, no-notice underground gas storage service and is dedicated solely to Portland General Electric (Portland General) under a 30-year contract with options to extend up to an additional 50 years upon mutual agreement of the parties. Portland General uses the facility to support its gas-fired electric power generation facilities, which incorporate renewable energy into the electric grid.

North Mist includes a new reservoir providing 4.1 Bcf of available storage, an additional compressor station with a contractual capacity of 120,000 dekatherms of gas per day, no-notice service that can be drawn on rapidly, and a 13-mile pipeline to connect to Portland General's Port Westward gas plants in Clatskanie, Oregon.

Upon placement into service in May 2019, the facility was included in rate base under an established tariff schedule with revenues recognized consistent with the schedule. Billing rates will be updated annually to the current depreciable asset level and forecasted operating expenses.

While there are additional expansion opportunities in the Mist storage field, further development is not contemplated at this time and any expansion would be based on market demand, cost effectiveness, available financing, receipt of future permits, and other rights.

OTHER

Certain businesses and activities of NW Holdings and NW Natural are aggregated and reported as other for segment reporting purposes.

NW Natural
The following businesses and activities are aggregated and reported as other under NW Natural, a wholly-owned subsidiary of NW Holdings:
- 5.4 Bcf of the Mist gas storage facility contracted to other utilities and third-party marketers;
- natural gas asset management activities; and
- appliance retail center operations.

Mist Gas Storage
The Mist gas storage facility began operations in 1989. It is a 16.0 Bcf facility with 10.6 Bcf used to provide gas storage for the NGD business. The remaining 5.4 Bcf of the facility is contracted with other utilities and third-party marketers with these results reported in other.

The overall facility consists of seven depleted natural gas reservoirs, 22 injection and withdrawal wells, a compressor station, dehydration and control equipment, gathering lines, and other related facilities. The capacity at Mist serving other utilities and third-party marketers provides multi-cycle gas storage services to customers in the interstate and intrastate markets. The interstate storage services are offered under a limited jurisdiction blanket certificate issued by FERC. Under NW Natural's interstate storage certificate with FERC, NW Natural is required to file either a petition for rate approval or a cost and revenue study every five years to change or justify maintaining the existing rates for the interstate storage service. Intrastate firm storage services in Oregon are offered under an OPUC-approved rate schedule as an optional service to certain eligible customers. Gas storage revenues from the 5.4 Bcf are derived primarily from firm service customers who provide energy-related services, including natural gas distribution, electric generation, and energy marketing. The Mist facility benefits from limited competition as there are few storage facilities in the Pacific Northwest region. Therefore, NW Natural is able to acquire high-value, multi-year contracts.

Asset Management Activities

NW Natural contracts with an independent energy marketing company to provide asset management services, primarily through the use of natural gas commodity exchange agreements and natural gas pipeline capacity release transactions. The results of these activities are included in other, except for the asset management revenues allocated to NGD business customers pursuant to regulatory agreements, which are reported in the NGD segment.

NW Holdings

These include the following businesses and activities aggregated under NW Holdings:

- NW Natural Water Company, LLC (NWN Water) and its water and wastewater utility operations and acquisition activities;
- an equity method investment in Trail West Holdings, LLC (TWH);
- a minority interest in the Kelso-Beaver Pipeline held by our wholly-owned subsidiary NNG Financial Corporation (NNG Financial); and
- holding company and corporate activities as well as adjustments made in consolidation.

On August 6, 2020, NWN Energy completed the sale to an unrelated third party of its interest in TWH. See Note 14 of the Consolidated Financial Statements in Item 8 of this report for more information.

Water Utilities

After a comprehensive strategic planning process, in December 2017, we entered the water utility sector by announcing several acquisitions, which NWN Water subsequently closed. Through December 31, 2020, NWN Water serves a total of approximately 63,000 people through 26,000 water and wastewater connections in the Pacific Northwest and Texas, with an aggregate investment of nearly $110 million. NW Holdings continues to pursue additional acquisitions in a disciplined manner.

The water and wastewater utilities primarily serve residential and commercial customers. Water distribution operations are seasonal in nature with peak demand during warmer summer months, while wastewater is less seasonally affected. Entities generally operate in exclusive service territories with no direct competitors. Water distribution customer rates are regulated by state utility commissions while the wastewater businesses we own currently are not rate regulated by utility commissions.

ENVIRONMENTAL MATTERS

Properties and Facilities

NW Natural owns, or previously owned, properties and facilities that are currently being investigated that may require environmental remediation and are subject to federal, state, and local laws and regulations related to environmental matters. These laws and regulations may require expenditures over a long time frame to address certain environmental impacts. Estimates of liabilities for environmental costs are difficult to determine with precision because of the various factors that can affect their ultimate disposition. These factors include, but are not limited to, the following:

- the complexity of the site;
- changes in environmental laws and regulations at the federal, state, and local levels;
- the number of regulatory agencies or other parties involved;
- new technology that renders previous technology obsolete, or experience with existing technology that proves ineffective;
- the level of remediation required;
- variations between the estimated and actual period of time that must be dedicated to respond to an environmentally-contaminated site; and
- the application of environmental laws that impose joint and several liabilities on all potentially responsible parties.

NW Natural has received recovery of a portion of such environmental costs through insurance proceeds, seeks the remainder of such costs through customer rates, and believes recovery of these costs is probable. In both Oregon and Washington, NW Natural has mechanisms to recover expenses. Oregon recoveries are subject to an earnings test. See Part II, Item 7, "Results of Operations—Regulatory Matters—Rate Mechanisms—*Environmental Cost Deferral and Recovery*", and Note 2 and Note 18 of the Consolidated Financial Statements in Item 8 of this report for more information.

Greenhouse Gas Matters

We recognize certain of our businesses, including our natural gas business, are likely to be affected by requirements to address greenhouse gas emissions. Future federal, state or local legislation or regulation may seek to limit emissions of greenhouse gases, including both carbon dioxide (CO2) and methane. These potential laws and regulations may require certain activities to reduce emissions and/or increase the price paid for energy based on its carbon content.

Current federal rules require the reporting of greenhouse gas (GHG) emissions. In September 2009, the EPA issued a final rule requiring the annual reporting of greenhouse gas emissions from certain industries, specified large GHG emission sources, and facilities that emit 25,000 metric tons or more of CO2 equivalents per year. NW Natural began reporting emission information in 2011. 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.

The Oregon and Washington state governments have identified emission reduction as a priority and continue to consider various GHG reduction initiatives. 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 energy burden experienced by utility customers and ensure system reliability and resource adequacy. The EO also directs other agencies 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 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. These agencies and commissions are currently engaged in various stages of their rulemaking processes and are currently expected to complete those processes in the next 12 to 24 months. NW Natural is actively engaged with Oregon state regulatory entities and holds a seat on the Oregon Department of Environmental Quality (DEQ) rules advisory committee, which is considering the cap and reduce rules.

In Washington, where approximately 10% of NW Natural's revenues and 22% of new meters are derived, policy focused on the goal of reducing GHGs and enhancing energy efficiency measures for commercial and residential energy customers have been enacted by the Washington State Building Code Council. Effective February 1, 2021, building codes in Washington state require new residential and commercial construction to achieve higher levels of energy efficiency based on specified carbon emissions assumptions, which are expected to calculate on-site electric appliances to have lower GHG emissions than comparable gas appliances, potentially increasing the cost of new building construction incorporating natural gas. Although legislation with similar goals has previously been pursued unsuccessfully in Washington, it is likely that legislatures nationwide and in our service territory will continue to work to combat climate change through legislative action. NW Natural is working with policymakers and a coalition of utilities in Washington to help them understand the role direct use natural gas, and in the coming years renewable natural gas and hydrogen, may play in aggressively pursuing more effective policies to reduce greenhouse gases while preserving reliability, resiliency, energy choice and energy affordability.

In addition to legislative activities at the state level, ballot measures may be proposed by advocacy groups. Some local and county governments in the United States also have been proposing or passing renewable energy resolutions, restrictions, taxes or fees with advocates seeking to accelerate renewable energy goals. A number of cities across the country, and several in our service territory are currently considering such actions aimed at formalizing climate action goals and driving down GHG emissions, including limitations or bans on the use of natural gas in new construction. NW Natural is actively engaged with such cities and local governments in our service territory and is working to help these communities understand the ways in which the natural gas system, and renewable fuels on the horizon, can help cities meet their decarbonization goals. With the new United States presidential administration, we also expect new federal rules and frameworks related to GHG emissions.

While the outcome of these federal, state or local climate change policy developments cannot be determined at this time, these initiatives could produce a number of results including new regulations, legal actions, additional charges to fund energy efficiency activities, or other regulatory actions. The adoption and implementation of regulations limiting GHG emissions could require NW Natural to incur compliance costs associated with our customers' use, which we currently expect to recover through rates and therefore may result in an increase in the prices charged to customers, and a potential decline in the demand for natural gas.

In 2017, 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. Methane is captured from these organic materials as they decompose and is conditioned to pipeline quality, so it can be added into the existing natural gas system, reducing net GHG emissions. In 2019, Oregon Senate Bill 98 (SB 98) was signed into law enabling NW Natural to procure RNG on behalf of customers and provided voluntary targets that would allow us to make qualified investments and purchase RNG from third parties such that up to 30% of the gas distributed to retail customers is RNG by 2050, and creating a limit of 5% of a utility's revenue requirement that can be used to cover the incremental cost of RNG. The bill was signed into law by the governor in July 2019, and subsequently, the OPUC adopted final rules in July 2020. NW Natural is actively working to procure RNG supply for customers, and is engaging in longer-term efforts to increase the amount of RNG on our system and explore the development of renewable hydrogen through power to gas. In December 2020, NW Natural announced a partnership with BioCarbN, a developer and operator of sustainable infrastructure projects, to convert methane into RNG. Under this partnership, NW Natural has the ability to invest up to an estimated $38 million in four separate RNG development projects that will access biogas derived from water treatment at Tyson Foods' processing plants, subject to approval by all parties. In December 2020, NW Natural exercised its option for the first development project in Nebraska, initiating investment in an estimated $8 million project, which we expect will begin producing RNG in late 2021. This is the company's first investment under Oregon SB 98.

NW Natural continues to take proactive steps in seeking to reduce GHG emissions in our region and is proactively communicating with local, state and federal governments and communities about those steps. We believe that NW Natural has a vital role in providing energy to the communities we serve. Each year, NW Natural delivers more energy in Oregon than any other utility. The sales of natural gas to our residential and commercial customers account for approximately 6% of Oregon's GHG emissions according to data for recent years 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 and to use our modern pipeline system to help the Pacific Northwest transition to a clean energy future.

HUMAN CAPITAL

Our core values of integrity, safety, caring, service ethic, and environmental stewardship guide how we engage with customers, stakeholders, shareholders, and communities. We actively work to foster these values in our employee culture and to nurture an inclusive and equitable environment that provides opportunities, prioritizes health and safety, and supports growth and learning. We aim to recruit and retain employees who share our core values and reflect our communities.

Employees

At December 31, 2020, our workforce consisted of the following:

NW Natural:	
Unionized employees[1]	606
Non-unionized employees	549
Total NW Natural	1,155
Other Entities:	
Water company employees	56
Other	5
Total other entities	61
Total Employees	1,216

[1] Members of the Office and Professional Employees International Union (OPEIU) Local No. 11, AFL-CIO.

NW Natural's labor agreement with members of OPEIU covers wages, benefits, and working conditions. In November 2019, NW Natural's unionized employees ratified a collective bargaining agreement that took effect on December 1, 2019 and extends to May 31, 2024, and thereafter from year to year unless either party serves notice of its intent to negotiate modifications to the collective bargaining agreement. During calendar year 2020, NW Natural did not incur any work stoppages (strikes or lockouts), and therefore, experienced zero idle days for the year.

Certain subsidiaries may receive services from employees of other subsidiaries. When such services involve regulated entities, those entities receiving services reimburse the entity providing services pursuant to shared services agreements, as applicable.

Safety

Safety is one of our greatest responsibilities to employees. In managing the business, we strive to foster a safety culture focused on prevention, open communication, collaboration, and a strong service and safety ethic. We believe employee safety is critical to our success. A portion of executives' compensation is tied to achieving our safety metrics, and our Board of Directors regularly reviews company safety metrics. NW Natural's health and safety policies and procedures are designed to comply with all applicable regulations, but we also work to go beyond compliance by striving to incorporate industry best practices and benchmarking.

As part of our commitment to employee health and safety, we maintain regular training programs, emergency preparedness procedures, and specific training and procedures to identify hazards and handle high-risk emergency situations. Employees complete hands-on, scenario-based training at our training facility in Oregon that allows employees to experience realistic situations in a controlled environment. We also host natural gas safety training events for first responders, which prepares our teams to deliver an integrated, seamless response in the event of an emergency that involves or affects the natural gas system.

Our COVID-19 response is just one example of our safety culture in action. As a critical infrastructure energy company that provides an essential service to our customers, NW Natural has well-defined emergency response command structures and protocols. In response to the COVID-19 pandemic, NW Natural mobilized its incident command team and business continuity plans in early March 2020, and continues to operate under these structures and protocols, with a focus on the safety of our employees and the people, business partners, and communities we serve. NW Natural has generally suspended business travel out of our service territory and implemented work-from-home plans for employees wherever possible. For employees whose role requires them to work in the field, we are following CDC, OSHA, and state specific guidance. Measures include: following social distancing guidelines; use of personal protective equipment (PPE) including masks, face coverings and gloves; enhanced sanitizing protocols; requiring employee health screenings prior to entering a NW Natural facility; and other measures intended to mitigate the spread of this disease and keep our employees and customers safe and informed. Our water companies are following similar protocols. As an essential service provider, our water and natural gas utility businesses continue to serve our customers without interruption. Our experience and continuing focus on workplace safety have enabled us to preserve business continuity without sacrificing our commitment to the safety of our employees and the people, business partners, and communities served.

The COVID-19 pandemic also presents challenges for employees' emotional well-being and ability to balance work and family responsibilities. We are supporting our employees through these unusual times with the following: frequent employee surveys; virtual meetings on wellness topics; resiliency support; additional psychological support services; processes to facilitate flexible and reduced-schedule work where possible; and virtual ergonomic assistance to help remote employees work safely at home.

Employee Benefits

To attract employees and meet the needs of our workforce, NW Natural strives to offer competitive benefits packages to employees. The benefits package options vary depending on type of employee and date of hire. NW Natural continuously looks for ways to support employees' work-life balance and well-being and this is reflected in physical, mental and financial wellness programs to meet the needs of our employees and help them care for their families. Benefits available to employees during 2020 included, among others: healthcare and other insurance coverages, wellness resources, retirement and savings plans, paid time off programs and flexible work schedules, culture and community-focused resources and opportunities, and employee recognition programs and discounts.

Employee Development

NW Natural seeks to provide its employees with growth and development opportunities through formal and informal programs designed to build skills and relationships. These programs include: (i) a culturally relevant mentoring program that creates opportunities for career growth by building relationships; (ii) a tuition assistance program for qualified educational pursuits; (iii) an internal class that provides participants with a big-picture understanding of the industry and company operations, equipping them to see how they contribute to NW Natural's success and identify opportunities for career growth; (iv) internal and continuing educational curriculum relevant to areas of expertise; and (v) ongoing management and leadership training programs.

Diversity, Equity and Inclusion

We have a longstanding commitment to creating a diverse and inclusive culture that reflects and supports the communities we serve, and believe a diverse, equitable, and inclusive workforce contributes to long-term success. This commitment to diversity also extends to leadership positions, including members of the officer team and the Board of Directors. Recruiting, promoting, and retaining diverse talent, building inclusive teams, and creating a culture that embraces differences are at the core of our workforce strategy. To attract diverse candidates, we work with community groups and organizations to help promote awareness of job opportunities within diverse communities.

In 2020, we launched employee resource groups for Asian-American, African-American, Veteran, Latinx, and LGBT+ employees, which groups are in addition to our existing Women's Network. We also continue to emphasize employee education, including diversity training for employees at the manager level and above, diversity training as part of new hire onboarding, and other diversity, equity, and inclusion education that occurs throughout the year. An area of focus going forward is to understand, and increase awareness of internal systems and structures that could limit representation and equity for underrepresented employees. To that end, we are working toward revising and refocusing new manager and new hire training to include implicit bias, diversity, equity and inclusion, and anti-racism education.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

For information concerning executive officers, see Part III, Item 10.

AVAILABLE INFORMATION

NW Holdings and NW Natural file annual, quarterly and current reports and other information with the Securities and Exchange Commission (SEC). The SEC maintains an Internet site where reports, proxy statements, and other information filed can be read, copied, and requested online at its website (www.sec.gov). In addition, we make available, free of charge, on our website (www.nwnaturalholdings.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) and proxy materials filed under Section 14 of the Securities Exchange Act of 1934, as amended (Exchange Act), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We have included our website address as an inactive textual reference only. Information contained on our website is not incorporated by reference into this annual report on Form 10-K.

NW Holdings and NW Natural have adopted a Code of Ethics for all employees, officers, and directors that is available on our website. We intend to disclose revisions and amendments to, and any waivers from, the Code of Ethics for officers and directors on our website. Our Corporate Governance Standards, Director Independence Standards, charters of each of the committees of the Board of Directors, and additional information about NW Holdings and NW Natural are also available at the website. Copies of these documents may be requested, at no cost, by writing or calling Shareholder Services, Northwest Natural Holding Company, 250 S.W. Taylor Street, Portland, Oregon 97204, telephone 503-220-2402.

ITEM 1A. RISK FACTORS

NW Holdings' and NW Natural's business and financial results are subject to a number of risks and uncertainties, many of which are not within our control, which could adversely affect our business, financial condition, and results of operations. Additional risks and uncertainties that are not currently known to us or that are not currently believed by us to be material may also harm our businesses, financial condition, and results of operations. When considering any investment in NW Holdings' or NW Natural's securities, investors should carefully consider the following information, as well as information contained in the caption "Forward-Looking Statements", Item 7A, and our other documents filed with the SEC. This list is not exhaustive and the order of presentation does not reflect management's determination of priority or likelihood. Additionally, our listing of risk factors that primarily affects one of our businesses does not mean that such risk factor is inapplicable to our other businesses.

Legal, Regulatory and Legislative Risks

REGULATORY RISK. *Regulation of NW Holdings' and NW Natural's regulated businesses, including changes in the regulatory environment, failure of regulatory authorities to approve rates which provide for timely recovery of costs and an adequate return on invested capital, or an unfavorable outcome in regulatory proceedings may adversely impact NW Holdings' and NW Natural's financial condition and results of operations.*

The OPUC and WUTC have general regulatory authority over NW Natural's gas business in Oregon and Washington. NW Holdings' regulated water utility businesses are generally regulated by the public utility commission in the state in which a water business is located. These public utility commissions have broad regulatory authority, including: the rates charged to customers; authorized rates of return on rate base, including ROE; the amounts and types of securities that may be issued by our regulated utility companies, like NW Natural; services our regulated utility companies provide and the manner in which they provide them; the nature of investments our utility companies make; deferral and recovery of various expenses, including, but not limited to, pipeline replacement, environmental remediation costs, capital and information technology investments, commodity hedging expense, and certain employee benefit expenses such as pension costs; transactions with affiliated interests; regulatory adjustment mechanisms such as weather adjustment mechanisms, and other matters. The OPUC also regulates actions investors may take with respect to our utility companies, NW Natural and NW Holdings. Similarly, FERC has regulatory authority over NW Natural's interstate storage services. Expansion of our businesses could result in regulation by other regulatory authorities. For example, in 2020, NW Holdings' acquired a water sector business in Texas that is subject to the regulatory authority of the Public Utility Commission of Texas.

The prices regulators allow us to charge for regulated utility service, and the maximum FERC-approved rates FERC authorizes us to charge for interstate storage and related transportation services, are the most significant factors affecting both NW Natural's and NW Holdings' financial position, results of operations and liquidity. State utility regulators have the authority to disallow recovery of costs they find imprudently incurred or otherwise disallowed, and rates that regulators allow may be insufficient for recovery of costs we incur. We expect to continue to make expenditures to expand, improve and safely operate our gas and water utility distribution and gas storage systems. Regulators can deny recovery of those costs. Furthermore, while each applicable state regulator has established an authorized rate of return for our regulated utility businesses, we may not be able to achieve the earnings level authorized. Moreover, in the normal course of business we may place assets in service or incur higher than expected levels of operating expense before rate cases can be filed to recover those costs (this is commonly referred to as regulatory lag). The failure of any regulatory commission to approve requested rate increases on a timely basis to recover costs or to allow an adequate return could adversely impact NW Holdings' or NW Natural's financial condition, results of operations and liquidity.

As companies with regulated utility businesses, we frequently have dockets open with our regulators, including a general rate case filed with the WUTC in December 2020. The regulatory proceedings for these dockets typically involve multiple parties, including governmental agencies, consumer advocacy groups, and other third parties. Each party has differing concerns, but all generally have the common objective of limiting amounts included in rates. We cannot predict the timing or outcome of these proceedings or our pending Washington general rate case, or the effects of those outcomes on NW Holdings' and NW Natural's results of operations and financial condition.

LEGISLATIVE, COMPLIANCE AND TAXING AUTHORITY RISK. *NW Holdings and NW Natural are subject to governmental regulation, and compliance with local, state and federal requirements, including taxing requirements, and unforeseen changes in or interpretations of such requirements could affect NW Holdings' or NW Natural's financial condition and results of operations.*

NW Holdings and NW Natural are subject to regulation by federal, state and local governmental authorities. We are required to comply with a variety of laws and regulations and to obtain authorizations, permits, approvals and certificates from governmental agencies in various aspects of our business. Significant changes in federal, state, or local governmental leadership can accelerate or amplify changes in existing laws or regulations, or the manner in which they are interpreted or enforced. For example, the result of the 2020 United States Presidential election is expected to result in leadership changes in many federal administrative agencies. Moreover, the 2020 election resulted in Democratic control of the presidency and both houses of Congress, and as a result, the U.S. Congress and the U.S. presidential administration may make substantial changes to fiscal, tax, regulation, environmental, climate and other federal policies. Similarly, local elections during 2021 may lead to significant policy changes at the state or municipal levels in our service areas that may affect us. In addition, foreign governments may implement changes to their policies, in response to changes to U.S. policy or otherwise. Although we cannot predict the impact, if any, of these changes to our businesses, they could adversely affect NW Holdings' or NW Natural's financial condition and results of operations. Until we know what policy changes are made and how those changes impact our businesses and the business of our competitors over the long term, we will not know if, overall, we will benefit from them or be negatively affected by them.

We cannot predict changes in laws, regulations, interpretations or enforcement or the impact of such changes. Additionally, any failure to comply with existing or new laws and regulations could result in fines, penalties or injunctive measures. For example, under the Energy Policy Act of 2005, the FERC has civil authority under the Natural Gas Act to impose penalties for current violations of in excess of $1.3 million per day for each violation. In addition, as the regulatory environment for our businesses increases in complexity, the risk of inadvertent noncompliance may also increase. Changes in regulations, the imposition of additional regulations, and the failure to comply with laws and regulations could negatively influence NW Holdings' or NW Natural's operating environment and results of operations.

Additionally, changes in federal, state, local or foreign tax laws and their related regulations, or differing interpretations or enforcement of applicable law by a federal, state, local or foreign taxing authority, could result in substantial cost to us and negatively affect our results of operations. Tax law and its related regulations and case law are inherently complex and dynamic. Disputes over interpretations of tax laws may be settled with the taxing authority in examination, through programs like the Compliance Assurance Process (CAP), upon appeal or through litigation. Our judgments may include reserves for potential adverse outcomes regarding tax positions that have been or plan to be taken that may be subject to challenge by taxing authorities. Changes in laws, regulations or adverse judgments and the inherent difficulty in quantifying potential tax effects of business decisions may negatively affect NW Holdings' or NW Natural's financial condition and results of operations.

Furthermore, certain tax assets and liabilities, such as deferred tax assets and regulatory tax assets and liabilities, are recognized or recorded by NW Holdings or NW Natural based on certain assumptions and determinations made based on available evidence, such as projected future taxable income, tax-planning strategies, and results of recent operations. If these assumptions and determinations prove to be incorrect, the recorded results may not be realized, which may negatively impact the financial results of NW Holdings and NW Natural.

There is uncertainty as to how our regulators will reflect the impact of the legislation and other government regulation in rates. The resulting ratemaking treatment may negatively affect NW Holdings' or NW Natural's financial condition and results of operations.

REPUTATIONAL RISKS. ***Customers', legislators', and regulators' opinions of NW Holdings and NW Natural are affected by many factors, including system and fuel reliability and safety, protection of customer information, rates, media coverage, and public sentiment. To the extent that customers, legislators, or regulators have or develop a negative opinion of our businesses, NW Holdings' and NW Natural's financial position, results of operations and cash flows could be adversely affected.***

A number of factors can affect customer's perception of us including: service interruptions or safety concerns due to failures of equipment or facilities or from other causes, and our ability to promptly respond to such failures; our ability to safeguard sensitive customer information; the timing and magnitude of rate increases; and volatility of rates. Customers', legislators', and regulators' opinions of us can also be affected by media coverage, including the proliferation of social media, which may include information, whether factual or not, that could damage the perception of natural gas, our brand, or our reputation.

Other concerns that have been raised about the use of natural gas include the potential for natural gas explosions and the effect of natural gas on indoor air quality. For example, NW Natural's gas distribution system was struck by a third party resulting in a gas explosion in 2016, and while NW Natural was determined not to be at fault, the perception of natural gas as an energy source could have been affected. In addition, studies and claims by advocacy groups from time to time question the indoor health and general climate effects from burning natural gas, which may also impact public perception. These shifts in public sentiment may not only impact further legislative initiatives, but behaviors and perceptions of customers, investors and regulators.

If customers, legislators, or regulators have or develop a negative opinion of us and our services, or of natural gas as an energy source generally, this could make it more difficult for us to achieve favorable legislative or regulatory outcomes. Negative opinions could also result in sales volumes reductions or increased use of other sources of energy, or additional difficulties in accessing capital markets. Any of these consequences could adversely affect NW Holdings' or NW Natural's financial position, results of operations and cash flows.

REGULATORY ACCOUNTING RISK. ***In the future, NW Holdings or NW Natural may no longer meet the criteria for continued application of regulatory accounting practices for all or a portion of our regulated operations.***

If we can no longer apply regulatory accounting, we could be required to write off our regulatory assets and precluded from the future deferral of costs not recovered through rates at the time such amounts are incurred, even if we are expected to recover these amounts from customers in the future.

COVID-19 Risk

PUBLIC HEALTH RISK. *The recent novel coronavirus (COVID-19) pandemic is widespread, severe and unpredictable. The continuation of this outbreak and the resulting economic conditions, or the emergence of other epidemic or pandemic crises, could materially and adversely affect NW Holdings' and NW Natural's business, results of operations, or financial condition.*

The novel coronavirus (COVID-19), which was declared a pandemic by the World Health Organization in March 2020, has resulted in widespread and severe global, national and local economic and societal disruptions. In late March 2020, the Governors of Oregon and Washington issued "stay at home" executive orders requiring the closure of "non-essential" business and modifications to certain "essential" businesses. While most of NW Natural's services were, and continue to be, considered "essential" under existing executive orders, there is no guarantee they will continue to be classified as such. Additionally, while we have undertaken emergency response command structures and protocols that have operated well, they may not be sufficient to adequately mitigate the effects of COVID-19 on our operations, particularly in the event the pandemic worsens. The situation is rapidly evolving and dynamic and could ultimately adversely affect our business by, among other things:

- disrupting our access to capital markets or increasing costs of capital affecting our liquidity in the future;
- reducing demand for natural gas, particularly from commercial and industrial customers that may be considered "non-essential" businesses under current or future executive orders or other governmental action, or that are suffering slow-downs or ultimately close completely due to COVID-19 effects;
- reducing customer growth and new meter additions due to less economic, construction or conversion activity;
- subjecting us to legislative or prolonged administrative action that limits our ability to collect on overdue accounts or disconnect gas service for nonpayment, beyond a period of time acceptable to us;
- increasing our operating costs for emergency supplies, personal protective equipment, cleaning services and supplies, remote technology and other specific needs during this crisis;
- impacting our capital expenditures if construction activities are suspended or delayed;
- sickening or causing a mandatory quarantine of a large percentage of our workforce, or key workgroups with specialized skill sets, impairing our ability to perform key business functions or execute our business continuity plans;
- adversely affecting the asset values of NW Natural's defined benefit pension plan or causing a failure to maintain sustained growth in pension investments over time, increasing our contribution requirements;
- limiting or curtailing entirely, public utility commissions' ability to approve or authorize applications or other requests we may make with respect to our regulated businesses;
- increasing volatility in the price of natural gas;
- impairing the functioning of our supply chain or ability to rely on third parties or business partners; and
- creating additional cybersecurity vulnerabilities due to heavy reliance on remote working in our business continuity model.

Additionally, the effects of COVID-19 could create prolonged unfavorable economic conditions, slowed economic growth, or an economic recession that may result in or be accompanied by unprecedented unemployment rates and declines in the value of homes and investment assets, adversely affecting the income and financial resources of many domestic households and businesses. It is unclear whether governmental responses to these conditions will lessen the severity or duration of any economic downturn. Our operational and financial results would likely be affected by such economic conditions. Less new housing construction, fewer conversions to natural gas, higher levels of residential foreclosures and vacancies, and personal and business bankruptcies or reduced spending could all negatively affect our financial condition and results of operations.

The ultimate impact of COVID-19 on our business cannot be predicted and will depend on factors beyond our knowledge or control, including the duration and severity of the outbreak and resulting economic downturn, actions taken to contain the outbreak and mitigate its public health effects, and the extent to which normal economic and operating conditions can resume and when they might do so. Any of these factors could have an adverse effect on our business, outlook, financial condition, and results of operations and cash flows, which could be significant.

Growth and Strategic Risks

STRATEGIC TRANSACTION RISK. *NW Holdings' and NW Natural's ability to successfully complete strategic transactions, including merger, acquisition, divestiture, joint venture, business development projects or other strategic transactions is subject to significant risks, including the risk that required regulatory or governmental approvals may not be obtained, risks relating to unknown problems or liabilities or problems or liabilities undisclosed to us, and the risk that for these or other reasons, we may be unable to achieve some or all of the benefits that we anticipate from such transactions, which could adversely affect NW Holdings' or NW Natural's financial condition, results of operations, and cash flows.*

From time to time, NW Holdings and NW Natural have pursued and may continue to pursue strategic transactions including merger, acquisition, divestiture, joint venture, business development projects or other strategic transactions, including RNG projects and acquisitions by NW Holdings in the water sector of a number of water utilities, wastewater entities and a water services company, with NW Holdings' continuing to seek other such water sector related opportunities. Any such transactions involve substantial risks, including the following:

- purchase or sale transactions that are contracted for may fail to close for a variety of reasons;
- acquired businesses or assets may not produce revenues, earnings or cash flow at anticipated levels, which could, among other things, result in the impairment of any goodwill associated with such acquisitions;
- acquired businesses or assets could have environmental, permitting, or other problems for which contractual protections prove inadequate;

- there may be difficulties in integration or operation costs of new businesses;
- there may exist liabilities that were not disclosed to us, that exceed our estimates, or for which our rights to indemnification from the seller are limited;
- we may be unable to obtain the necessary regulatory or governmental approvals to close a transaction, receive approvals granted subject to terms that are unacceptable to us;
- we may be unable to achieve the anticipated regulatory treatment of any such transaction as part of the transaction approval or subsequent to closing the transaction; or
- we may be unable to avoid a sale of assets for a price that is less than the book value of those assets.

One or more of these risks could affect NW Holdings' and NW Natural's financial condition, results of operations, and cash flows.

BUSINESS DEVELOPMENT RISK. *NW Holdings' and NW Natural's business development projects may encounter unanticipated obstacles, costs, changes or delays that could result in a project becoming impaired, which could negatively impact NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

Business development projects involve many risks. We are currently engaged in several business development projects, including, but not limited to, several water, wastewater and RNG projects. We may also engage in other business development projects such as investments in additional long-term gas reserves, CNG refueling stations, power to gas or hydrogen projects or other projects intended to reduce carbon emissions. These projects may not be successful. Additionally, we may not be able to obtain required governmental permits and approvals to complete our projects in a cost-efficient or timely manner, potentially resulting in delays or abandonment of the projects. We could also experience issues such as: technological challenges; ineffective scalability; startup and construction delays; construction cost overruns; disputes with contractors; the inability to negotiate acceptable agreements such as rights-of-way, easements, construction, gas supply or other material contracts; changes in customer demand, perception or commitment; public opposition to projects; changes in market prices; and operating cost increases. Additionally, we may be unable to finance our business development projects at acceptable costs or within a scheduled time frame necessary for completing the project. Any of the foregoing risks, if realized, could result in the project becoming impaired, and such impairment could have an adverse effect on NW Holdings' or NW Natural's financial condition and results of operations.

JOINT PARTNER RISK. *Investing in business development projects through partnerships, joint ventures or other business arrangements affects our ability to manage certain risks and could adversely impact NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

We use joint ventures and other business arrangements to manage and diversify the risks of certain development projects, including NW Natural's gas reserves agreements and RNG projects. NW Holdings or NW Natural may acquire or develop part-ownership interests in other projects in the future, including but not limited to, water, wastewater, RNG or hydrogen projects. Under these arrangements, we may not be able to fully direct the management and policies of the business relationships, and other participants in those relationships may take action contrary to our interests, including making operational decisions that could negatively affect our costs and liabilities. In addition, other participants may withdraw from the project, divest important assets, become financially distressed or bankrupt, or have economic or other business interests or goals that are inconsistent with ours.

NW Natural's gas reserves arrangements, which operate as a hedge backed by physical gas supplies, involve a number of risks, including: gas production that is significantly less than the expected volumes, or no gas volumes; operating costs that are higher than expected; inherent risks of gas production, including disruption to operations or a complete shut-in of the field; and one or more participants in one of these gas reserves arrangements becoming financially insolvent or acting contrary to NW Natural's interests. For example, Jonah Energy, the counterparty in NW Natural's gas reserves arrangement, has experienced recent credit rating downgrades. While NW Natural intends to continue monitoring Jonah Energy's financial condition and take appropriate actions to preserve NW Natural's interests, it does not control Jonah Energy's financial condition or continued performance under the gas reserves arrangement. The cost of the original gas reserves venture is currently included in customer rates and additional wells under that arrangement are recovered at specific costs, the occurrence of one or more of these risks could affect NW Natural's ability to recover this hedge in rates. Further, new gas reserves arrangements have not been approved for inclusion in rates, and regulators may ultimately determine to not include all or a portion of future transactions in rates. The realization of any of the above mentioned situations could adversely impact NW Holdings' or NW Natural's financial condition, results of operations and cash flows.

CUSTOMER GROWTH RISK. *NW Holdings' and NW Natural's NGD margin, earnings and cash flow may be negatively affected if we are unable to sustain customer growth rates in our NGD segment.*

NW Natural's NGD margins and earnings growth have largely depended upon the sustained growth of its residential and commercial customer base due, in part, to the new construction housing market, conversions of customers to natural gas from other energy sources and growing commercial use of natural gas. The last recession slowed new construction. While new home construction has resumed and the multi-family composition has been higher than its pre-recession pace, overall construction has not returned to the pre-recession pace, and there are predictions of an impending new recessionary cycle. Insufficient growth in these markets, for economic, political or other reasons could adversely affect NW Holdings' or NW Natural's utility margin, earnings and cash flows.

RISK OF COMPETITION. *Our NGD business is subject to increased competition which could negatively affect NW Holdings' or NW Natural's results of operations.*

In the residential and commercial markets, NW Natural's NGD business competes primarily with suppliers of electricity, fuel oil, and propane. In the industrial market, NW Natural competes with suppliers of all forms of energy. Competition among these forms of energy is based on price, efficiency, reliability, performance, market conditions, technology, environmental impacts and public perception. Technological improvements in other energy sources such as heat pumps, batteries or other alternative technologies could erode NW Natural's competitive advantage. If natural gas prices rise relative to other energy sources, or if the cost, environmental impact or public perception of such other energy sources improves relative to natural gas, it may negatively affect NW Natural's ability to attract new customers or retain our existing residential, commercial and industrial customers, which could have a negative impact on our customer growth rate and NW Holdings' and NW Natural's results of operations.
Our natural gas storage operations compete primarily with other storage facilities and pipelines. Natural gas storage is an increasingly competitive business, with the ability to expand or build new storage capacity in California, the U.S. Rocky Mountains and elsewhere in the U.S. and Canada. Increased competition in the natural gas storage business could reduce the demand for our natural gas storage services, drive prices down for our storage business, and adversely affect our ability to renew or replace existing contracts at rates sufficient to maintain current revenues and cash flows, which could adversely affect NW Holdings' and NW Natural's financial condition, results of operations and cash flows.

Operational Risks

OPERATING RISK. *Transporting and storing natural gas and distributing natural gas and water involves numerous risks that may result in accidents and other operating risks and costs, some or all of which may not be fully covered by insurance, and which could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

NW Holdings and NW Natural are subject to all of the risks and hazards inherent in the businesses of gas distribution and storage, and water distribution, including:

- earthquakes, wildfires, floods, storms, landslides and other severe weather incidents and natural hazards;
- leaks or losses of natural gas, water or wastewater, or contamination of natural gas or water by chemicals or compounds, as a result of the malfunction of equipment or facilities or otherwise;
- damages from third parties;
- operator errors;
- negative performance by our storage reservoirs, facilities, or wells that could cause us to fail to meet expected or forecasted operational levels or contractual commitments to our customers;
- problems maintaining, or the malfunction of, pipelines, wellbores and related equipment and facilities that form a part of the infrastructure that is critical to the operation of our gas and water distribution and gas storage facilities;
- presence of chemicals or other compounds in natural gas that could adversely affect the performance of the system or end-use equipment;
- collapse of underground storage reservoirs;
- inadequate supplies of natural gas or water;
- operating costs that are substantially higher than expected;
- migration of natural gas through faults in the rock or to some area of the reservoir where existing wells cannot drain the gas effectively, resulting in loss of the gas;
- blowouts (uncontrolled escapes of gas from a pipeline or well) or other accidents, fires and explosions; and
- risks and hazards inherent in the drilling operations associated with the development of gas storage facilities, and wells.

For example, TC Pipelines, LP (TC Pipelines) has identified the presence of a chemical substance, dithiazine, at several facilities on the system of its subsidiary, Gas Transmission Northwest (GTN), and those of some upstream and downstream connecting pipeline facilities. A portion of NW Natural's gas supplies from Canada are transported on GTN's pipelines. TC Pipelines reports that dithiazine can drop out of gas streams in a powdery form at some points of pressure reduction (for example, at a regulator), and that in incidents where a sufficient quantity of the material accumulates in certain places, improper functioning of equipment can occur, which can result in increased preventative and corrective action costs. While NW Natural has not detected significant quantities of dithiazine on its system to date, we continue to monitor and could discover increased levels of dithiazine or other compounds on NW Natural's system that could affect the performance of the system or end-use equipment.

These risks could result in disruption of service, personal injury or loss of human life, damage to and destruction of property and equipment, pollution or other environmental damage, breaches of our contractual commitments, and may result in curtailment or suspension of operations, which in turn could lead to significant costs and lost revenues. Further, because our pipeline, storage and distribution facilities are in or near populated areas, including residential areas, commercial business centers, and industrial sites, any loss of human life or adverse financial outcomes resulting from such events could be significant. We could be subject to lawsuits, claims, and criminal and civil enforcement actions. Additionally, we may not be able to maintain the level or types of insurance we desire, and the insurance coverage we do obtain may contain large deductibles or fail to cover certain hazards or cover all potential losses. The occurrence of any operating risks not covered by insurance could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.

SAFETY REGULATION RISK. *NW Holdings and NW Natural may experience increased federal, state and local regulation of the safety of our systems and operations, which could adversely affect NW Holdings' or NW Natural's operating costs and financial results.*

The safety and protection of the public, our customers and our employees is and will remain our top priority. We are committed to consistently monitoring and maintaining our distribution systems and storage operations to ensure that natural gas and water is acquired, stored and delivered safely, reliably and efficiently. Given recent high-profile natural gas explosions, leaks and accidents in other parts of the country involving both distribution systems and storage facilities, we anticipate that the natural gas industry may be the subject of even greater federal, state and local regulatory oversight. For example, in 2020, the Protecting our Infrastructure of Pipelines and Enhancing Safety Act (PIPES Act) reauthorization was signed into law increasing regulations for natural gas transmission and distribution pipelines. Among other things, the PIPES Act includes new mandates for the Pipeline and Hazardous Materials Safety Administration (PHMSA) to require operators to update and implement various pipeline safety plans and processes.

In addition, our workplaces are subject to the requirements of the Department of Transportation, through the Federal Motor Carrier Safety Administration, and the Occupational Safety and Health Administration, as well as state statutes and regulations that regulate the protection of the health and safety of workers. The failure to comply with these requirements or general industry standards, including keeping adequate records or preventing occupational injuries or exposure, could expose us to civil or criminal liability, enforcement actions, and regulatory fines and penalties that may not be recoverable through our rates and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We intend to work diligently with industry associations and federal and state regulators to seek to ensure compliance with these and other new laws. We expect there to be increased costs associated with compliance, and those costs could be significant. If these costs are not recoverable in our customer rates, they could have a negative impact on NW Holdings' and NW Natural's operating costs and financial results.

RELIANCE ON THIRD PARTIES TO SUPPLY NATURAL GAS RISK. *NW Natural relies on third parties to supply the natural gas in its NGD segment, and limitations on NW Natural's ability to obtain supplies, or failure to receive expected supplies for which it has contracted, could have an adverse impact on NW Holdings' or NW Natural's financial results.*

NW Natural's ability to secure natural gas for current and future sales depends upon its ability to purchase and receive delivery of supplies of natural gas from third parties. NW Natural, and in some cases, its suppliers of natural gas, does not have control over the availability of natural gas supplies, competition for those supplies, disruptions in those supplies, priority allocations on transmission pipelines, or pricing of those supplies. Additionally, third parties on whom NW Natural relies may fail to deliver gas for which it has contracted. For example, in October, 2018, a 36-inch pipeline near Prince George, British Columbia owned by Enbridge ruptured, disrupting natural gas flows from Canada into Washington while the ruptured pipeline and an adjacent pipeline were assessed and the ruptured pipeline was repaired. Once repaired, pressurization levels for those pipelines were reduced for a significant period of time for assessment and testing. Similarly, in December 2020, gas supply to approximately 5,500 of NW Natural's customers was disrupted for a few days as a result of a vehicle crashing into a Williams Northwest Pipeline facility. If NW Natural is unable or limited in its ability to obtain natural gas from its current suppliers or new sources, it may not be able to meet customers' gas requirements and would likely incur costs associated with actions necessary to mitigate service disruptions, both of which could significantly and negatively impact NW Holdings' and NW Natural's results of operations.

SINGLE TRANSPORTATION PIPELINE RISK. *NW Natural relies on a single pipeline company for the transportation of gas to its service territory, a disruption of which could adversely impact its ability to meet customers' gas requirements, which could significantly and negatively impact NW Holdings' and NW Natural's results of operations.*

NW Natural's distribution system is directly connected to a single interstate pipeline, which is owned and operated by Northwest Pipeline. The pipeline's gas flows are bi-directional, transporting gas into the Portland metropolitan market from two directions: (1) the north, which brings supplies from the British Columbia and Alberta supply basins; and (2) the east, which brings supplies from the Alberta and the U.S. Rocky Mountain supply basins. If there is a rupture or inadequate capacity in, or supplies to maintain adequate pressures in, the pipeline, NW Natural may not be able to meet its customers' gas requirements and we would likely incur costs associated with actions necessary to mitigate service disruptions, both of which could significantly and negatively impact NW Holdings' and NW Natural's results of operations.

THIRD PARTY PIPELINE RISK. *NW Holdings' and NW Natural's gas storage businesses depend on third-party pipelines that connect our storage facilities to interstate pipelines, the failure or unavailability of which could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

Our gas storage facilities are reliant on the continued operation of a third-party pipeline and other facilities that provide delivery options to and from our storage facilities. Because we do not own all of these pipelines, their operations are not within our control. If the third-party pipeline to which we are connected were to become unavailable for current or future withdrawals or injections of natural gas due to repairs, damage to the infrastructure, lack of capacity or other reasons, our ability to operate efficiently and satisfy our customers' needs could be compromised, thereby potentially having an adverse impact on NW Holdings' or NW Natural's financial condition, results of operations and cash flows.

WORKFORCE RISK. *NW Holdings' and NW Natural's businesses are heavily dependent on being able to attract and retain qualified employees and maintain a competitive cost structure with market-based salaries and employee benefits, and workforce disruptions could adversely affect NW Holdings' or NW Natural's operations and results.*

NW Holdings' and NW Natural's ability to implement our business strategy and serve our customers is dependent upon our continuing ability to attract and retain diverse, talented professionals and a technically skilled workforce, and being able to transfer the knowledge and expertise of our workforce to new and increasingly diverse employees as our largely older workforce retires. A significant portion of our workforce is currently eligible or will reach retirement eligibility within the next five years, which will require that we attract, train and retain skilled workers to prevent loss of institutional knowledge or skills gaps. Without an appropriately skilled workforce, our ability to provide quality service and meet our regulatory requirements will be challenged and this could negatively impact NW Holdings' and NW Natural's earnings. Additionally, just over half of NW Natural workers are represented by the OPEIU Local No. 11 AFL-CIO, and are covered by a collective bargaining agreement that extends to May 31, 2024. Disputes with the union representing NW Natural employees over terms and conditions of their agreement, or failure to timely and effectively renegotiate the agreement upon its expiration, could result in instability in our labor relationship or other labor disruptions that could impact the timely delivery of gas and other services from our utility and storage facilities, which could strain relationships with customers and state regulators and cause a loss of revenues. The collective bargaining agreements may also limit our flexibility in dealing with NW Natural's workforce, and the ability to change work rules and practices and implement other efficiency-related improvements to successfully compete in today's challenging marketplace, which may negatively affect NW Holdings' and NW Natural's financial condition and results of operations.

Environmental Risks

ENVIRONMENTAL LIABILITY RISK. *Certain of NW Natural's, and possibly NW Holdings', properties and facilities may pose environmental risks requiring remediation, the costs of which are difficult to estimate and which could adversely affect NW Holdings' and NW Natural's financial condition, results of operations, and cash flows.*

NW Natural owns, or previously owned, properties that require environmental remediation or other action. NW Holdings or NW Natural may now, or in the future, own other properties that require environmental remediation or other action. NW Natural and NW Holdings accrue all material loss contingencies relating to these properties. A regulatory asset at NW Natural has been recorded for estimated costs pursuant to a deferral order from the OPUC and WUTC. In addition to maintaining regulatory deferrals, NW Natural settled with most of its historical liability insurers for only a portion of the costs it has incurred to date and expects to incur in the future. To the extent amounts NW Natural recovered from insurance are inadequate and it is unable to recover these deferred costs in utility customer rates, NW Natural would be required to reduce its regulatory assets which would result in a charge to earnings in the year in which regulatory assets are reduced. In addition, in Oregon, the OPUC approved the SRRM, which limits recovery of deferred amounts to those amounts which satisfy an annual prudence review and an earnings test that requires NW Natural to contribute additional amounts toward environmental remediation costs above approximately $10 million in years in which NW Natural earns above its authorized ROE. To the extent NW Natural earns more than its authorized ROE in a year, it would be required to cover environmental expenses greater than the $10 million with those earnings that exceed its authorized ROE. The OPUC ordered a review of the SRRM in 2018 or when we obtain greater certainty of environmental costs, whichever occurred first. We submitted information for review in 2018, and believe we could be subject to further review. Similarly, in October 2019, the WUTC authorized an ECRM, which allows for recovery of certain past deferred and future prudently incurred remediation costs allocable to Washington through application of insurance proceeds and collections from customers, subject to an annual prudence determination. These ongoing prudence reviews, or with respect to the SRRM, the earnings test, or the periodic review could reduce the amounts NW Natural is allowed to recover, and could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.
Moreover, we may have disputes with regulators and other parties as to the severity of particular environmental matters, what remediation efforts are appropriate, whether natural resources were damaged, and the portion of the costs or claims NW Natural or NW Holdings should bear. We cannot predict with certainty the amount or timing of future expenditures related to environmental investigations, remediation or other action, the portions of these costs allocable to NW Natural or NW Holdings, or disputes or litigation arising in relation thereto.

Environmental liability estimates are based on current remediation technology, industry experience gained at similar sites, an assessment of probable level of responsibility, and the financial condition of other potentially responsible parties. However, it is difficult to estimate such costs due to uncertainties surrounding the course of environmental remediation, the preliminary nature of certain site investigations, natural recovery of the site, unavoidable limitations associated with environmental investigations and remedial technologies, evolving science, and the application of environmental laws that impose joint and several liabilities on all potentially responsible parties. These uncertainties and disputes arising therefrom could lead to further adversarial administrative proceedings or litigation, with associated costs and uncertain outcomes, all of which could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.

ENVIRONMENTAL REGULATION COMPLIANCE RISK. *NW Holdings and NW Natural are subject to environmental regulations for our ongoing businesses, compliance with which could adversely affect our operations or financial results.*

NW Holdings and NW Natural are subject to laws, regulations and other legal requirements enacted or adopted by federal, state and local governmental authorities relating to protection of the environment, including those legal requirements that govern discharges of substances into the air and water, the management and disposal of hazardous substances and waste, groundwater quality and availability, plant and wildlife protection, and other aspects of environmental regulation. For example, our natural gas operations are subject to reporting requirements to the Environmental Protection Agency (EPA) and the Oregon Department of Environmental Quality (ODEQ) regarding greenhouse gas emissions. These and other current and future additional environmental regulations could result in increased compliance costs or additional operating restrictions, which may or may not be recoverable in customer rates or through insurance. If these costs are not recoverable, or if these regulations reduce the desirability or cost-competitiveness of natural gas, they could have an adverse effect on NW Holdings' or NW Natural's operations or financial condition.

GLOBAL CLIMATE CHANGE RISK. *Our businesses may be subject to physical risks associated with climate change, all of which could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

Climate change may cause physical risks, including an increase in sea level, intensified storms, water scarcity, wildfire susceptibility and changes in weather conditions, such as changes in precipitation, average temperatures and extreme wind or other extreme weather events or climate conditions. A significant portion of the nation's gas infrastructure is located in areas susceptible to storm damage that could be aggravated by wetland and barrier island erosion, which could give rise to gas supply interruptions and price spikes.

These and other physical changes could result in disruptions to natural gas production and transportation systems potentially increasing the cost of gas and affecting our natural gas businesses' ability to procure or transport gas to meet customer demand. These changes could also affect our distribution systems resulting in increased maintenance and capital costs, disruption of service, regulatory actions and lower customer satisfaction. Similar disruptions could occur in NW Holdings' water utility businesses. Additionally, to the extent that climate change adversely impacts the economic health or weather conditions of our service territory directly, it could adversely impact customer demand or our customers' ability to pay. Such physical risks could have an adverse effect on NW Holdings' or NW Natural's financial condition, results of operations, and cash flows.

PUBLIC PERCEPTION AND POLICY RISK. *Changes in public sentiment or public policy with respect to natural gas, including through local, state or federal laws or legislation or other regulation (including ballot initiatives or executive orders), could adversely affect NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

There are a number of international, federal, state, and local legislative, legal, regulatory and other initiatives being proposed and adopted in an attempt to measure, control or limit the effects of global warming and climate change, including greenhouse gas (GHG) emissions such as carbon dioxide and methane. For example, cap and trade bills were considered in the 2019 and 2020 Oregon legislative sessions, and failed each time due to a lack of quorum for a vote. In Washington, similar legislation seeking to reduce GHG emissions in a variety of ways have been unsuccessfully pursued. It is expected that there will be continued efforts to address climate change in the 2021 legislative sessions through legislation that seeks to limit GHG emissions, disadvantages direct natural gas usage, or promotes electrification, in both Oregon and Washington. The Washington State Building Code Council adopted a statewide residential building code that incorporates carbon reduction measures. In Oregon, largely as a result of the inability of the Oregon legislature to pass GHG legislation, in March, 2020, the Oregon Governor issued an executive order 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 directing state agencies and commissions to facilitate such GHG emission goals. Although the order does not specifically direct actions of natural gas distribution businesses, the OPUC is directed to prioritize proceedings and activities that advance decarbonization in the utility sector, mitigate energy burden experienced by utility customers and ensure system reliability and resource adequacy. The executive order also directs other agencies 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. At this time, we are unable to predict the impact of the executive order on NW Natural. As an executive order, any implementation is reliant on state agency rule-making. The scope and content of any state commission or agency rules, as well as the time to propose, adopt and implement any such rules, has not been fully determined, but is expected to be substantially complete in the next 12 to 24 months.

A number of local jurisdictions are also reviewing their own GHG regulations. For example, one small jurisdiction in NW Natural's service territory, Eugene, Oregon, is seeking to pursue reductions in GHG emissions by negotiating for GHG targets, carbon offsets and increased use of RNG in their system. Such current or future legislation, regulation or other initiatives (including ballot initiatives or ordinances) could impose on our natural gas businesses operational requirements or restrictions, additional charges to fund energy efficiency initiatives, or levy a tax based on carbon content. In addition, while no such bans currently exist in NW Natural's operating territories, certain municipalities, such as Berkeley, California, are moving to restrict new natural gas hookups in residential and other buildings. Other jurisdictions have considered requiring the conversion of buildings to electric heat, or otherwise adopting policies or incentives to encourage the use of electricity in lieu of natural gas. Such restrictions could adversely impact customer growth or usage, and could adversely impact our ability to recover costs and maintain reasonable customer rates.

NW Natural believes natural gas has an important role in moving the Pacific Northwest to a low carbon future, and to that end is developing programs and measures to reduce carbon emissions. However, NW Natural's efforts may not happen quickly enough to keep pace with legislation or other regulation, legal changes or public sentiment, or may not be as effective as expected.

Any of these initiatives, or our unsuccessful response to them, could result in us incurring additional costs to comply with the imposed restrictions, provide a cost or other competitive advantage to energy sources other than natural gas, reduce demand for natural gas, restrict our ability to add new construction meters, impose costs or restrictions on end users of natural gas, impact the prices we charge our customers, impose increased costs on us associated with the adoption of new infrastructure and technology to respond to such requirements, and could negatively impact public perception of our services or products that negatively diminishes the value of our brand, all of which could adversely affect NW Holdings' or NW Natural's business operations, financial condition and results of operations.

Business Continuity and Technology Risks

BUSINESS CONTINUITY RISK. *NW Holdings and NW Natural may be adversely impacted by local or national disasters, pandemic illness, political unrest, terrorist activities, cyber-attacks or data breaches, and other extreme events to which we may not be able to promptly respond, which could adversely affect NW Holdings' or NW Natural's operations or financial condition.*

Local or national disasters, pandemic illness (including COVID-19), political unrest, terrorist activities, cyber-attacks and data breaches, and other extreme events are a threat to our assets and operations. Companies in critical infrastructure industries may face a heightened risk due to being the target of, and having heightened exposure to, acts of terrorism or sabotage, including physical and security breaches of our physical infrastructure and information technology systems in the form of cyber-attacks. These attacks could, among other things, target or impact our technology or mechanical systems that operate our distribution, transmission or storage facilities and result in a disruption in our operations, damage to our system and inability to meet customer requirements. In addition, the threat of terrorist activities could lead to increased economic instability and volatility in the price of natural gas or other necessary commodities that could affect our operations. Threatened or actual national disasters or terrorist activities may also disrupt capital or bank markets and our ability to raise capital or obtain debt financing, or impact our suppliers or our customers directly. Local disaster, protests or pandemic illness could result in disruption of our infrastructure or part of our workforce being unable to operate or maintain our infrastructure or perform other tasks necessary to conduct our business. A slow or inadequate response to events may have an adverse impact on our operations and earnings. We may not be able to maintain sufficient insurance to cover all risks associated with local and national disasters, pandemic illness, terrorist activities, cyber-attacks and other events. Additionally, large scale natural disasters or terrorist attacks could destabilize the insurance industry making the insurance we do have unavailable, which could increase the risk that an event could adversely affect NW Holdings' or NW Natural's operations or financial results.

RELIANCE ON TECHNOLOGY RISK. *NW Holdings' and NW Natural's efforts to integrate, consolidate and streamline each of their operations has resulted in increased reliance on technology, the failure of which could adversely affect NW Holdings' or NW Natural's financial condition and results of operations.*

NW Holdings and NW Natural have undertaken a variety of initiatives to integrate, standardize, centralize and streamline operations. These efforts have resulted in greater reliance on technological tools such as, at NW Natural: an enterprise resource planning system, a digital dispatch system, an automated meter reading system, a web-based ordering and tracking system, and other similar technological tools and initiatives. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes in a cost-effective manner and to offer, on a timely basis, services that meet customer demands and evolving industry standards. New technologies may emerge that could be superior to, or may not be compatible with, some of our existing technologies, and may require us to make significant expenditures to remain competitive. We continue to implement technology to improve our business processes and customer interactions. In addition, our various existing information technology systems require periodic modifications, upgrades and/or replacement. For example, NW Natural intends to upgrade its SAP system and replace its customer information system in the near future.

There are various risks associated with these systems in addition to upgrades and replacements, including hardware and software failure, communications failure, data distortion or destruction, unauthorized access to data, misuse of proprietary or confidential data, unauthorized control through electronic means, programming mistakes and other inadvertent errors or deliberate human acts. In addition, we are dependent on a continuing flow of important components to maintain and upgrade our information technology systems. Our suppliers may face production or import delays due to natural disasters, strikes, lock-outs, political unrest or other such circumstances. Technology services provided by third-parties also could be disrupted due to events and circumstances beyond our control which could adversely impact our business, financial condition and results of operations.

Any modifications, upgrades, system maintenance or replacements subject us to inherent costs and risks, including potential disruption of our internal control structure, substantial capital expenditures, additional administrative and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. In addition, the difficulties with implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated. There is also risk that we may not be able to recover all costs associated with projects to improve our technological capabilities, which may adversely affect NW Holdings' or NW Natural's financial condition and results of operations.

CYBERSECURITY RISK. *NW Holdings' and NW Natural's status as an infrastructure services provider coupled with its reliance on technology could result in a security breach which could adversely affect NW Holdings' or NW Natural's financial condition and results of operations.*

Although we take precautions to protect our technology systems and are not aware of any material security breaches to date, there is no guarantee that the procedures we have implemented to protect against unauthorized access to secured data and systems, including our industrial controls and other information technology systems, are adequate to safeguard against all security breaches or other cyber attacks. Additionally, the facilities and systems of clients, suppliers and third party service providers could be vulnerable to the same cyber risks as our facilities and systems, and such third party systems may be interconnected to our systems both physically and technologically. Therefore, an event caused by cyberattacks or other malicious act at an interconnected third party could impact our business and facilities similarly. As these potential cyber security attacks become more common and sophisticated, we could be required to incur costs to strengthen our systems or obtain specific insurance coverage against potential losses. Our businesses could experience breaches of security pertaining to sensitive customer, employee, and vendor information maintained by us in the normal course of business, which could adversely affect our reputation, diminish customer confidence, disrupt operations, materially increase the costs we incur to protect against these risks, and subject us to possible financial liability or increased regulation or litigation, any of which could adversely affect NW Holdings' or NW Natural's financial condition and results of operations.

Financial and Economic Risks

HOLDING COMPANY DIVIDEND RISK. *As a holding company, NW Holdings depends on its operating subsidiaries, including NW Natural, to meet financial obligations and the ability of NW Holdings to pay dividends on its common stock is dependent on the receipt of dividends and other payments from its subsidiaries, including NW Natural.*

As a holding company, NW Holdings' only significant assets are the stock and membership interests of its operating subsidiaries, which at this time is primarily NW Natural. NW Holdings' direct and indirect subsidiaries are separate and distinct legal entities, managed by their own boards of directors, and have no obligation to pay any amounts to their respective shareholders, whether through dividends, loans or other payments. The ability of these companies to pay dividends or make other distributions on their common stock is subject to, among other things: their results of operations, net income, cash flows and financial condition, as well as the success of their business strategies and general economic and competitive conditions; the prior rights of holders of existing and future debt securities and any future preferred stock issued by those companies; and any applicable legal restrictions.

In addition, the ability of NW Holdings' subsidiaries to pay upstream dividends and make other distributions is subject to applicable state law and regulatory restrictions. Under the OPUC and WUTC regulatory approvals for the holding company formation, if NW Natural ceases to comply with credit and capital structure requirements approved by the OPUC and WUTC, it will not, with limited exceptions, be permitted to pay dividends to NW Holdings. Under the OPUC and WUTC orders authorizing 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 levels fall below specified ratings and 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 is 45% or above. 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 is 46% or above. Dividends may not be issued if NW Natural's long-term secured credit ratings fall to BB+ or below for S&P or Ba1 or below for Moody's, or if NW Natural's common equity is below 44%. The ratio is measured using common equity and long-term debt excluding imputed debt or debt-like lease obligations, and is determined on a preceding or projected 13-month basis.

EMPLOYEE BENEFIT RISK. *The cost of providing pension and postretirement healthcare benefits is subject to changes in pension assets and liabilities, changing employee demographics and changing actuarial assumptions, which may have an adverse effect on NW Holdings' or NW Natural's financial condition, results of operations and cash flows.*

Until NW Natural closed the pension plans to new hires, which for non-union employees was in 2006 and for union employees was in 2009, it provided pension plans and postretirement healthcare benefits to eligible full-time utility employees and retirees. Approximately 40% of NW Natural's current utility employees were hired prior to these dates, and therefore remain eligible for these plans. Other businesses we acquire may also have pension plans. The costs to NW Natural, or the other applicable businesses we may acquire, for providing such benefits is subject to change in the market value of the pension assets, changes in employee demographics including longer life expectancies, increases in healthcare costs, current and future legislative changes, and various actuarial calculations and assumptions. The actuarial assumptions used to calculate our future pension and postretirement healthcare expenses may differ materially from actual results due to significant market fluctuations and changing withdrawal rates, wage rates, interest rates and other factors. These differences may result in an adverse impact on the amount of pension contributions, pension expense or other postretirement benefit costs recorded in future periods. Sustained declines in equity markets and reductions in bond rates may have a material adverse effect on the value of the pension fund assets and liabilities. In these circumstances, NW Natural may be required to recognize increased contributions and pension expense earlier than it had planned to the extent that the value of pension assets is less than the total anticipated liability under the plans, which could have a negative impact on NW Holdings' and NW Natural's financial condition, results of operations and cash flows.

HEDGING RISK. *NW Natural's risk management policies and hedging activities cannot eliminate the risk of commodity price movements and other financial market risks, and its hedging activities may expose it to additional liabilities for which rate recovery may be disallowed, which could result in an adverse impact on NW Holdings' and NW Natural's operating revenues, costs, derivative assets and liabilities and operating cash flows.*

NW Natural's gas purchasing requirements expose it to risks of commodity price movements, while its use of debt and equity financing exposes it to interest rate, liquidity and other financial market risks. NW Natural attempts to manage these exposures with both financial and physical hedging mechanisms, including its gas reserves transactions which are hedges backed by physical gas supplies. While NW Natural has risk management procedures for hedging in place, they may not always work as planned and cannot entirely eliminate the risks associated with hedging. Additionally, NW Natural's hedging activities may cause it to incur additional expenses to obtain the hedge. NW Natural does not hedge its entire interest rate or commodity cost exposure, and the unhedged exposure will vary over time. Gains or losses experienced through hedging activities, including carrying costs, generally flow through NW Natural's PGA mechanism or are recovered in future general rate cases. However, the hedge transactions NW Natural enters into for utility purposes are subject to a prudence review by the OPUC and WUTC, and, if found imprudent, those expenses may be, and have been previously, disallowed, which could have an adverse effect on NW Holdings' or NW Natural's financial condition and results of operations.
In addition, NW Natural's actual business requirements and available resources may vary from forecasts, which are used as the basis for its hedging decisions, and could cause its exposure to be more or less than anticipated. Moreover, if NW Natural's derivative instruments and hedging transactions do not qualify for regulatory deferral and it does not elect hedge accounting treatment under U.S. GAAP, NW Holdings' or NW Natural's results of operations and financial condition could be adversely affected.

NW Natural also has credit-related exposure to derivative counterparties. Counterparties owing NW Natural or its subsidiaries money or physical natural gas commodities could breach their obligations. Should the counterparties to these arrangements fail to perform, NW Natural may be forced to enter into alternative arrangements to meet its normal business requirements. In that event, NW Holdings' or NW Natural's financial results could be adversely affected. Additionally, under most of NW Natural's hedging arrangements, any downgrade of its senior unsecured long-term debt credit rating could allow its counterparties to require NW Natural to post cash, a letter of credit or other form of collateral, which would expose NW Natural to additional costs and may trigger significant increases in borrowing from its credit facilities or equity contribution needs from NW Holdings, if the credit rating downgrade is below investment grade. Further, based on current interpretations, NW Natural is not considered a "swap dealer" or "major swap participant" in 2021, so NW Natural is exempt from certain requirements under the Dodd-Frank Act. If NW Natural is unable to claim this exemption, it could be subject to higher costs for its derivatives activities, and such higher costs could have a negative impact on NW Holdings' and NW Natural's operating costs and financial results.

GAS PRICE RISK. *Higher natural gas commodity prices and volatility in the price of gas may adversely affect NW Natural's NGD business, whereas lower gas price volatility may adversely affect NW Natural's and NW Holdings' gas storage business, in each case negatively affecting NW Holdings' and NW Natural's results of operations and cash flows.*

The cost of natural gas is affected by a variety of factors, including weather, changes in demand, the level of production and availability of natural gas supplies, transportation constraints, availability and cost of pipeline capacity, federal and state energy and environmental regulation and legislation, natural disasters and other catastrophic events, national and worldwide economic and political conditions, and the price and availability of alternative fuels. At NW Natural, the cost we pay for natural gas is generally passed through to customers through an annual PGA rate adjustment. If gas prices were to increase significantly, it would raise the cost of energy to NW Natural's customers, potentially causing those customers to conserve or switch to alternate sources of energy. Significant price increases could also cause new home builders and commercial developers to select alternative energy sources. Decreases in the volume of gas NW Natural sells could reduce NW Holdings or NW Natural's earnings, and a decline in customers could slow growth in future earnings. Additionally, because a portion (10% or 20%) of any difference between the estimated average PGA gas cost in rates and the actual average gas cost incurred is recognized as current income or expense, higher average gas costs than those assumed in setting rates can adversely affect NW Holdings' and NW Natural's operating cash flows, liquidity and results of operations. Additionally, notwithstanding NW Natural's current rate structure, higher gas costs could result in increased pressure on the OPUC or the WUTC to seek other means to reduce NW Natural's rates, which also could adversely affect NW Holdings' and NW Natural's results of operations and cash flows.

Higher gas prices may also cause NW Natural to experience an increase in short-term debt and temporarily reduce liquidity because it pays suppliers for gas when it is purchased, which can be in advance of when these costs are recovered through rates. Significant increases in the price of gas can also slow collection efforts as customers experience increased difficulty in paying their higher energy bills, leading to higher than normal delinquent accounts receivable resulting in greater expense associated with collection efforts and increased bad debt expense.

INABILITY TO ACCESS CAPITAL MARKET RISK. *NW Holdings' or NW Natural's inability to access capital, or significant increases in the cost of capital, could adversely affect NW Holdings' or NW Natural's financial condition and results of operations.*

NW Holdings' and NW Natural's ability to obtain adequate and cost effective short-term and long-term financing depends on maintaining investment grade credit profiles as well as the existence of liquid and stable financial markets. NW Holdings relies on access to equity and bank markets to finance equity contributions to subsidiaries and other business requirements. NW Natural relies on access to capital and bank markets, including commercial paper and bond markets, to finance its operations, construction expenditures and other business requirements, and to refund maturing debt that cannot be funded entirely by internal cash flows. Disruptions in capital markets, including but not limited to, the ongoing COVID-19 pandemic or political unrest, could adversely affect our ability to access short-term and long-term financing. Our access to funds under committed credit facilities, which are currently provided by a number of banks, is dependent on the ability of the participating banks to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity. Disruptions in the bank or capital financing markets as a result of economic uncertainty, changing or increased regulation of the financial sector, or failure of major financial institutions, or disruptions in credit markets, could adversely affect NW Holdings' and NW Natural's access to capital and negatively impact our ability to run our businesses and make strategic investments.

NW Natural is currently rated by S&P and Moody's and a negative change in its credit ratings, particularly below investment grade, could adversely affect its cost of borrowing and access to sources of liquidity and capital.

Such a downgrade could further limit its access to borrowing under available credit lines. Additionally, downgrades in its current credit ratings below investment grade could cause additional delays in NW Natural's ability to access the capital markets while it seeks supplemental state regulatory approval, which could hamper its ability to access credit markets on a timely basis. NW Holdings' credit profile is largely supported by NW Natural's credit ratings and any negative change in NW Natural's credit ratings would likely negatively impact NW Holdings' access to sources of liquidity and capital and cost of borrowing. A credit downgrade to NW Natural, or resulting negative impact on NW Holdings, could also require additional support in the form of letters of credit, cash or other forms of collateral and otherwise adversely affect NW Holdings' or NW Natural's financial condition and results of operations.

IMPAIRMENT OF LONG-LIVED ASSETS OR GOODWILL RISK. *Impairments of the value of long-lived assets or goodwill could have a material effect on NW Holdings' or NW Natural's financial condition, or results of operations.*

NW Holdings and NW Natural review the carrying value of long-lived assets other than goodwill whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. The determination of recoverability is based on the undiscounted net cash flows expected to result from the operation of such assets. Projected cash flows depend on the future operating costs and projected revenues associated with the asset.

We review the carrying value of goodwill annually or whenever events or changes in circumstances indicate that such carrying value may not be recoverable. A goodwill impairment analysis begins with a qualitative analysis of events and circumstances. If the qualitative assessment indicates that the carrying value may be at risk, we will perform a quantitative assessment and recognize a goodwill impairment for any amount in which the fair value of a reporting unit exceeds its fair value. NW Holdings' total goodwill was $69.2 million as of December 31, 2020 and $49.9 million as of December 31, 2019. The increase in the goodwill balance was due to additions associated with acquisitions in the water sector. All of our goodwill is related to water and wastewater acquisitions. There have been no impairments recognized for the water and wastewater acquisitions to date. Any impairment charge taken with respect to our long-lived assets or goodwill could be material and could have a material effect on NW Holdings' or NW Natural's financial condition and results of operations.

CUSTOMER CONSERVATION RISK. *Customers' conservation efforts may have a negative impact on NW Holdings' and NW Natural's revenues.*

An increasing national focus on energy conservation, including improved building practices and appliance efficiencies may result in increased energy conservation by customers. This can decrease NW Natural's sales of natural gas and adversely affect NW Holdings' or NW Natural's results of operations because revenues are collected mostly through volumetric rates, based on the amount of gas sold. In Oregon, NW Natural has a conservation tariff which is designed to recover lost utility margin due to declines in residential and small commercial customers' consumption. However, NW Natural does not have a conservation tariff in Washington that provides it this margin protection on sales to customers in that state. Similar conservation risks exist for water utilities. Customers' conservation efforts may have a negative impact on NW Holdings' and NW Natural's financial condition, revenues and results of operations.

WEATHER RISK. *Warmer than average weather may have a negative impact on our revenues and results of operations.*

We are exposed to weather risk in our natural gas business, primarily at NW Natural. A majority of NW Natural's gas volume is driven by gas sales to space heating residential and commercial customers during the winter heating season. Current NW Natural rates are based on an assumption of average weather. Warmer than average weather typically results in lower gas sales. Colder weather typically results in higher gas sales. Although the effects of warmer or colder weather on utility margin in Oregon are expected to be mitigated through the operation of NW Natural's weather normalization mechanism, weather variations from normal could adversely affect utility margin because NW Natural may be required to purchase more or less gas at spot rates, which may be higher or lower than the rates assumed in its PGA. Also, a portion of NW Natural's Oregon residential and commercial customers (usually less than 10%) have opted out of the weather normalization mechanism, and approximately 12% of its customers are located in Washington where it does not have a weather normalization mechanism. These effects could have an adverse effect on NW Holdings' and NW Natural's financial condition, results of operations and cash flows.

Water Business Risks

WATER SECTOR BUSINESS. *NW Holdings has entered the water sector through the acquisition of a number of water and wastewater companies. Water and wastewater businesses are subject to a number of risks in addition to the risks described above.*

Although the water businesses are not currently expected to materially contribute to the results of operations of NW Holdings, these businesses are subject to risks, in addition to those described above that could adversely affect their results of operations, including:

- contamination of water supplies, including water provided to customers with naturally occurring or human-made substances or other hazardous materials;
- interruptions in water supplies and service, natural disasters and droughts;
- conservation efforts by customers;
- regulatory requirements and proceedings; and
- weather conditions.

Significant losses, liabilities or impairments arising from these businesses may adversely affect NW Holdings' financial position or results of operations.

INVESTMENT RISK. *NW Holdings' expectations with respect to the financial results of its investments in water operations are based on various assumptions and beliefs that may not prove accurate, resulting in failures or delays in achieving expected returns or performance.*

NW Holdings' expansion into the water sector is an important component of its growth strategy. Although NW Holdings expects its water and wastewater utility operations will result in various benefits, including expanding customer bases, providing investment opportunities through infrastructure development and enhancing regulatory relationships within the local communities served, NW Holdings may not be able to realize these or other benefits. Achieving the anticipated benefits is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner intended and whether costs to finance the acquisitions and investments will be consistent with expectations. Events outside of our control, including but not limited to regulatory changes or developments, could adversely affect our ability to realize the anticipated benefits from building NW Holdings' water platform. The integration of newly acquired water businesses may be unpredictable, subject to delays or changed circumstances, and such businesses may not perform in accordance with our expectations. In addition, anticipated costs, level of management's attention and internal resources to achieve the integration of the acquired businesses may differ significantly from our current estimates resulting in failures or delays in achieving expected returns or performance. If NW Holdings' expectations regarding the financial results of its investments in water operations prove to be inaccurate, it may adversely affect NW Holdings' financial position or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments.

ITEM 2. PROPERTIES

NW Natural's Natural Gas Distribution Properties
NW Natural's natural gas pipeline system consists of approximately 14,000 miles of distribution and transmission mains and approximately 10,000 miles of service lines located in its territory in Oregon and southwest Washington. In addition, the pipeline system includes service pipelines, meters and regulators, and gas regulating and metering stations. Natural gas pipeline mains are located in municipal streets or alleys pursuant to franchise or occupation ordinances, in county roads or state highways pursuant to agreements or permits granted pursuant to statute, or on lands of others pursuant to easements obtained from the owners of such lands. NW Natural also holds permits for the crossing of numerous railroads, navigable waterways and smaller tributaries throughout our entire service territory.

NW Natural owns service building facilities in Portland, Oregon, as well as various satellite service centers, garages, warehouses, and other buildings necessary and useful in the conduct of its business. Resource centers are maintained on owned or leased premises at convenient points in the distribution system to provide service within NW Natural's service territory. NW Natural also owns LNG storage facilities in Portland and near Newport, Oregon.

NW Natural commenced a 20-year lease in March 2020 for a new corporate operations center in Portland, Oregon.

NW Natural's Mortgage and Deed of Trust (Mortgage) is a first mortgage lien on substantially all of the property constituting NW Natural's natural gas distribution plant balances.

These properties are used in the NGD segment.

NW Natural's Natural Gas Storage Properties
NW Natural holds leases and other property interests in approximately 12,000 net acres of underground natural gas storage in Oregon and easements and other property interests related to pipelines associated with these facilities. NW Natural owns rights to depleted gas reservoirs near Mist, Oregon that are continuing to be developed and operated as underground gas storage facilities. NW Natural also holds all future storage rights in certain other areas of the Mist gas field in Oregon in addition to other leases and property interests.

A portion of these properties are used in the NGD segment.

NWN Water's Distribution Properties
NWN Water owns and maintains water distribution pipes, storage, wells and other infrastructure and wastewater treatment facilities, and holds related leases and other property interests in Oregon, Washington, Idaho and Texas. Pipelines are located in municipal streets or alleys pursuant to franchise or occupation ordinances, in county roads or state highways pursuant to agreements or permits granted pursuant to statute, or on lands of others pursuant to easements obtained from the owners of such lands. These properties are used by entities that are aggregated and reported as other under NW Holdings.

We consider all of our properties currently used in our operations, both owned and leased, to be well maintained, in good operating condition, and, along with planned additions, adequate for our present and foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

Other than the proceedings disclosed in Note 18, we have only nonmaterial litigation in the ordinary course of business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NW Holdings' common stock is listed and trades on the New York Stock Exchange under the symbol NWN.

There is no established public trading market for NW Natural's common stock.

As of February 16, 2021, there were 4,614 holders of record of NW Holdings' common stock and NW Holdings was the sole holder of NW Natural's common stock.

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 December 31, 2020:

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
10/01/20-10/31/20	—	$ —	—	—
11/01/20-11/30/20	1,556	$ 49.30	—	—
12/01/20-12/31/20	—	$ —	—	—
Total	1,556		2,124,528	$ 16,732,648

(1) During the quarter ended December 31, 2020, no shares of NW Holdings common stock were purchased on the open market to meet the requirements of our Dividend Reinvestment and Direct Stock Purchase Plan. However, 1,556 shares of NW Holdings common stock were purchased on the open market to meet the requirements of share-based compensation programs. During the quarter ended December 31, 2020, no shares of NW Holdings common stock were accepted as payment for stock option exercises pursuant to the NW Natural Restated Stock Option Plan.

(2) During the quarter ended December 31, 2020, no shares of NW Holdings common stock were repurchased pursuant to the NW Holdings Board of Directors-approved share repurchase program. In May 2019, we received NW Holdings Board of Directors approval to extend the repurchase program through May 2022. For more information on this program, see Note 5.

ITEM 6. SELECTED FINANCIAL DATA

Omitted in accordance with SEC regulations.

ITEM 7. 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 covers the years ended December 31, 2020, 2019, and 2018 and refers to the consolidated results 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 the Consolidated Financial Statements in Item 8 of this report.

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 NWN Energy's equity investment in Trail West Holdings, LLC (TWH) through August 6, 2020; NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); and NWN Water, which through itself or its subsidiaries, owns and continues to pursue investments in the water sector. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries. See Note 14 for information on our TWH investment.

In addition, NW Holdings has reported discontinued operations results related to the sale of Gill Ranch Storage, LLC (Gill Ranch). NW Natural Gas Storage, LLC (NWN Gas Storage), an indirect wholly-owned subsidiary of NW Holdings, entered into a Purchase and Sale Agreement during the second quarter of 2018 that provided for the sale of all membership interests in Gill Ranch. Gill Ranch owns a 75% interest in the natural gas storage facility located near Fresno, California known as the Gill Ranch Gas Storage Facility. For more information, see "Results of Operations - *Discontinued Operations*" below.

NON-GAAP FINANCIAL MEASURES. In addition to presenting the results of operations and earnings amounts in total, certain financial measures are expressed in cents per share, which are non-GAAP financial measures. All references in this section to earnings per share (EPS) are on the basis of diluted shares. We use such non-GAAP financial measures to analyze our financial performance because we believe they provide useful information to our investors and creditors in evaluating our financial condition and results of operations. Our non-GAAP financial measures should not be considered a substitute for, or superior to, measures calculated in accordance with U.S. GAAP.

EXECUTIVE SUMMARY

Our core mission is to provide safe, reliable and affordable essential utility services in an environmentally responsible way to better the lives of the public we serve. Highlights for the year include:

- Added nearly 11,600 natural gas customers in 2020 for an annual growth rate of 1.5% at December 31, 2020;
- Continued to provide customers with essential natural gas and water utility services and assist our most vulnerable community members during COVID-19;
- Invested $273 million in natural gas and water utility systems to support growth and greater reliability and resiliency;
- Completed rule-making for Oregon Senate Bill 98 enabling NW Natural to procure renewable natural gas (RNG) for customers and invested in our first development project to convert methane into RNG;
- Scored second in the West among large utilities in the 2020 J.D. Power Gas Utility Residential Customer Satisfaction Study;
- Concluded the Oregon general rate case with a revenue requirement increase to support growth and system investments;
- Filed a multi-year general rate case in Washington requesting a revenue requirement increase;
- Announced that NW Natural is working toward a renewable hydrogen facility with a partner in Oregon;
- Closed five water and wastewater utility transactions in 2020, bringing our total connections to approximately 26,000; and
- Increased dividends for the 65th consecutive year to shareholders.

Key financial highlights for NW Holdings include:

	2020		2019		2018	
In millions	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net income from continuing operations	$ 70.3	$ 2.30	$ 65.3	$ 2.19	$ 67.3	$ 2.33
Income (loss) from discontinued operations, net of tax	6.5	0.21	(3.6)	(0.12)	(2.7)	(0.09)
Consolidated net income	$ 76.8	$ 2.51	$ 61.7	$ 2.07	$ 64.6	$ 2.24

Key financial highlights for NW Natural include:

	2020	2019	2018
In millions	Amount	Amount	Amount
Net income from continuing operations	$ 70.6	$ 69.0	$ 68.0
Loss from discontinued operations, net of tax	—	—	(1.7)
Consolidated net income	$ 70.6	$ 69.0	$ 66.3
Natural gas distribution margin	$ 438.1	$ 422.7	$ 383.7

2020 COMPARED TO 2019. Consolidated net income increased $1.6 million at NW Natural primarily due to the following factors:

- a $15.4 million increase in NGD segment margin driven by the 2020 Oregon and 2019 Washington rate cases and residential customer growth; and
- a $7.9 million decrease in other expense, net primarily related to higher 2019 pension expenses (non-service cost component) recognized as part of the settlement and recovery of NW Natural's pension balancing account, which was primarily offset within NGD margin and income tax benefits (as discussed below) and which did not recur in 2020; partially offset by
- a $13.6 million increase in depreciation expense and general taxes due to property, plant, and equipment additions, as we continued to invest in our gas utility system; and
- a $7.0 million increase in income tax expense primarily due to 2019 including an income tax benefit related to the return of deferred TCJA benefits to customers and the regulatory pension disallowance, and higher pre-tax income.

Net income from continuing operations increased $5.0 million at NW Holdings primarily due to the following factors:

- a $1.6 million increase in consolidated net income at NW Natural as discussed above; and
- a $3.4 million increase in other net income primarily reflecting higher earnings at our water and wastewater utilities that have been acquired since 2019.

2019 COMPARED TO 2018. NW Holdings' net income from continuing operations decreased $2.0 million and NW Natural's net income from continuing operations increased $1.0 million.

In March 2019, the OPUC issued an order resolving the remaining open items from NW Natural's 2018 Oregon general rate case regarding recovery of the pension balancing account and treatment of the benefits associated with the TCJA. As a result of the order, in the first quarter of 2019, NW Natural recorded a disallowance and several benefits and expenses through the consolidated statements of comprehensive income as follows:

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Pension balancing account. Approximately $12.5 million in previously deferred pension expenses were recognized of which approximately $4.6 million was recorded in operations and maintenance expense and $7.9 million was recorded in other income (expense), net. These charges were offset with a corresponding increase in revenue of $7.1 million and in income tax benefits of $2.7 million as the order required the offset of certain deferred TCJA benefits against the pension balancing account. Additional TCJA income tax benefits were realized throughout 2019 to offset the remainder of the $12.5 million charge.

NW Natural also recognized a regulatory pension disallowance of $10.5 million with approximately $3.9 million recognized in operations and maintenance expense and $6.6 million recognized in other income (expense), net, partially offset by related discrete income tax benefits of $1.1 million. Lastly, NW Natural realized $3.8 million of deferred regulatory interest accrued on the pension balancing account.

Deferred TCJA benefits and timing variance. In addition, the OPUC ordered the return of approximately $6.3 million of excess deferred income taxes associated with plant and gas reserves annually beginning April 1, 2019. As a result, NW Natural recognized approximately $2.0 million in income tax benefits in the first quarter of 2019. Reductions to customer billings commenced April 1, 2019 and offset these income tax benefits in total by the end of 2019. NW Natural will continue reductions to customer billings and recognition of deferred income tax benefits in subsequent years until all benefits have been returned.

The increase of $1.0 million at NW Natural was primarily due to the following factors:

- a $39.0 million increase in NGD segment margin driven by new customer rates from the 2018 Oregon rate case and 2019 Washington rate case, customer growth, and lease revenue from the North Mist storage facility; the remaining increase primarily relates to $7.1 million in revenues which were offset by pension expenses due to the OPUC order as discussed above;
- a $9.4 million decrease in NGD segment income tax expense primarily due to the income tax implications of the March 2019 OPUC order, of which $5.4 million was offset by pension expenses as discussed above, with the remainder driven by the return of deferred TCJA benefit credits to customers and lower pretax income in 2019 compared to 2018; and
- a $5.8 million increase in deferred regulatory interest income in other income (expense), net, of which $5.1 million relates to interest recognized in association with the OPUC order discussed above; offset by
- a $34.4 million increase in pension costs within operations and maintenance expense and other income (expense), net, of which $12.5 million relates to costs which were entirely offset by revenues and income tax benefits as discussed above, and $10.5 million relates to the regulatory pension disallowance discussed above. In addition, there was an $11.4 million increase in pension expenses as NW Natural began collecting ongoing pension costs through customer rates on November 1, 2018 and began collecting deferred pension costs through customer rates on April 1, 2019 rather than deferring a portion to the balancing account;
- a $5.4 million increase in depreciation and amortization primarily due to additional capital expenditures;
- a $5.4 million decrease in non-NGD segment operating revenues due to lower asset management revenues and increased asset management revenue sharing with Oregon customers as a result of the 2018 Oregon rate case;
- a $4.6 million increase in NGD segment interest expense due to higher interest on long- and short-term debt balances; and
- a $2.9 million increase in NGD segment operations and maintenance expenses primarily attributable to annual employee cost increases.

The decrease of $2.0 million at NW Holdings was primarily driven by increases in professional service costs and expenses associated with developing the water business, partially offset by the increase of $1.0 million at NW Natural.

COVID-19 AND CURRENT ECONOMIC CONDITIONS. The novel coronavirus (COVID-19), which was declared a pandemic by the World Health Organization in March 2020, has resulted in severe and widespread global, national, and local economic and societal disruptions. In Oregon and Washington, where we serve natural gas and water customers, stay-at-home orders were issued in March 2020. Orders were also issued in March in Idaho and Texas where we also serve water customers. These and subsequent executive orders required the closure of "non-essential" businesses and permitted the continuation of "essential services." All of the services provided by NW Natural and NW Natural Water were considered "essential services" under the executive orders applicable to the jurisdictions in which they operate, and we continue to serve our gas and water customers and proceed with capital investments without interruption.

As a critical infrastructure energy company that provides an essential service to our customers, NW Natural has well-defined emergency response command structures and protocols. In response to the pandemic, NW Natural mobilized its incident command team and business continuity plans in early March 2020, and continues to operate under these structures and protocols, with a focus on the safety of our 1,200 employees and the 2.5 million people, business partners and communities we serve. NW Natural has generally suspended business travel out of our service territory and implemented work-from-home plans for employees wherever possible. For employees whose role requires them to work in the field or onsite, we are following CDC, OSHA, and state specific requirements. Measures include: following social distancing guidelines; use of personal protective equipment (PPE) including masks, face coverings and gloves; enhanced sanitizing protocols; requiring employee health screenings prior to entering a NW Natural facility; and other measures intended to mitigate the spread of this disease and keep our employees and customers safe and informed. Our water companies are following similar protocols. In addition, we are working with state officials to provide our essential field and onsite workers access to the vaccine during the coming months. We remain vigilant regarding the safety of our customers and employees.

Currently, our service territories are in various phases of reopening, which has permitted the reopening of many businesses that were considered non-essential. Certain of the reopened businesses are operating under continued restrictions related to patron capacity for retail stores and outdoor-only seating for restaurants in Oregon, among other restrictions to prevent further spread of COVID-19.

To support our customers in this unusual time, in March 2020, NW Natural temporarily stopped charging late fees and disconnecting customers for nonpayment. NW Natural also provided Oregon natural gas customers with annual bill credits primarily in June totaling approximately $17.0 million related to NW Natural's revenue sharing mechanism. Through term sheets with the Oregon and Washington Commissions, we have agreed to timelines for resuming our normal business practices such as beginning collection processes while also providing financial assistance and payment plans to our most vulnerable customers.

From a financial perspective, the initial timing of the onset of the COVID-19 pandemic in March 2020 and resulting economic disruption in the United States coincided with the end of the Pacific Northwest 2019-20 winter heating season and although it has continued into the 2020-21 winter heating season, the financial effects were moderated by our regulated utility business model, our natural gas customer base being predominately residential, and temporary cost savings initiatives that were implemented by management. For 2020, we estimate the total financial effects of COVID-19 to be approximately $10 million pre-tax with the impact partially mitigated by regulatory deferrals and temporary cost savings measures. We incurred $4.8 million of COVID-related costs that were deferred to a regulatory asset for recovery in a future period. These costs included PPE supplies, estimates for bad debts, and interest expense associated with financing related activities undertaken to support liquidity during the pandemic, net of direct cost savings such as lower travel and meals and entertainment expenses. In addition, we expect to recognize revenue in a future period for an additional $1.3 million related to forgone late fee revenue. We also experienced additional financial implications of approximately $3.8 million pre-tax that will not be recovered through rates primarily due to lower natural gas distribution margin from customers that stopped natural gas service and lower usage from customers that are not covered under decoupled rate schedules. The financial impacts were mitigated in part by approximately $3.5 million in temporary cost savings initiatives.

During 2020, NW Natural increased the allowance for uncollectible accounts by $2.4 million to $3.1 million. Our allowance for residential and commercial uncollectible accounts estimate increased from 0.1% of gas sales to approximately 0.4% of gas sales for the year ended December 31, 2020.

At the onset of the pandemic, in March 2020 as a precaution to strengthen our liquidity and guard against volatile markets as the COVID-19 pandemic unfolded, we took the following steps:

- NW Natural drew $227 million on its credit facility and subsequently repaid the full amount during the second quarter;
- NW Holdings drew $35 million on its credit facility and repaid $27 million as of December 31, 2020;
- NW Natural borrowed $150 million pursuant to a 364-day term loan and subsequently repaid the full amount in October 2020; and
- NW Natural issued $150 million 30-year first mortgage bonds with an interest rate of 3.6%, which was primarily to support its capital expenditure program.

The federal CARES Act was signed into law on March 27, 2020 to provide direct and indirect financial support to individuals, businesses, state and local governments, and the healthcare system in response to COVID-19. As provided for in the CARES Act, we deferred remittance of the employer portion of the Social Security payroll tax from March through December 31, 2020, when the provision ended. This resulted in $4.7 million of deferred payroll taxes that we expect to remit under the CARES Act guidelines, which require half of the tax liability to be paid by December 31, 2021 and the remaining half to be paid by December 31, 2022.

We have taken additional actions in response to known issues arising from the trends related to the COVID-19 pandemic. For example, we have enhanced cybersecurity monitoring in response to reports that cybersecurity attackers are more active with much of the economy utilizing work from home protocols. Like others, we experienced some constraints on our ability to obtain PPE and disinfecting supplies, but currently believe that we have sufficient supplies to continue our work and continue to procure additional supplies and most efficiently utilize those supplies we have on hand. We have not experienced material disruptions in our supply chain for goods and services to date, but are continuing to actively monitor, and have formulated and continue to evaluate contingency plans as necessary.

We remain vigilant in monitoring how the phased re-openings of the territories in which we operate progress and any reinstitution or possible reinstitution of restrictions, and we are actively monitoring several key metrics. While we are unable to predict the length, severity or impacts of the COVID-19 pandemic and economic disruptions on our business, the potential for a resurgence or mutation of the virus, or timing, widespread availability and efficacy of vaccine implementation, we have the following expectations and beliefs currently:

- Both NW Natural and NW Natural Water expect their capital projects in 2021 to move forward as planned.
- NW Natural's customer growth rate is affected by both new meter connections and when existing customers close their accounts and disconnect their meters. Customer growth from construction and conversions remained strong during 2020. A slow economic recovery could result in a decline in new meter connections, which could adversely affect margin in 2021 and the following periods. In addition, we are closely monitoring our approximately 70,000 commercial and industrial natural gas meters, as a substantial decline in these meters could materially affect margin in 2021 and the following periods. A

disconnection may occur if circumstances require businesses, such as restaurants, retailers, and those in the hospitality sector, to temporarily or permanently close. When we cease suspending disconnections, we may experience a higher level of disconnections. We don't anticipate significant residential meter disconnections.

- NW Natural has seen lower utility margin from a reduction in overall sales volumes during the year ended December 31, 2020 attributed to COVID-19, primarily related to the loss of commercial customers as described above. Due to the seasonality of our gas utility business, we may see more substantial declines in volumes as our peak heating season progresses, depending on the level of reopenings and resiliency of businesses in the communities in which we serve. However, volumes do not translate directly to earnings as the majority of our NGD margin is not dependent on volumes.
- While we have begun returning to normal business practices for many commercial and industrial customers in certain jurisdictions, our residential customers' return to normal practices may be extended based on the timing, availability and efficacy of vaccine rollout and timing of economic recovery. Therefore, the recognition of late and disconnection fee revenue may be delayed beyond our current expectations.
- As the pandemic has continued into the 2020-2021 winter heating season, certain customers are faced with seasonally higher natural gas usage and bills. This could have a financial strain on our customers and impact their ability to pay their bills in a timely manner thus potentially increasing our working capital needs.
- While we deferred to a regulatory asset certain COVID-related financial impacts as agreed upon with regulators, ultimate recovery of these costs and prudence review will be determined through a separate proceeding and may be subject to modification as a result of those proceedings.

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

2021 OUTLOOK

We expect to make significant progress on our long-term objectives in the coming year. Our natural gas distribution business is focused on providing safe, reliable, and affordable energy in an environmentally responsible way to better the lives of the public we serve. Our water and wastewater utility business is committed to providing its customers with safe, clean, reliable and affordable water and wastewater services, while also continuing to grow organically and through acquisitions. In 2021, we remain focused on the strategic pillars of our business: ensuring safe & reliable service; providing superior customer service; advancing constructive legislative policies and regulation; enabling customer growth; and leading on environmental stewardship and decarbonization.

ENSURING SAFE AND RELIABLE SERVICE. Delivering our products safely and reliably to customers, while keeping our employees safe, is our first priority. At NW Natural, we remain focused on safety and emergency response through hands-on, scenario-based training for employees, third-party contractors, and first responders. The reliability, resiliency and safety of our gas system is critical and to this end, we remain focused on investing in necessary upgrades and replacing key system components, preventing third-party damages, and performing regular inspections and assessments. Safety for our gas infrastructure also includes maintaining and strengthening our cybersecurity defenses, upgrading key technology systems, such as our enterprise risk planning system and customer information system over the next several years, and preparing for large-scale emergency events, such as seismic hazards. Our water and wastewater utilities are focused on executing on their capital expenditure plans to ensure continued safe and reliable service to customers and enhancing plans to be able to readily prioritize capital investments.

PROVIDING SUPERIOR CUSTOMER EXPERIENCE. We have a legacy of providing excellent customer service and a long-standing dedication to continuous improvement, which has resulted in NW Natural consistently receiving high rankings in the J.D. Power and Associates customer satisfaction studies and more recently in Escalent's Congent trusted brand and customer engagement residential customer study, earning NW Natural the designation of Customer Champion for the last several years. During 2020, we also implemented several new customer facing technologies including a new website, a streamlined customer onboarding process, and new Interactive Voice Response (IVR) system. In 2021, we intend to fully optimize this new technology to enhance our natural gas customers' experience and meet their evolving expectations. We'll also plan for the next upgrades, which will be centered on our customers' most frequent interactions and highest value touchpoints.

ADVANCING CONSTRUCTIVE LEGISLATIVE POLICIES AND REGULATION. NW Natural has a history of working productively with lawmakers and regulators. Most recently in 2020, rulemaking was completed on the groundbreaking Oregon Senate Bill 98 that allows gas utilities to procure and invest in renewable natural gas for their customers. In 2021, we'll continue to proactively communicate with policymakers and other stakeholders about what we believe is the important role of the gas system in achieving climate goals for our communities, and work with the American Gas Association to provide education on the role of natural gas in energy infrastructure at the national level. With regulators, we'll strive to work productively on open proceedings, taking care of customers during the pandemic, and pursuing recovery of deferred costs related to COVID-19. NW Natural will also continue working with the EPA and other stakeholders on an environmentally protective and cost-effective clean-up for the Portland Harbor Superfund Site. For our water utilities, we are focused on working collaboratively with regulators, pursuing efficient approval processes for acquisitions, filing general rate cases where needed to support investments, and engaging in constructive regulatory proceedings.

ENABLING CUSTOMER GROWTH. Natural gas is a preferred energy choice in our service territory given its affordable, efficient, and reliable qualities and often preferred by homeowners for heating and cooking. We are focused on leveraging these key attributes to capitalize on our region's continued strong housing growth. We'll strive to continue growing our market share in the residential sector and multifamily developments, but believe commercial customer growth may be modest in 2021 as the pandemic has placed additional restrictions on small businesses, such as retail stores and restaurants, in our region. At NW Natural Water, we continue to be focused on supporting the fast-growing communities we currently serve and continuing our disciplined acquisition strategy.

LEADING ON DECARBONIZATION. We are deeply committed to a clean energy future and environmental stewardship. It's why NW Natural launched a low-carbon initiative in 2017 to reduce emissions in the communities we serve by leveraging our modern natural gas pipeline system in new ways, working closely with customers, policymakers and regulators, and embracing cutting-edge technology. In 2020, under Oregon SB 98, NW Natural began a partnership with BioCarbN, a developer and operator of sustainable infrastructure projects, to convert methane into RNG. Under this partnership, NW Natural has the ability to invest up to an estimated $38 million in four separate RNG development projects that will access biogas derived from water treatment at Tyson Foods' processing plants. In 2021, NW Natural intends to continue striving to execute on our renewable strategy by helping our customers reduce and offset their consumption, to procure and invest in RNG for our customers under Oregon Senate Bill 98, execute on our RNG interconnection projects, continue developing voluntary renewable product offerings for our customers, and explore renewable hydrogen. We also intend to leverage technology and relationships to examine ways to reduce emissions across the entire value chain from suppliers to end-use heating appliances.

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DIVIDENDS

NW Holdings dividend highlights include:

Per common share	2020	2019	2018
Dividends paid	$ 1.9125	$ 1.9025	$ 1.8925

In January 2021, the Board of Directors of NW Holdings declared a quarterly dividend on NW Holdings common stock of $0.4800 per share, payable on February 12, 2021, to shareholders of record on January 29, 2021, reflecting an indicated annual dividend rate of $1.92 per share.

See "Financial Condition - *Liquidity and Capital Resources*" for more information regarding the NW Holdings and NW Natural dividend policies and regulatory conditions on NW Natural dividends to its parent, NW Holdings.

RESULTS OF OPERATIONS

Regulatory Matters

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. In 2020, approximately 88% of NGD customers were located in Oregon, with the remaining 12% in Washington. Earnings and cash flows from natural gas distribution operations are largely determined by rates set in general rate cases and other proceedings in Oregon and Washington. They are also affected by weather, the local economies in Oregon and Washington, the pace of customer growth in the residential, commercial, and industrial markets, and NW Natural's ability to remain price competitive, control expenses, and obtain reasonable and timely regulatory recovery of its natural gas distribution-related costs, including operating expenses and investment costs in plant and other regulatory assets. See "*Most Recent Completed Rate Cases*" below.

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

OTHER. In June 2018, NWN Gas Storage, a wholly-owned subsidiary of NW Holdings, entered into a Purchase and Sale Agreement for the sale of all of its ownership interests in Gill Ranch, a natural gas storage facility located near Fresno, California. The sale closed on December 4, 2020. See Note 19 for more information. 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, Idaho, and Texas.

Most Recent Completed Rate Cases

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

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

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

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

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

From November 1, 2018 through October 31, 2020, the OPUC authorized rates to customers based on an ROE of 9.4%, an overall rate of return of 7.317%, and a capital structure of 50% common equity and 50% long-term debt. In March 2019, the OPUC issued an order resolving the remaining matters of the rate case regarding recovery of NW Natural's pension balancing account and the return of tax reform benefits to customers. For additional information, see "Rate Mechanisms - *Pension Cost Deferral and Pension Balancing Account*" and "Rate Mechanisms - *Tax Reform Deferral*" below.

WASHINGTON. Effective November 1, 2019, the WUTC authorized rates to customers based on an ROE of 9.4% and an overall rate of return of 7.161% with a capital structure of 50.0% long-term debt, 1.0% short-term debt, and 49.0% common equity. The WUTC also authorized the recovery of environmental remediation expenses allocable to Washington customers through an Environmental Cost Recovery Mechanism (ECRM) and directed NW Natural to provide federal tax reform benefits to customers. See "Rate Mechanisms - Environmental Cost Deferral and Recovery - *Washington ECRM*" and "Rate Mechanisms -*Tax Reform Deferral*" below.

From January 1, 2009, through October 31, 2019, the WUTC authorized rates to customers based on an ROE of 10.1% and an overall rate of return of 8.4% with a capital structure of 51% common equity, 5% short-term debt, and 44% long-term debt.

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

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

Regulatory Proceeding Updates

2021 WASHINGTON RATE CASE. On December 18, 2020, NW Natural filed a request for a general rate increase with the WUTC. The filing includes a requested increase in annual revenue requirements over two years, consisting of an 8.0% or $6.3 million increase in the first year beginning November 1, 2021 (Year One), and a 3.7% or $3.2 million increase in the second year beginning November 1, 2022 (Year Two). NW Natural is also requesting a $2.2 million, or 3%, offset to rates in the first year via suspension of amortization of a regulatory asset associated with NW Natural's energy efficiency programs and via application of proceeds from the sale of real property in Portland, Oregon, which would reduce the Year One rate increase to approximately 5%.

The requested increase is intended to recover operating costs and investments made in the distribution system, underground storage facility, operations facilities, including improvements to the resource facility in Vancouver, Washington, and upgrades of critical information technology, including NW Natural's enterprise resource planning system, and is based upon the following assumptions or requests:

- Capital structure of 50% long-term debt, 1% short-term debt, and 49% common equity;
- Return on equity of 9.4%
- Cost of capital of 6.913%; 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.

NW Natural's filing will be reviewed by the WUTC and other stakeholders. The process is anticipated to take up to 11 months. NW Natural has requested that the new rates take effect November 1, 2021.

2020 OREGON & WASHINGTON DEFERRAL. In December 2020, a vehicle crashed into a Williams NW Pipeline district regulator, causing more than 5,500 NW Natural customers in the Hood River, Oregon area and White Salmon, Washington area to lose natural gas service. NW Natural recorded a regulatory asset of approximately $0.8 million for costs incurred to restore service. NW Natural filed requests for deferrals with the OPUC and WUTC and plans to seek recovery of these costs in future ratemaking proceedings.

Rate Mechanisms

During 2020 and 2019, NW Natural's key approved rates and recovery mechanisms for each service area included:

	Oregon		Washington	
	2018 Rate Case	2020 Rate Case (effective 11/1/2020)	2009 Rate Case	2019 Rate Case (effective 11/1/2019)
Authorized Rate Structure:				
ROE	9.4%	9.4%	10.1%	9.4%
ROR	7.3%	7.0%	8.4%	7.2%
Debt/Equity Ratio	50%/50%	50%/50%	49%/51%	51%/49%
Key Regulatory Mechanisms:				
Purchased Gas Adjustment (PGA)	X	X	X	X
Gas Cost Incentive Sharing	X	X		
Decoupling	X	X		
Weather Normalization (WARM)	X	X		
Environmental Cost Recovery	X	X		X
Interstate Storage and Asset Management Sharing	X	X	X	X

Annually, or more often if circumstances warrant, NW Natural reviews all regulatory assets for recoverability. If NW Natural should determine all or a portion of these regulatory assets no longer meet the criteria for continued application of regulatory accounting, then NW Natural would be required to write-off the net unrecoverable balances against earnings in the period such a determination was made.

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

Each year, NW Natural hedges gas prices on a portion of NW Natural's annual sales requirement based on normal weather, including both physical and financial hedges. NW Natural entered the 2020-21 gas year with its forecasted sales volumes hedged at 53% in financial swap and option contracts, including hedging of 56% in Oregon and 28% in Washington, and 17% in physical gas supplies, including hedging of 18% in Oregon and 13% in Washington. The percentage of total hedged for Oregon was approximately 74% and approximately 41% for Washington.

NW Natural is also hedged between 1% and 43% for annual requirements over the subsequent five gas years, which consists of between 1% and 41% in Oregon and between 0% and 58% in Washington. Hedge levels are subject to change based on actual load volumes, which depend to a certain extent on weather, economic conditions, and estimated gas reserve production. Also, gas storage inventory levels may increase or decrease with storage expansion, changes in storage contracts with third parties, variations in the heat content of the gas, and/or storage recall by NW Natural.

In September 2020, NW Natural filed its annual PGA and received OPUC and WUTC approval in October 2020. PGA rate changes were effective November 1, 2020. Rates and hedging approaches may vary between states due to different rate structures and mechanisms.

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 2019-20 and 2020-21 gas years, NW Natural selected the 90% deferral option. Under the Washington PGA mechanism, NW Natural defers 100% of the higher or lower actual gas costs, and those gas cost differences are passed on to customers through the annual PGA rate adjustment.

EARNINGS TEST REVIEW. NW Natural is subject to an annual earnings review in Oregon to determine if the NGD business is earning above its authorized ROE threshold. If NGD business earnings exceed a specific ROE level, then 33% of the amount above that level is required to be deferred or refunded to customers. Under this provision, if NW Natural selects the 80% deferral gas cost option, then NW Natural retains all earnings up to 150 basis points above the currently authorized ROE. If NW Natural selects the 90% deferral option, then it retains all earnings up to 100 basis points above the currently authorized ROE. For the 2019-20 and 2020-21 gas years, NW Natural selected the 90% deferral option. The ROE threshold is subject to adjustment annually based on movements in long-term interest rates. For calendar years 2018, 2019, and 2020, the ROE threshold was 10.48%, 10.24%, and 10.40%, respectively. There were no refunds required for 2018 and 2019. NW Natural does not expect a refund for 2020 based on results, and anticipates filing its 2020 earnings test in May 2021.

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

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

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

WARM. In Oregon, NW Natural has an approved weather normalization mechanism, which is applied to residential and small commercial customer bills. This mechanism is designed to help stabilize the collection of fixed costs by adjusting residential and small commercial customer billings based on temperature variances from average weather, with rate decreases when the weather is colder than average and rate increases when the weather is warmer than average. The mechanism is applied to bills from December through mid-May of each heating season. The mechanism adjusts the margin component of customers' rates to reflect average weather, which uses the 25-year average temperature for each day of the billing period. Daily average temperatures and 25-year average temperatures are based on a set point temperature of 59 degrees Fahrenheit for residential customers and 58 degrees Fahrenheit for commercial customers. The collections of any unbilled WARM amounts due to tariff caps and floors are deferred and earn a carrying charge until collected, or returned, in the PGA the following year. Residential and small commercial customers in Oregon are allowed to opt out of the weather normalization mechanism, and as of December 31, 2020, 8% of total eligible customers had opted out. NW Natural does not have a weather normalization mechanism approved for Washington customers, which account for about 12% of total customers. See "Business Segment—*Natural Gas Distribution*" below.

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

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

Oregon SRRM

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

- Pre-review - This class of costs represents remediation spend that has not yet been deemed prudent by the OPUC. Carrying costs on these remediation expenses are recorded at NW Natural's authorized cost of capital. NW Natural anticipates the prudence review for annual costs and approval of the earnings test prescribed by the OPUC to occur by the third quarter of the following year.

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

In addition, the SRRM also provides for the annual collection of $5.0 million from Oregon customers through a tariff rider. As it collects amounts from customers, NW Natural recognizes these collections as revenue net of any earnings test adjustments and separately amortizes an equal and offsetting amount of the deferred regulatory asset balance through the environmental remediation operating expense line shown separately in the operating expenses section of the Consolidated Statements of Comprehensive Income (Loss). See Note 18 for more information on our environmental matters.

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.
For 2020, NW Natural has performed this test, which is anticipated to be submitted to the OPUC in May 2021. No earnings test adjustment is expected for 2020.

Washington ECRM
The ECRM established by the WUTC order effective November 1, 2019 permits NW Natural's recovery of environmental remediation expenses allocable to Washington customers. These expenses represent 3.32% of costs associated with remediation of sites that historically served both Oregon and Washington customers. The order allows for recovery of past deferred and future prudently incurred remediation costs allocable to Washington through application of insurance proceeds and collections from customers. Prudently incurred costs that were deferred from the initial deferral authorization in February 2011 through June 2019 are to be fully offset with insurance proceeds, with any remaining insurance proceeds to be amortized over a 10.5 year period. On an annual basis, NW Natural will file for a prudence determination and a request to recover remediation expenditures in excess of insurance amortizations in the following year's customer rates. After insurance proceeds are fully amortized, if in a particular year the request to collect deferred amounts exceeds one percent of Washington normalized revenues, then the excess will be collected over three years with interest. On October 29, 2020, NW Natural's first environmental cost recovery filing was approved by the WUTC covering the period from December 31, 2018 to December 31, 2019.

PENSION COST DEFERRAL AND PENSION BALANCING ACCOUNT. From 2011 through October 2018, the OPUC authorized a regulatory mechanism in which NW Natural deferred annual pension expenses above the amount set in rates, with recovery of these deferred amounts through the implementation of a balancing account, which included the expectation of higher and lower pension expenses in future years. During this period the mechanism permitted NW Natural to accrue interest on the account balance at the NGD business' authorized rate of return. The OPUC ordered the freezing of the account in October 2018 with pension expenses to be recovered through rates beginning November 1, 2018.

In March 2019, the OPUC issued an order outlining how the account would be recovered. As a result, the following items were recorded in the first quarter of 2019:

- Applied $7.1 million of TCJA benefits deferred from January 1, 2018 to October 31, 2018, as a reduction against the pension balancing account;
- Credited to customers' benefit $5.4 million of deferred income taxes as a reduction against the pension balancing account;
- Reduced the amount of the frozen balancing account by an additional $10.5 million; and
- Reduced the interest rate on the pension balancing account from NW Natural's authorized rate of return of 7.317% to 4.3%.

The items above resulted in the recovery of $12.5 million of deferred pension expenses by applying deferred tax benefits against the pension balancing account. Recognition of these items resulted in higher operations and maintenance expense and other income (expense), net with offsetting benefits recognized in operating revenues and income tax expense. Additional pension expenses of $10.5 million from the regulatory disallowance were also recognized in operations and maintenance expense and other income (expense), net. Deferred regulatory interest income of $3.8 million was also realized in other income (expense), net in 2019.

Commencing April 1, 2019, the OPUC also authorized the collection of the remainder of the pension balancing account over ten years in a customer tariff of $7.3 million per year. Deferred pension expense recoveries, inclusive of the application of the TCJA benefits described above, were $7.1 million and $16.8 million in 2020 and 2019, respectively. Pension expense deferrals, excluding interest, were $10.3 million in 2018.

TAX REFORM DEFERRAL. In December 2017, NW Natural filed applications with the OPUC and WUTC to defer the overall net benefit associated with the TCJA that was enacted on December 22, 2017. In February 2019, NW Natural and the other parties to the 2018 Oregon rate case agreed upon terms by which the deferred benefits would be returned to customers via a joint stipulation filed with the OPUC. In March 2019, the OPUC approved the terms in their entirety as follows:

- Applied $7.1 million of TCJA benefits deferred from January 1, 2018 to October 31, 2018, as a reduction against the pension balancing account; and
- Credited to customers' benefit $5.4 million of deferred income taxes as a reduction against the pension balancing account;

Commencing April 1, 2019, the OPUC also ordered the following:

- Provide an annual credit to base rates of $3.4 million for excess deferred income taxes to all customers, subject to the average rate assumption method;
- Provide an additional annual credit of $3.0 million to sales service customers for five years; and
- An increase in rate base of $15.4 million, and corresponding increase to revenue requirement of $1.4 million.

If NW Natural files a general rate case within five years of the date of the March 2019 order, this revenue requirement may be adjusted as part of that general rate case. On December 30, 2019, NW Natural filed a general rate case with the OPUC, which is within five years from the date of the March 2019 order and the order in that rate case adjusted this revenue requirement. For more information, see "*Most Recent Completed General Rate Cases*" above.

On October 21, 2019 the WUTC issued an order dictating the means by which deferred tax reform benefits would be returned to customers beginning November 1, 2019. The order directs NW Natural to provide customers with a rate reduction of $2.1 million over one year to reflect the benefit of the lower federal corporate income tax rate accumulating from January 1, 2018 through October 31, 2019, and provides an additional annual rate reduction initially set at approximately $0.5 million to reflect a benefit from the remeasurement of deferred tax liabilities of approximately $15.0 million.

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

The following table presents the credits to NGD customers:

In millions	2020	2019	2018
Oregon	$ 17.0	$ 16.3	$ 11.7
Washington	$ 0.7	$ 1.2	$ 1.0

HOLDING COMPANY REORGANIZATION. On October 1, 2018, we completed the reorganization to a holding company structure. There were a number of conditions under the agreement with the OPUC and the WUTC related to the formation of a holding company structure. One of the conditions is that, for three years following formation of the holding company, NW Natural was required to provide an annual $500,000 credit to Oregon customers and a $55,000 credit to Washington customers. The credits to both Oregon and Washington customers were given in conjunction with the respective PGA filings with the rate adjustments commencing on November 1 of the applicable PGA year.

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

Additionally, both Oregon and Washington approved our applications to defer certain COVID-19 related costs in 2020.
Costs that may be recoverable include, but are not limited to, the following: personal protective equipment, cleaning supplies and services, bad debt expense, financing costs to secure liquidity, and certain lost revenue, net of offsetting direct expense reductions associated with COVID-19. As of December 31, 2020, we estimated that approximately $6.1 million of the financial effects related to COVID-19 in 2020 could be recoverable. As a result, we recorded a regulatory asset of approximately $4.8 million for incurred costs as of December 31, 2020. In addition, we expect to recognize revenue in a future period for an additional $1.3 million related to forgone late fee revenue.

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

	Oregon	Washington
Reinstituting Disconnections for Nonpayment:		
Residential	June 30, 2021 *	July 31, 2021 *
Small Commercial	December 1, 2020	July 31, 2021 *
Large Commercial/Industrial	November 3, 2020	October 20, 2020
Resuming Residential Reconnection Fee Charges	October 1, 2022 *	January 27, 2022 *
Reinstituting Late Fees for Nonpayment:		
Residential	October 1, 2022 *	January 27, 2022 *
Small Commercial	December 1, 2020	January 27, 2022 *
Large Commercial/Industrial	November 3, 2020	October 20, 2020
Extended Time Payment Arrangements:		
Residential	Up to 24 months	Up to 18 months
Small Commercial	Up to 6 months	Up to 12 months
Arrearage Forgiveness Program	1% of Retail Revenue	1% of Retail Revenue

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

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

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

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

In its initial RNG contract under SB98, NW Natural began a partnership with BioCarbN, a developer and operator of sustainable infrastructure projects, to convert methane into RNG. Under this partnership, NW Natural has the ability to invest up to an estimated $38 million in four separate RNG development projects that will access biogas derived from water treatment at Tyson Foods' processing plants, subject to approval by all parties. In December 2020, NW Natural exercised its option for the first development project in Nebraska, initiating investment in an estimated $8 million project, which is expected to begin producing RNG in late 2021.

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

Beginning on the November 1, 2020 rate effective date, NW Natural expects to recover an additional $3.15 million in revenue requirement for the CAT. The Order also provides for certain adjustments if there are legislative, rulemaking, judicial, or policy decisions that would cause the calculation methodology used by NW Natural for the CAT to vary in a fundamental way. Additionally, the CAT deferred from January 2020 through June 2020 will be added to and amortized over the 2020-21 PGA gas year, and the CAT amounts deferred from July 2020 through the effective date of the rate case will be amortized over the 2021-22 PGA year.

WATER UTILITIES. In 2020, NW Holdings, through its water subsidiaries, continued acquiring water utilities. The following notable transactions received regulatory approval and were closed during 2020:

- **Suncadia Water Company, LLC and Suncadia Environmental, LLC** — NWN Water of Washington received regulatory approval for the purchase of Suncadia Water in January 2020. Suncadia Environmental is not currently subject to the WUTC's jurisdiction. The transaction closed in January 2020.
- **T&W Water Service Company** — NWN Water of Texas received regulatory approval from the Public Utility Commission of Texas for the T&W Water Service Company acquisition in February 2020 and subsequently the transaction closed in March 2020.

In addition to the acquisitions above, we closed three acquisitions near existing water utilities during 2020. While COVID-19 has restricted certain activities, we continue to pursue water acquisitions and expect to return to normal business development activities as the pandemic eases and travel and commerce return to previous levels. For our acquired water utilities, we've begun to assess the need for general rate cases, and in 2020, we filed general rate cases for three water utilities to support infrastructure investments for safety and reliability.

OREGON EXECUTIVE ORDER. On March 10, 2020, the governor of Oregon issued an executive order (EO) establishing GHG emissions reduction goals of at least 45% below 1990 emission levels by 2035 and at least 80% below 1990 emission levels by 2050 and directed state agencies and commissions to facilitate such GHG emission goals targeting a variety of sources and industries. Although the EO does not specifically direct actions of natural gas distribution businesses, the OPUC is directed to prioritize proceedings and activities that advance decarbonization in the utility sector, mitigate energy burden experienced by utility customers and ensure system reliability and resource adequacy. The EO also directs other agencies 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. These agencies and commissions are currently engaged in various stages of their rulemaking processes and are currently expected to complete those processes in the next 12 to 24 months. NW Natural is actively engaged with Oregon state regulatory entities and holds a seat on the Oregon Department of Environmental Quality rules advisory committee, which is considering the cap and reduce rules.

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

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

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. Residential and commercial customers in Oregon are allowed to opt out of the weather normalization mechanism, and as of December 31, 2020, approximately 8% of total eligible customers had opted out. NW Natural does not have a weather normalization mechanism approved for Washington customers, which account for about 12% of total customers. The decoupling and WARM mechanisms are designed to reduce, but not eliminate, the volatility of customer bills and natural gas distribution earnings. See "Regulatory Matters—*Rate Mechanisms*" above.

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:

Dollars and therms in millions, except EPS data		2020		2019		2018
NGD net income	$	63.6	$	60.8	$	57.5
EPS - NGD segment	$	2.08	$	2.04	$	1.99
Gas sold and delivered (in therms)		1,143		1,215		1,128
NGD margin[1]	$	438.1	$	422.7	$	383.7

[1] See Natural Gas Distribution Margin Table below for additional detail.

2020 COMPARED TO 2019. NGD net income was $63.6 million in 2020 compared to $60.8 million in 2019. The primary factors contributing to the increase in NGD net income were as follows:

- a $15.4 million increase in NGD margin primarily due to:
  - a $17.7 million increase due to new customer rates from the 2020 Oregon and 2019 Washington rate cases;
  - a $7.6 million increase from revenue generated from NW Natural's North Mist storage contract which commenced service in May 2019 and is included within other regulated services within NGD margin; and
  - a $3.9 million increase from customer growth; partially offset by
  - a $7.1 million decrease due to revenue recognized in 2019 as part of the settlement and recovery of NW Natural's pension balancing account, which was entirely offset by pension expenses within operations and maintenance expense and other income (expense), net, and which did not recur in 2020;
  - a $4.0 million decrease primarily due to lower overrun and entitlement fees;
  - a $2.7 million decrease driven by warmer than average weather in 2020 compared average weather in 2019; and
  - a $1.3 million decrease related to the temporary suspension of late fees during the COVID-19 pandemic.

In addition to the increase in margin, NGD net income for 2020 reflects:

- a benefit of $12.5 million from pension expenses recognized in 2019 associated with recoveries of NW Natural's pension balancing account which did not recur in 2020. Approximately $4.6 million was recorded in operations and maintenance expense and $7.9 million was recorded in other income (expense), net; and
- a benefit of $10.5 million from a 2019 regulatory pension disallowance which did not recur in 2020. Approximately $3.9 million was recorded in operations and maintenance expense and $6.6 million was recorded in other income (expense), net.

The increases in net income above are partially offset by the following:

- an $8.2 million increase in operations and maintenance expense related to higher compensation costs, contractor expenses, and moving and lease costs for a new headquarters and operations center;
- a $13.8 million increase in depreciation and general tax expenses due to NGD plant additions, including the North Mist gas storage facility;
- a $7.3 million decrease in other income (expense), net primarily related to interest income recognized in 2019 associated with the 2019 recoveries of the pension balancing account and ongoing regulatory amortization of the remaining pension balancing account deferral, which began in April 2019; and
- a $6.9 million higher income tax reflecting a non-recurring tax benefit associated with the March 2019 Oregon order, partially offset by the ongoing amortization of TCJA benefits.

Total natural gas sold and delivered in 2020 decreased 6% over 2019 primarily due to the impact of weather that was 12% warmer than average in 2020 compared to weather that was average in 2019.

2019 COMPARED TO 2018. NGD net income was $60.8 million in 2019 compared to $57.5 million in 2018. The primary factors contributing to the increase in NGD net income were as follows:

- a $39.0 million increase in NGD margin primarily due to:
  - a $16.2 million increase due to new customer rates from the 2018 Oregon rate case and 2019 Washington rate case;
  - a $6.1 million increase from customer growth;
  - an $11.8 million increase from revenue generated from NW Natural's North Mist storage contract which commenced service in May 2019 and is included within other regulated services within NGD margin;
  - a $7.1 million increase due to revenues recognized in association with recoveries of NW Natural's pension balancing account, which are entirely offset by pension expenses within operations and maintenance and other income (expense), net; and
  - a $3.7 million increase driven by colder than average weather in the first quarter of 2019 coupled with higher fee revenues from interruptible customers as a result of system restrictions; partially offset by
  - a $3.2 million decrease due to an adjustment to the tax reform deferral estimate in 2018; and
  - a $1.5 million decrease due to a regulatory disallowance of deferred environmental expenditures as a result of the 2019 Washington rate case.
- a $9.4 million decrease in income tax expense primarily due to the income tax implications of the March 2019 OPUC order, of which $5.4 million was offset by pension expenses as discussed above, with the remainder driven by the return of deferred TCJA benefit credits to customers and lower pretax income in 2019 compared to 2018; and
- a $5.8 million increase in deferred regulatory interest income in other income (expense), net, of which $5.1 million relates to interest recognized in association with the OPUC order discussed above.

The increases were partially offset by:

- a $34.4 million increase in pension costs within operations and maintenance expense and other income (expense), net, of which $12.5 million relates to costs which were entirely offset by revenues and income tax benefits in the March 2019 OPUC order, and $10.5 million relates to the regulatory pension disallowance included in the March 2019 OPUC order. In addition, there was a $11.4 million increase in pension expenses as NW Natural began collecting ongoing pension costs through customer rates on November 1, 2018 and began collecting deferred pension costs through customer rates on April 1, 2019 rather than deferring a portion to the balancing account;
- a $5.7 million increase in depreciation expense due to NGD plant additions;
- a $4.6 million increase in interest expense driven by $2.3 million higher interest on long term debt, $1.2 million lower AFUDC debt interest income, and $0.9 million higher commercial paper and line of credit interest;
- a $3.3 million decrease in AFUDC equity interest; and
- a $2.9 million increase in NGD segment operations and maintenance expenses primarily attributable to annual employee cost increases.

Total natural gas sold and delivered in 2019 increased 8% over 2018 primarily due to the impact of weather that was average in 2019 compared to weather that was 15% warmer than average in 2018.

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

In thousands, except degree day and customer data	2020	2019	2018	Favorable (Unfavorable) 2020 vs. 2019	Favorable (Unfavorable) 2019 vs. 2018
NGD volumes (therms):					
Residential and commercial sales	677,271	734,347	661,163	(57,076)	73,184
Industrial sales and transportation	465,626	480,807	467,040	(15,181)	13,767
Total NGD volumes sold and delivered	1,142,897	1,215,154	1,128,203	(72,257)	86,951
Operating revenues:					
Residential and commercial sales	$ 661,346	$ 638,884	$ 621,782	$ 22,462	$ 17,102
Industrial sales and transportation	58,678	56,553	58,713	2,125	(2,160)
Other distribution revenues	1,926	13,035	(109)	(11,109)	13,144
Other regulated services	19,122	12,056	262	7,066	11,794
Total operating revenues	741,072	720,528	680,648	20,544	39,880
Less: Cost of gas	262,980	255,135	255,743	(7,845)	608
Less: Environmental remediation expense	9,691	12,337	11,127	2,646	(1,210)
Less: Revenue taxes	30,291	30,325	30,082	34	(243)
NGD margin	$ 438,110	$ 422,731	$ 383,696	$ 15,379	$ 39,035
Margin[1]					
Residential and commercial sales	$ 385,989	$ 366,974	$ 352,710	$ 19,015	$ 14,264
Industrial sales and transportation	30,800	31,985	30,817	(1,185)	1,168
Miscellaneous revenues	1,709	4,671	5,542	(2,962)	(871)
Gain (loss) from gas cost incentive sharing	267	(1,299)	(27)	1,566	(1,272)
Other margin adjustments[2]	229	8,350	(5,608)	(8,121)	13,958
Distribution margin	$ 418,994	$ 410,681	$ 383,434	$ 8,313	$ 27,247
Other regulated services	19,116	12,050	262	7,066	11,788
NGD margin	$ 438,110	$ 422,731	$ 383,696	$ 15,379	$ 39,035
Degree days[3]					
Average[4]	2,706	2,710	2,714	(4)	(4)
Actual	2,384	2,709	2,313	(12)%	17 %
Percent warmer than average weather	(12)%	— %	(15)%		
NGD Meters - end of period:					
Residential meters	704,675	692,012	680,134	12,663	11,878
Commercial meters	68,812	69,858	69,259	(1,046)	599
Industrial meters	989	1,007	1,028	(18)	(21)
Total number of meters	774,476	762,877	750,421	11,599	12,456
NGD Meter growth:					
Residential meters	1.8 %	1.7 %			
Commercial meters	(1.5)%	0.9 %			
Industrial meters	(1.8)%	(2.0)%			
Total meter growth	1.5 %	1.7 %			

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

(2) Other margin adjustments include net revenue recoveries of $6.2 million and revenue deferrals of $7.9 million for the years ended December 31, 2019 and 2018, respectively, associated with the decline of the U.S. federal corporate income tax rate.

(3) 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.

(4) Average weather represents the 25-year average of heating degree days. Beginning November 1, 2020, average weather is calculated over the period June 1, 1994 through May 31, 2019, as determined in NW Natural's 2020 Oregon general rate case. From November 1, 2018 through October 31, 2020, average weather was calculated over the period May 31, 1992 through May 30, 2017, as determined in NW Natural's 2018 Oregon general rate case. Prior to November 1, 2018, average weather was calculated over the period 1986 - 2010, as determined in NW Natural's 2012 Oregon general rate case.

Residential and Commercial Sales

The primary factors that impact results of operations in the residential and commercial markets are customer growth, seasonal weather patterns, energy prices, competition from other energy sources, and economic conditions in our service areas. The impact of weather on margin is significantly reduced through NW Natural's weather normalization mechanism in Oregon; approximately 82% of NW Natural's total customers are covered under this mechanism. The remaining customers either opt out of the mechanism or are located in Washington, which does not have a similar mechanism in place. For more information on the weather mechanism, see "Regulatory Matters—Rate Mechanisms—*Weather Normalization Mechanism*" above.

NGD residential and commercial sales highlights include:

In millions	2020	2019	2018
Volumes (therms):			
Residential sales	435.2	457.2	411.7
Commercial sales	242.1	277.1	249.5
Total volumes	677.3	734.3	661.2
Operating revenues:			
Residential sales	$ 460.3	$ 437.7	$ 418.4
Commercial sales	201.0	201.2	203.3
Total operating revenues	$ 661.3	$ 638.9	$ 621.7
Margin:			
Residential:			
Sales	$ 274.9	$ 272.3	$ 240.0
Alternative revenues:			
Weather normalization	9.0	(1.8)	7.6
Decoupling	(6.1)	(6.6)	(0.6)
Amortization of alternative revenue	3.3	2.0	1.9
Total residential NGD margin	281.1	265.9	248.9
Commercial:			
Sales	100.2	115.8	103.7
Alternative revenues:			
Weather normalization	2.7	(0.7)	2.4
Decoupling	1.1	(5.2)	7.3
Amortization of alternative revenue	0.9	(8.8)	(9.6)
Total commercial NGD margin	104.9	101.1	103.8
Total residential and commercial NGD margin	$ 386.0	$ 367.0	$ 352.7

2020 COMPARED TO 2019. The increases of $22.4 million in operating revenue and $19.0 million in total residential and commercial NGD margin were primarily the result of new customer rates resulting from the Oregon and Washington rate cases and customer growth. Sales volume decreased 57.0 million therms, or 8%, primarily due to warmer than average weather in 2020 compared to average weather in 2019 and lower usage from commercial customers related to the pandemic, partially offset by residential customer growth.

2019 COMPARED TO 2018. The increases of $17.2 million in operating revenue and $14.3 million in total residential and commercial NGD margin were primarily driven by new customer rates from the 2018 Oregon rate case and 2019 Washington rate case as well as sales volume increases of 73.1 million therms, or 11%, due to customer growth and average weather in 2019 compared to warmer than average weather in 2018.

Industrial Sales and Transportation

Industrial customers have the option of purchasing sales or transportation services. Under the sales service, the customer buys the gas commodity from NW Natural. Under the transportation service, the customer buys the gas commodity directly from a third-party gas marketer or supplier. The NGD gas commodity cost is primarily a pass-through cost to customers; therefore, NGD profit margins are not materially affected by an industrial customer's decision to purchase gas from third parties. Industrial and large commercial customers may also select between firm and interruptible service options, with firm services generally providing higher profit margins compared to interruptible services. To help manage gas supplies, industrial tariffs are designed to provide some certainty regarding industrial customers' volumes by requiring an annual service election which becomes effective November 1, special charges for changes between elections, and in some cases, a minimum or maximum volume requirement before changing options.

NGD industrial sales and transportation highlights include:

In millions	2020	2019	2018
Volumes (therms):			
Industrial - firm sales	34.3	36.6	35.3
Industrial - firm transportation	162.3	175.7	162.7
Industrial - interruptible sales	48.6	47.4	50.6
Industrial - interruptible transportation	220.4	221.1	218.4
Total volumes	465.6	480.8	467.0
Margin:			
Industrial - sales and transportation	$ 30.8	$ 32.0	$ 30.8

2020 COMPARED TO 2019. NGD volumes decreased by 15.2 million therms, or 3%, and margin decreased by $1.2 million primarily due to lower usage from a small number of industrial customers.

2019 COMPARED TO 2018. Industrial sales and transportation volumes increased by 13.8 million therms and NGD margin increased $1.2 million due to an increase in manufacturing activity in NW Natural's service territory. The increase was partially offset by a reduction in customer count, which was driven by customer elections to switch from industrial to commercial rate schedules.

Miscellaneous Revenues

Margin from miscellaneous revenues includes fee income as well as regulatory revenue adjustments, which reflect current period deferrals to and prior year amortizations from regulatory asset and liability accounts, except for gas cost deferrals which flow through cost of gas. Decoupling and other regulatory amortizations from prior year deferrals are included in revenues from residential, commercial, and industrial firm customers.

Margin from NGD miscellaneous revenues highlights include:

In millions	2020	2019	2018
Other revenues	$ 1.7	$ 4.7	$ 5.5

2020 COMPARED TO 2019. Margin from miscellaneous revenues decreased due to lower entitlement and curtailment revenues in 2020 as 2019 included higher fee revenue related to a rupture in a critical natural gas pipeline in western Canada in 2018 that disrupted gas supply to the Pacific Northwest. In addition, margin from miscellaneous revenues was negatively impacted by the moratorium on charging late or reconnection fees during the pandemic in 2020.

2019 COMPARED TO 2018. Margin from miscellaneous revenues remained flat due to continued entitlement and curtailment revenue in first quarter of 2019 related to the October 2018 Canadian pipeline event.

Other Regulated Services

Other Regulated Services primarily consist of lease revenues from NW Natural's North Mist storage facility as well as other lease revenues for compressed natural gas assets.

Other regulated services revenue highlights include:

In millions	2020	2019	2018
North Mist storage services	$ 19.5	$ 11.8	$ —
Other services	(0.4)	0.3	0.3
Total other regulated services	$ 19.1	$ 12.1	$ 0.3

2020 COMPARED TO 2019. Other regulated services margin increased $7.0 million due to the commencement of storage services at the North Mist expansion facility in May 2019. See Note 7 for more information regarding North Mist expansion lease accounting.

2019 COMPARED TO 2018. Other regulated services margin increased $11.8 million due to the commencement of storage services at the North Mist expansion facility in May 2019.

Cost of Gas

Cost of gas as reported by the NGD segment includes gas purchases, gas withdrawn from storage inventory, gains and losses from commodity hedges, pipeline demand costs, seasonal demand cost balancing adjustments, regulatory gas cost deferrals, gas reserves costs, and company gas use. The OPUC and WUTC generally require natural gas commodity costs to be billed to customers at the actual cost incurred, or expected to be incurred. Customer rates are set each year so that if cost estimates were met the NGD business would not earn a profit or incur a loss on gas commodity purchases; however, in Oregon we have the incentive sharing mechanism described under "Regulatory Matters—Rate Mechanisms—*Purchased Gas Adjustment*" above. In addition to the PGA incentive sharing mechanism, gains and losses from hedge contracts entered into after annual PGA rates are effective for Oregon customers are also required to be shared and therefore may impact net income. Further, NW Natural also has a regulatory agreement whereby it earns a rate of return on its investment in the gas reserves acquired under the original agreement with Encana and includes gas from the amended gas reserves agreement at a fixed rate of $0.4725 per therm, which are also reflected in NGD margin. See "Application of Critical Accounting Policies and Estimates—*Accounting for Derivative Instruments and Hedging Activities*" below.

Cost of gas highlights include:

In millions except where indicated		2020		2019		2018
Cost of gas	$	263.0	$	255.1	$	255.7
Volumes sold (therms)		760		818		747
Average cost of gas (cents per therm)	$	0.35	$	0.31	$	0.34
Gain (loss) from gas cost incentive sharing	$	0.3	$	(1.3)	$	—

2020 COMPARED TO 2019. Cost of gas increased by $7.9 million, or 3%, primarily due to a 13% increase in average cost of gas consistent with higher gas costs in the PGA; partially offset by a 7% decrease in volumes sold driven primarily by 12% warmer than average weather during 2020 as compared to average weather in 2019.

2019 COMPARED TO 2018. Cost of gas was flat compared to 2018, primarily due to the 10% increase in volumes sold driven by average weather in 2019 compared to warmer than average weather in 2018 and customer growth, primarily offset by a three cent decrease in the average cost of gas.

The effect on net income from NW Natural's Oregon gas cost incentive sharing mechanism resulted in a margin gain of $0.3 million in 2020 compared to margin loss of $1.3 million in 2019 and a slight margin loss in 2018. In 2020, actual prices were lower than the estimated prices included in customer rates during the period. In 2019, actual gas prices were higher than those included in rates during the period. In 2018, actual prices closely aligned with estimated prices included in customer rates. For a discussion of the gas cost incentive sharing mechanism, see "Regulatory Matters—Rate Mechanisms—*Purchased Gas Adjustment*" above.

Other

Other activities aggregated and reported as other at NW Holdings include NWN Energy's equity investment in Trail West Holdings, LLC (TWH); NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); and NWN Water, which owns and continues to pursue investments in the water sector. 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.

On August 6, 2020, NWN Energy completed the sale to an unrelated third party of its interest in TWH. See Note 14 for further details.

At Mist, NW Natural provides gas storage services to customers in the interstate and intrastate markets using storage capacity that has been developed in advance of NGD customers' requirements. Pre-tax income from gas storage at Mist and asset management services is subject to revenue sharing with NGD customers.

Under this regulatory incentive sharing mechanism, NW Natural retains 80% of pre-tax income from Mist gas storage services and asset management services when the underlying costs of the capacity being used are not included in NGD business rates. The remaining 20% is credited to a deferred regulatory account for credit to NGD customers.

Through October 2018, when the capacity used was included in NGD rates, NW Natural retained 33% of pre-tax income with the remaining 67% credited to a deferred regulatory account for credit to NGD customers. In conjunction with the Oregon rate case, effective November 2018, NW Natural retains 10% of pre-tax income from such storage and asset management services and 90% is credited to NGD business customers.

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

In millions, except EPS data		2020		2019		2018
NW Natural other - net income	$	7.0	$	8.1	$	10.6
Other NW Holdings activity		(0.3)		(3.6)		(0.8)
NW Holdings other - net income	$	6.7	$	4.5	$	9.8
EPS - NW Holdings - other	$	0.22	$	0.15	$	0.34

The significant drivers of changes in other net income discussed below apply to both NW Holdings and NW Natural.

2020 COMPARED TO 2019. Other net income increased $2.2 million and decreased $1.1 million at NW Holdings and NW Natural, respectively. The decrease at NW Natural was primarily due to lower earnings from non-NGD gas storage operations at Mist as a result of less favorable market conditions. The increase at NW Holdings was driven by higher earnings from water and wastewater utilities and lower expenses at the holding company, partially offset by the decline in other for NW Natural.

2019 COMPARED TO 2018. Other net income decreased $5.3 million and $2.5 million at NW Holdings and NW Natural, respectively. The decrease at NW Natural was primarily driven by lower asset management revenues and increased asset management revenue sharing with Oregon customers as a result of the 2018 Oregon rate case. The decrease from other NW Holdings activity was driven by increases in professional service costs and expenses associated with developing the water business.

Consolidated Operations

Operations and Maintenance

Operations and maintenance highlights include:

In millions		2020		2019		2018
NW Natural	$	168.9	$	169.1	$	155.2
Other NW Holdings operations and maintenance		11.2		9.1		1.5
NW Holdings	$	180.1	$	178.2	$	156.7

2020 COMPARED TO 2019. Operations and maintenance expense decreased $0.2 million for NW Natural primarily due to the following:

- a $7.4 million decrease reflecting pension expense (service cost component) recognized as part of the recovery of NW Natural's pension balancing account settlement in the Oregon rate case, which did not recur in 2020 as discussed below; and
- a $0.6 million decrease in workers compensation expense as a result of fewer claims in 2020; partially offset by
- a $4.5 million increase in contractor and professional service expenses, and moving costs, as we moved to a new headquarters and operations center;
- a $1.6 million increase related to higher compensation costs attributable to annual employee cost increases; and
- a $1.4 million increase due to higher lease expense for the new headquarters and operations center.

Operations and maintenance expense in 2020 excludes approximately $2.9 million of COVID-19 related expenses that were deferred to a regulatory asset. In addition, to mitigate the effects of the financial implications of COVID-19, management implemented temporary cost savings initiatives, which resulted in approximately $3.5 million of operations and maintenance expense savings.

Operations and maintenance expense increased $1.9 million for NW Holdings primarily due to the following:

- a $2.2 million increase in other NW Holdings operations and maintenance expense primarily due to operating expenses at our water and wastewater utilities that have been acquired since 2019; partially offset by
- a $0.2 million decrease in operations and maintenance expense at NW Natural as discussed above.

2019 COMPARED TO 2018. Operations and maintenance expense increased $21.5 million and $13.9 million for NW Holdings and NW Natural, respectively, primarily due to the following factors:

- a $12.5 million increase in pension expenses, consisting of:
  - a $4.6 million increase from recovery of amounts in NW Natural's pension balancing account upon receipt of an OPUC accounting order in March 2019, which was offset within NGD margin and income tax benefits;
  - a $4.0 million increase from higher pension costs as NW Natural began collecting ongoing pension costs through customer rates on November 1, 2018 and began collecting deferred pension costs through customer rates on April 1, 2019 rather than deferring a portion to the balancing account; and
  - a $3.9 million increase from a regulatory pension disallowance as a result of the March 2019 OPUC order in the Oregon general rate case.

The remaining change was primarily attributable to annual employee cost increases.

The $7.6 million increase in other NW Holdings operations and maintenance expense was primarily due to expenses associated with developing the water business in 2019.

Depreciation and Amortization

Depreciation and amortization highlights include:

In millions		2020		2019		2018
NW Natural	$	101.6	$	90.4	$	85.0
Other NW Holdings depreciation and amortization		2.1		1.1		0.2
NW Holdings	$	103.7	$	91.5	$	85.2

2020 COMPARED TO 2019. Depreciation and amortization expense increased $11.2 million for NW Natural, primarily due to NGD plant additions and the North Mist gas storage facility that began operations and depreciating in May 2019.

Depreciation and amortization expense increased $12.2 million for NW Holdings, primarily due to a $1.0 million increase in other NW Holdings depreciation and amortization related to water and wastewater acquisitions and an $11.2 million increase at NW Natural as discussed above.

2019 COMPARED TO 2018. Depreciation and amortization expense increased by $6.3 million and $5.4 million for NW Holdings and NW Natural, respectively, primarily due to NGD plant additions that included investments in natural gas transmission and distribution systems supporting customer growth, safety, reliability, facility upgrades, and enhanced technology. In addition, the North Mist gas storage facility began operations and began depreciating in May 2019. The increase in other NW Holdings depreciation and amortization was primarily due to depreciation expense at acquired water and wastewater entities.

Other Income (Expense), Net

Other income (expense), net highlights include:

In millions		2020		2019		2018
NW Natural total other income (expense), net	$	(15.1)	$	(23.0)	$	(3.6)
Other NW Holdings activity		1.2		0.2		—
NW Holdings total other income (expense), net	$	(13.9)	$	(22.8)	$	(3.6)

2020 COMPARED TO 2019. Other income (expense), net, increased $7.9 million at NW Natural primarily due to higher 2019 pension expenses (non-service cost component) recognized as part of the settlement and recovery of NW Natural's pension balancing account, which did not recur in 2020. Other income (expense), net, increased $8.9 million at NW Holdings due to an increase of $1.0 million in other NW Holdings activity and a $7.9 million increase at NW Natural as discussed above.

2019 COMPARED TO 2018. Other income (expense), net, decreased $19.2 million and $19.4 million at NW Holdings and NW Natural, respectively. The decrease was primarily driven by activity in NW Natural's pension balancing account as described below. In addition, net interest income on deferred regulatory accounts increased $5.5 million primarily due to $5.1 million of deferred equity interest income recognized in 2019 in conjunction with amortization of the pension balancing account. Interest income from the equity portion of AFUDC decreased $3.3 million, primarily driven by the placement of the North Mist facility into service in May 2019.

Pension Balancing Account

From 2011 through October 31, 2018, NW Natural had OPUC approval to defer certain pension costs in excess of what was recovered in customer rates. This pension cost deferral was recorded to a regulatory balancing account, which stabilized the amount of pension expense recognized each year in the consolidated statements of comprehensive income (loss). Total pension cost deferrals, excluding interest, were $10.3 million and $6.5 million for the years ended December 31, 2018 and 2017, of which $7.9 million and $4.1 million was recognized in other income (expense), net, respectively. In October 2018, the OPUC issued an order freezing the pension balancing account and directing that future pension expense would be recovered through rates with an increase of $8.1 million to revenue requirement.

In March 2019, the OPUC issued another order allowing for the application of certain deferred revenues and tax benefits from the TCJA to reduce NW Natural's pension regulatory balancing account. A corresponding total of $12.5 million in pension expenses were recognized, of which $7.9 million was recognized in other income (expense), net in the consolidated statements of comprehensive income in the first quarter of 2019, with offsetting benefits recorded within operating revenues and income taxes. The order also directed NW Natural to reduce the balancing account by an additional, disallowed, $10.5 million, of which $6.6 million was charged to other income (expense), net in the consolidated statements of comprehensive income. Amortization of the remaining amount of the balancing account began in the second quarter of 2019 in accordance with the order. Total amortization of the balancing account for the year ended December 31, 2019, inclusive of the $12.5 million recovery mentioned above, was $16.8 million, of which $10.7 million was recorded to other income (expense), net. See Note 10 and "Regulatory Matters— *Pension Cost Deferral and Pension Balancing Account*" for more information regarding the pension balancing account.

Interest Expense, Net

Interest expense, net highlights include:

In millions	2020	2019	2018
NW Natural	$ 40.9	$ 41.3	$ 37.0
Other NW Holdings interest expense	2.2	1.4	0.1
NW Holdings	$ 43.1	$ 42.7	$ 37.1

2020 COMPARED TO 2019. Interest expense, net, decreased $0.4 million at NW Natural primarily due to $1.7 million of lower interest on commercial paper borrowings, partially offset by $0.6 million of higher interest on long-term debt balances. NW Natural deferred to a regulatory asset approximately $1.9 million of interest on financings undertaken in March 2020 as a precautionary measure to strengthen our liquidity position as the pandemic unfolded.

Interest expense, net, increased $0.4 million at NW Holdings primarily due to $0.8 million higher interest on outstanding credit agreement balances, partially offset by a $0.4 million decrease at NW Natural as discussed above.

2019 COMPARED TO 2018. Interest expense, net of amounts capitalized increased $5.6 million and $4.3 million at NW Holdings and NW Natural, respectively. The increase at NW Natural was primarily driven by $2.3 million higher interest on long term debt balances, $1.2 million lower AFUDC debt interest income, and $0.9 million higher commercial paper and line of credit interest. The additional increase at NW Holdings was driven by interest on long-term debt at NWN Water and interest on NW Holdings' line of credit.

Income Tax Expense

NW Holdings income tax expense highlights include:

In millions	2020	2019	2018
Income tax expense	$ 21.1	$ 12.6	$ 24.2
Effective tax rate	23.1 %	16.2 %	26.4 %

NW Natural income tax expense highlights include:

In millions	2020	2019	2018
Income tax expense	$ 21.1	$ 14.1	$ 24.5
Effective tax rate	23.0 %	16.9 %	26.4 %

2020 COMPARED TO 2019. The effective tax rate increased by 6.9% and 6.1% at NW Holdings and NW Natural, respectively. The increase in the effective tax rate is primarily due to the 2019 tax implications of the March 2019 OPUC order, including the return of deferred TCJA benefits to customers and the regulatory pension disallowance.

2019 COMPARED TO 2018. The effective tax rate decreased by 10.2% and 9.5% at NW Holdings and NW Natural, respectively. The reduction was driven by the return of tax reform benefits to customers, including $5.4 million in tax benefits recognized in association with the OPUC 2018 Oregon rate case order which was offset by pension expenses. See "Executive Summary - *Deferred TCJA benefits and timing variance*" above.

Discontinued Operations

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

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

The results of Gill Ranch Storage have been determined to be discontinued operations until the date of sale and are presented separately, net of tax, from the results of continuing operations of NW Holdings for all periods presented. See Note 19 for more information on the Agreement and the results of our discontinued operations.

FINANCIAL CONDITION

Capital Structure

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

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

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

	December 31,	
	2020	2019
Common equity	48.2 %	49.6 %
Long-term debt (including current maturities)	51.8	50.4
Total	100.0 %	100.0 %

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

	December 31,	
	2020	2019
Common equity	47.7 %	49.3 %
Long-term debt (including current maturities)	52.3	50.7
Total	100.0 %	100.0 %

Including short-term debt balances, as of December 31, 2020 and 2019, NW Holdings' consolidated capital structure included common equity of 41.4% and 45.7%, long-term debt of 40.0% and 42.5%, and short-term debt including current maturities of long-term debt of 18.6% and 11.8%, respectively. As of December 31, 2020 and 2019, NW Natural's consolidated capital structure included common equity of 42.1% and 45.9%, long-term debt of 43.2% and 42.9%, and short-term debt including current maturities of long-term debt of 14.7% and 11.2%, respectively.

During 2020, changes to NW Natural's capital structures were primarily due to increases in short-term debt and the issuance of long-term debt. Changes to NW Holdings' capital structure were primarily due to increases in short-term debt at NW Natural. See further discussion below in "Cash Flows — *Financing Activities*".

Liquidity and Capital Resources

At December 31, 2020 and December 31, 2019, NW Holdings had approximately $30.2 million and $9.6 million, and NW Natural had approximately $10.5 million and $5.9 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.

For example, as the COVID-19 pandemic developed, in early to mid-March, markets displayed significant volatility. In response to that volatility and possible implications for the availability of access to the capital markets, NW Natural and NW Holdings undertook a number of measures to increase cash on hand to ensure ample liquidity. On March 20, 2020, NW Natural borrowed $122.0 million under its multi-year credit facility, which was not backing commercial paper. As of December 31, 2020, the credit facility was paid back in full. Similarly, on March 20, 2020, NW Holdings borrowed $35.0 million under its multi-year credit facility, of which $27.0 million had been paid back as of December 31, 2020. On March 23, 2020, NW Natural entered into a $150.0 million, 364-day term loan credit agreement, and borrowed the full amount on closing. The term loan was paid back in full and terminated in 2020. On March 31, 2020, NW Natural issued and sold $150.0 million aggregate principal amount of 3.60% first mortgage bonds (FMBs). These actions were taken as a precaution to support sufficient cash on hand under a variety of financial

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