

TABLE OF CONTENTS

Item	Page
Glossary of Terms and Abbreviations	4
Forward-Looking Statements	7
PART I	
Item 1. Business	9
Overview	9
Business Model	9
Natural Gas Distribution	9
Other	14
Environmental Matters	15
Human Capital	16
Information About Our Executive Officers	17
Available Information	17
Item 1A. Risk Factors	19
Item 1B. Unresolved Staff Comments	32
Item 2. Properties	32
Item 3. Legal Proceedings	33
Item 4. Mine Safety Disclosures	33
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	34
Item 6. Reserved	34
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	70
Item 8. Financial Statements and Supplementary Data	72
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	134
Item 9A. Controls and Procedures	134
Item 9B. Other Information	134
Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	133
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	135
Item 11. Executive Compensation	137
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	137
Item 13. Certain Relationships and Related Transactions, and Director Independence	138
Item 14. Principal Accountant Fees and Services	138
PART IV	
Item 15. Exhibits and Financial Statement Schedules	138
Item 16. Form 10-K Summary	138
EXHIBIT INDEX	140
SIGNATURES	145

GLOSSARY OF TERMS AND ABBREVIATIONS

AFUDC	Allowance for Funds Used During Construction
AOCL / 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, renewable thermal certificate costs 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
LIBOR	London Interbank Offered Rate

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
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, revenue 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
NW Natural Renewables	NW Natural Renewables Holdings, LLC, a wholly-owned subsidiary of NW Holdings
NWN Energy	NWN 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
NWN Water	NW Natural Water Company, LLC, a wholly-owned subsidiary of NW Holdings
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
RTCs	Renewable Thermal Certificates
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
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
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, will, and similar references (including the negatives thereof) 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 cyclicalities;
- economic conditions;
- earnings and dividends;
- capital expenditures and allocation;
- capital markets or access to capital;
- capital or organizational structure;
- matters related to climate change and our role in decarbonization or a low-carbon future;
- renewable natural gas, environmental attributes related thereto, and hydrogen;
- our strategy to reduce greenhouse gas emissions and the efficacy of communicating that strategy to stakeholders and communities;
- the policies and priorities of the current presidential administration and U.S. Congress;
- growth;
- customer rates;
- pandemic and related illness or quarantine, including COVID-19 and related variants, economic conditions related thereto, the resumption of normal business operations, availability and acceptance of vaccinations, and potential future shutdowns;
- labor relations and workforce succession;
- commodity costs;
- desirability and cost competitiveness of natural gas;
- gas reserves;
- operational performance and costs;
- energy policy, infrastructure and preferences;
- public policy approach and involvement;
- efficacy of derivatives and hedges;
- liquidity, financial positions, and planned securities issuances;
- valuations;
- project and program development, expansion, or investment;
- business development efforts, including new business lines such as unregulated renewable natural gas, and acquisitions and integration thereof;
- implementation and execution of our water strategy;
- pipeline capacity, demand, location, and reliability;
- adequacy of property rights and operations center development;
- technology implementation and cybersecurity practices;
- competition;
- procurement and development of gas (including renewable natural gas) and water supplies;
- estimated expenditures, supply chain and third party availability and impairment;
- costs of compliance, and our ability to include those costs in rates;
- 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, or legal challenges related thereto;
- tax liabilities or refunds, including effects of tax legislation;
- levels and pricing of gas storage contracts and gas storage markets;
- outcomes, timing and effects of potential claims, litigation, regulatory actions, and other administrative matters;
- projected obligations, expectations and treatment with respect to, and the impact of new legislation on, retirement plans;
- international, federal, state, and local efforts to regulate, in a variety of ways, greenhouse gas emissions, and the effects of those efforts;
- disruptions caused by social unrest, including related protests or disturbances;
- availability, adequacy, and shift in mix, of gas and water supplies;

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

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed 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

NW Holdings is a holding company headquartered in Portland, Oregon and owns NW Natural, NW Natural Water Company, LLC (NWN Water), NW Natural Renewables Holdings, LLC, a non-regulated subsidiary established to pursue non-regulated renewable natural gas activities, 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 regulated renewable natural gas for NW Natural.

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, non-regulated renewable natural gas activities and other investments and activities are aggregated and reported as "other" at their respective registrant.

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 786,000 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. 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 NGD 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, 2021:

	Number of Meters	% of Volumes	% of Margin
Residential	715,958	38 %	65 %
Commercial	68,961	21 %	24 %
Industrial	978	41 %	7 %
Other ⁽¹⁾	N/A	N/A	4 %
Total	785,897	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 rates or possible restrictions 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 2021. 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, and convenience.

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 55% 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 2021-22 winter heating season:

<i>Therms in millions</i>	Therms	Percent
Sources of NGD supply:		
Firm supply purchases	3.4	34 %
Mist underground storage (NGD only)	3.1	31 %
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 %
Peak day citygate deliveries	0.1	1 %
Total	10.0	100 %

The OPUC and WUTC have Integrated Resource Planning (IRP) processes in which utilities define different growth scenarios and corresponding resource and compliance strategies in an effort to evaluate supply and demand resource and compliance 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. 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 2021, 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 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	11.3
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	18.1

⁽¹⁾ The Mist gas storage facility has a total maximum daily deliverability of 5.7 million therms and a total designed storage capacity of about 17.0 Bcf, of which 3.1 million therms of daily deliverability and 11.3 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 2021, 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 2021, a total of 807 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)	24
Spot (one month or less)	37
Total	100 %

Gas supply contracts are renewed or replaced as they expire. During 2021, there was one supplier that provided 10% of the NGD business gas supply requirements. No other 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.

NW Natural is focused on taking steps to lower its emissions on behalf of customers by purchasing environmental attributes that are generated by the production of renewable natural gas (RNG). Under Oregon Senate Bill 98, NW Natural can purchase or invest in RNG facilities, which generate these environmental attributes known as Renewable Thermal Certificates (RTCs). The RTCs work like renewable energy certificates, or RECs, used in electricity markets. RTCs are verified and certified by the Midwest Renewable Energy Tracking System (M-RETS). The M-RETS Renewable Thermal Tracking System issues one RTC for every dekatherm of renewable natural gas.

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 2022 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 cast iron replacement, bare steel replacement, transmission integrity management, and distribution integrity management programs 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 a notice of proposed rulemaking titled the "Safety of Gas Transmission Pipelines: MAOP Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments." In 2019, PHMSA issued the first of three portions of the rulemaking which went into effect on July 1, 2020 and includes up to a 15-year timeline for compliance. The gas gathering rule was issued in late 2021 and the leak detection rule is expected to be issued in 2022. 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 (PGE) under a 30-year contract with options to extend up to an additional 50 years upon mutual agreement of the parties. PGE uses the facility to fuel its gas-fired electric power generation facilities, which backs up PGE's variable load of renewable energy on the electric grid.

North Mist includes a 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 PGE'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, 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:

- 5.7 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 17.0 Bcf facility with 11.3 Bcf used to provide gas storage for the NGD business. The remaining 5.7 Bcf of the facility is contracted with other utilities and third-party marketers with these results reported in other. In 2021, NW Natural began to utilize 1 Bcf of increased storage capacity realized through reservoir expansion during more than 15 years of delta pressure operations. This change increased the working gas capacity from 16 Bcf to 17 Bcf.

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 5.7 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;
- NW Natural Renewables Holdings, LLC and its non-regulated renewable natural gas activities;
- 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, including business development activities, as well as adjustments made in consolidation.

Water Utilities

NWN Water serves a total of approximately 80,000 people through approximately 33,000 water and wastewater connections in the Pacific Northwest and Texas. NWN Water has additional signed acquisition agreements for water and wastewater utilities in the Pacific Northwest, Texas and Arizona, which pending transactions are subject to state utility commission approvals, and other closing conditions, and are expected to close during 2022. Once closed, NWN Water expects to serve approximately 145,000 customers through an aggregate total of approximately 60,000 water and wastewater connections in the Pacific Northwest, Texas and Arizona, with a cumulative investment in the water and wastewater sectors of approximately \$215 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 consist of some state regulated systems and some systems that are not rate regulated by utility commissions.

NW Natural Renewables

NW Natural Renewables is a newly formed subsidiary of NW Natural Holdings established to pursue non-regulated renewable natural gas activities. NW Natural Renewables is focused on providing cost-effective solutions to decarbonize a variety of sectors utilizing existing waste streams and renewable energy resources.

NW Natural Renewables' first project is with a subsidiary of EDL, a global producer of sustainable distributed energy. In September 2021, a subsidiary of NW Natural Renewables and a subsidiary of EDL executed agreements, whereby the subsidiary of NW Natural Renewables committed \$50 million toward the development of two production facilities that are designed to convert landfill waste gases to RNG and connect gas production to existing regional pipeline networks. Testing and commissioning of the production facilities is expected to occur in 2023. Alongside these development agreements, a subsidiary of NW Natural Renewables and a subsidiary of EDL executed agreements designed to secure a 20-year supply of RNG for NW Natural Renewables.

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 17 of the Consolidated Financial Statements in Item 8 of this report for more information.

Greenhouse Gas Matters

For information concerning greenhouse gas matters, see Part II, Item 7, "Results of Operations—Environmental, Legislation and Regulation Matters."

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, encourages respect and trust, 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, 2021, our workforce consisted of the following:

NW Natural:	
Unionized employees ⁽¹⁾	604
Non-unionized employees	569
Total NW Natural	1,173
Other Entities:	
Water company employees	61
Other	3
Total other entities	64
Total Employees	1,237

⁽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 2021, 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 classroom instruction and 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 prepare those first responders and NW Natural field employees to deliver an integrated, seamless response in the event of an emergency that involves or affects the natural gas system. We navigated, and continue to navigate, the COVID-19 pandemic with limited class sizes and online training to help keep people safe. We also implemented a new learning management system that went live in early 2021 and provides more efficiency and flexibility in how we train.

Our ongoing 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 initially mobilized its incident command team and business continuity plans in early March 2020 and initiated similar procedures at our water utilities, with a focus on the safety of our employees and the people, business partners, and communities we serve. We continue to monitor and respond to developments related to the COVID-19 pandemic. For employees whose role requires them to work in the field or onsite, we are following CDC, OSHA, and state specific guidance. Measures continue to include: following social distancing guidelines; use of personal protective equipment (PPE); enhanced sanitizing protocols; employee health screening protocols; remote and flexible work arrangements where possible; 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 approach to workplace safety have enabled us to preserve business continuity while continuing to focus on our commitment to the safety of our customers, business partners and the communities we serve.

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; virtual ergonomic assistance to help remote employees work safely at home; and support and access to obtain vaccines.

Employee Benefits

To attract employees and meet the needs of our workforce, NW Natural strives to offer competitive compensation and 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 2021 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.

Talent Attraction and Development

In order to implement our business strategy and serve our customers, we depend 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, and therefore, we are focused on efforts to attract, train, and retain appropriately qualified and skilled workers to prevent loss of institutional knowledge or skills gaps.

NW Natural seeks to provide its employees with growth and development opportunities through programs designed to build skills and relationships. These programs currently 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 external continuing educational courses relevant to areas of expertise; and (v) ongoing management and leadership training programs.

We regularly monitor employee engagement and satisfaction through a variety of tools, including our annual engagement survey that is designed to enable company leaders to gather valuable feedback and guidance from employees.

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. Our efforts in 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 partners to help promote awareness of job opportunities within diverse communities.

We have employee-led groups that develop programs and activities that build awareness around issues important to their co-workers, families, customers, and our community. Groups include the Diversity, Equity & Inclusion Council, African American, Rainbow Alliance (LGBTQ+), Veterans, Somos Unidos (Latinx), and Asian American employee resource groups, Wellness Advisory Committee, Women's Network, and Sustainability and Equity Engagement Team. We also continue to emphasize diversity, equity and inclusion values through employee training and education, including expanded 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 intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor our

website, in addition to following our press releases, SEC filings and public conference calls and webcasts. 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, a subsidiary of NW Holdings has contracted to acquire a water and wastewater sector business in Arizona that is subject to the regulatory authority of the Arizona Corporation Commission.

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, and to decarbonize our gas 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 OPUC in December 2021. The regulatory proceedings for these dockets typically involve multiple parties, including governmental agencies, consumer and other advocacy groups, and other third parties. Each party advocates for the interests that they represent, which may include lower rates, additional regulatory oversight over the company or advancing other interests. We cannot predict the timing or outcome of these proceedings or our pending Oregon 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 2020 United States Presidential election resulted 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 has made and is expected to continue to make changes to fiscal, tax, regulation, environmental, climate and other federal policies. For example, the United States has rejoined the Paris Agreement on Climate Change, a global framework to reduce GHG emissions and limit global warming, and the presidential administration

has issued executive orders aimed at reducing GHG emissions and has declared climate change a national security priority. Similarly, federal, state and local elections during 2022 may lead to significant policy changes 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 will 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 nearly \$1.4 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 customers', legislators' and regulators' perception of us or our business 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.

Although we believe that natural gas serves an important role in helping our region reduce GHG emissions and move to a low-carbon future, certain advocacy groups have opposed use of natural gas as a fuel source altogether and have pursued policies that place limitations or moratoriums or impose additional costs on the use of natural gas in a variety of contexts. Concerns raised about the use of natural gas include the potential for natural gas explosions or delivery disruptions, methane leakage along transportation and delivery systems and end-use equipment, and contribution of natural gas energy use to GHG emission levels and global warming. Concerns have also been raised regarding the use of RNG in place of natural gas. In addition, studies and claims by advocacy groups from time to time question the indoor public health effects of burning natural gas, which may also impact public perception. Shifts in public sentiment due to these concerns or others that may be raised may impact further legislative initiatives, litigation, as well as 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 legislative or regulatory outcomes supportive of our business. Negative opinions could also result in reduced customer growth, sales volumes reductions, increased use of other sources of energy, or 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 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 the states that we operate in have reopened with many businesses beginning to return to normal operating practices, the timing for recovery of businesses and local economies remains difficult to predict and dependent on the future impacts of the COVID-19 pandemic, resurgences or mutations of the virus, including the Delta and Omicron variants, any potential future shutdowns, efficacy and acceptance of vaccines, or any requirements related to vaccines or testing. 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 governmental action, or that are suffering slow-downs or ultimately close completely due to pandemic 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 an amount or 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;
- 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;
- impacting our or our suppliers' ability to recruit and retain qualified personnel as a result of vaccine mandates or other pandemic regulations or protocols impacting employees;
- 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 or other pandemics could create prolonged unfavorable economic conditions, slowed economic growth, inflation, which is currently on the rise, or an economic recession that may result in or be accompanied by unprecedented unemployment rates and declines in the value of certain 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 effects. 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 pandemic and resulting economic effects, actions taken to contain the pandemic and mitigate its effects, and the extent to which normal economic and operating conditions can continue. 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 mergers, acquisitions, divestitures, joint ventures, business development projects or other strategic transactions, including, but not limited to, investments in RNG projects on a regulated basis by NW Natural and on a non-regulated basis by NW Holdings, as well as acquisitions by NW Holdings in the water and wastewater sectors. 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 investments or 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 not be successful or 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, non-regulated investments in RNG projects, and purchasing, marketing and reselling of RNG and its associated attributes, CNG refueling stations, power to gas or hydrogen projects or other similar projects. Our business development activities are subject to uncertainties and changed circumstances and may not reach the scale expected, be successful or perform as anticipated. 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; unsuccessful business models; 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; marketing risk and changes in market regulation, behavior or prices (including markets for RNG and its associated attributes); the inability to receive expected tax or regulatory treatment; 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 business development efforts failing to produce expected financial results and the project investment 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 certain RNG projects. NW Holdings or NW Natural currently has and may further acquire or develop part-ownership interests in other projects in the future, including but not limited to, natural gas, 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 act 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, is no longer rated by credit agencies. 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 these 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. Insufficient growth in these markets, for economic, political, public perception, 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, federal, state and local governmental regulation, environmental impacts, and public perception. Technological improvements 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. 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, water distribution, and wastewater services 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, wastewater services 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 or contamination of water supplies;
- 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 expanding regulations for natural gas transmission and distribution pipelines. Among other things, the Pipeline and Hazardous Materials Safety Administration (PHMSA) is implementing the requirements of the PIPES Act, including regulations related to the detection and repair of leaks and valve automation.

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 and local 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 regulations 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 Natural's gas storage business depends 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. We face competition for qualified personnel with specific skillsets. This competition is elevated by the record low unemployment in Oregon and may result in increased pressure on wages or other challenges in recruiting or retaining personnel. 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. Furthermore, failure to comply with such laws or regulations could subject us to possible enforcement actions, financial liability or litigation, any of which could adversely affect NW Holdings' or NW Natural's financial condition and results of operations.

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 intensity and changes in weather conditions, such as changes in precipitation, average temperatures and extreme wind or other extreme weather events or climate conditions. Moreover, 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, executive orders or regulatory codes) or litigation, 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. Legislation or other forms of public policy or regulation that aim to reduce GHG emissions at the federal, state, or local level could take a variety of forms including, but not limited to, GHG emissions limits, reporting requirements, carbon taxes, requirements to purchase carbon credits, building codes, increased efficiency standards, additional charges to fund energy efficiency activities or other regulatory actions, and incentives or mandates to conserve energy, or use renewable energy sources. Federal, state, or local governments may provide tax advantages and other subsidies to support alternative energy sources, withdraw funding from fossil fuel sources, mandate the use of specific fuels or technologies, or promote research into new technologies to reduce the cost and increase the scalability of alternative energy sources. For example, the State of Washington has enacted the Climate Commitment Act (CCA), which establishes a comprehensive program that provides an overall limit for GHG emissions from major sources in the state that begins on January 1, 2023 and declines yearly to 95% below 1990 levels by 2050. Similarly, 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 and directing state agencies and commissions (including the ODEQ and the OPUC) to facilitate such GHG emission goals. In December 2021, the ODEQ concluded its process and issued final cap and reduce rules for the Climate Protection Program (CPP), which became effective January 1, 2022. The CPP outlines GHG emissions

reduction goals of 50% by 2035 and 90% by 2050 from a 1990 baseline. NW Natural is subject to both the CCA and CPP. We expect that there will be additional efforts to address climate change in the 2022 legislative sessions in both Oregon and Washington.

Additionally, the Washington State Building Code Council adopted a statewide residential building code in February 2021 that requires new residential construction to achieve higher levels of energy efficiency based on specified carbon emissions assumptions, which calculate on-site electric appliances to have lower GHG emissions than comparable gas appliances. The same agency is considering changes to its commercial building code that could restrict or eliminate the use of gas space and water heating in new commercial construction beginning in July 2023.

A number of local and county jurisdictions are also proposing or passing renewable energy resolutions or other measures in an effort to accelerate renewable energy goals. A number of cities across the country, and several in our service territory are currently considering actions aimed at formalizing climate action goals and driving down GHG emissions.

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 jurisdictions, including San Francisco, Seattle, and New York have enacted measures to ban or discourage the use of new natural gas hookups in residential or other buildings. Other jurisdictions, including several in our service territory, have considered similar restrictions or other measures discouraging the use of natural gas, such as requiring the conversion of buildings to electric heat, or 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. In addition, certain cities, local jurisdictions and private parties have initiated lawsuits against companies related to climate change impacts, GHG emissions or climate-related disclosures. While NW Natural has not been subject to such litigation to date, such climate-related claims or actions could be costly to defend and could negatively impact our business, reputation, financial condition, and results of operations.

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 or programs, 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 meters, impose costs or restrictions on end users of natural gas, impact the prices we charge our customers, increase the likelihood of litigation, impose increased costs on us associated with the adoption of new infrastructure and technology to respond to such requirements which may or may not be recoverable in customer rates, 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, 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, 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 or other forms of 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 or civil unrest 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, terrorist activities, cyber-attacks and other attacks or 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 is working to upgrade its SAP system and intends to 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, pandemics (including COVID-19) 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 cyberattacks. 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. Moreover, a variety of regulatory agencies are increasingly focused on cybersecurity risks, and specifically in critical infrastructure sectors. For example, the Transportation Security Administration (TSA) has published two security directives mandating cybersecurity actions for critical pipeline owners and operators. Failure to timely and effectively meet the requirements of these directives or other cybersecurity regulations could result in fines or other penalties. While we are unable to estimate a range of possible costs at this time, we could also incur significant costs in complying with regulatory directives, and there is no assurance that we will be able to recover those costs in rates.

In addition, 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 35% 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 gas storage business, 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 and remain higher, it could raise the cost of energy to NW Natural's customers, potentially causing those customers to conserve or switch to alternate sources of energy. Sustained 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, 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.

Temporary gas price increases can also adversely affect NW Holdings' and NW Natural's operating cash flows, liquidity and results of operations because a portion (10% or 20%) of any difference between the estimated average PGA gas cost in rate and the actual average gas cost incurred is recognized as current income or expense.

Temporary or sustained 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, perceptions of our business in capital markets, and 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, political unrest, inflationary pressures, or rising interest rates 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.

Furthermore, recent trends toward investments that are perceived to be "green" or "sustainable" could shift capital away from, or increase the cost of capital for, our natural gas business. We believe our business is an important component of a low carbon future and are striving to decarbonize our systems. Nevertheless, perceptions in the financial markets could differ or outpace our decarbonization progress and result in a shift funding away from, or limit or restrict certain forms of funding for, natural gas businesses.

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 \$70.6 million as of December 31, 2021 and \$69.2 million as of December 31, 2020. 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;
- disruptions to the wastewater collection and treatment process;
- conservation efforts by customers;
- regulatory and legal requirements, including environmental, health and safety laws and regulations;
- the outcome of rate cases and other regulatory 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 mains, approximately 700 miles of transmission mains and approximately 10,100 miles of service lines located in its territory in Oregon and southwest Washington. In addition, the pipeline system includes service regulators and meters, as well as district regulators and metering stations. Natural gas pipelines are located in public rights-of-way pursuant to franchise agreements or other ordinances, 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 headquarters and operations center in Portland, Oregon.

NW Natural's Mortgage and Deed of Trust (Mortgage) is a first mortgage lien on certain gas properties owned from time to time by NW Natural, including 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 17, we have only nonmaterial litigation in the ordinary course of business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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 17, 2022, there were 4,424 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, 2021:

Period	<u>Issuer Purchases of Equity Securities</u>			
	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
10/01/21-10/31/21	3,728	\$ 46.96	—	—
11/01/21-11/30/21	2,200	46.34	—	—
12/01/21-12/31/21	—	—	—	—
Total	<u>5,928</u>		<u>2,124,528</u>	<u>\$ 16,732,648</u>

⁽¹⁾ During the quarter ended December 31, 2021, 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, 5,928 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, 2021, no shares of NW Holdings common stock were accepted as payment for stock option exercises pursuant to the NW Natural Restated Stock Option Plan.

⁽²⁾ During the quarter ended December 31, 2021, 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. RESERVED

Not applicable.

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, 2021, 2020, and 2019 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 NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); NW Natural Renewables Holdings, LLC and its non-regulated renewable natural gas activities; and NWN Water, which through itself or its subsidiaries, owns and continues to pursue investments in the water sector. See Note 4 for further discussion of our business segment and other, as well as our direct and indirect wholly-owned subsidiaries.

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. The sale was completed on December 4, 2020. 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. Such non-GAAP financial measures are used to analyze our financial performance because we believe they provide useful information to our investors and creditors in evaluating our financial condition and results of operations. Our non-GAAP financial measures should not be considered a substitute for, or superior to, measures calculated in accordance with U.S. GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of the business as determined in accordance with GAAP. Other companies may calculate similarly titled non-GAAP financial measures differently than how such measures are calculated in this report, limiting the usefulness of those measures for comparative purposes. A reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure is provided below.

EXECUTIVE SUMMARY

NW Holdings' financial results and highlights for the year include:

- Added more than 11,400 natural gas customers in 2021 for an annual growth rate of 1.5% at December 31, 2021;
- Continued to provide customers with essential natural gas and water utility services and assist our most vulnerable community members during COVID-19;
- Invested nearly \$294 million in natural gas and water utility systems to support growth, enhance reliability and resiliency, and upgrade technology;
- Signed several agreements under Senate Bill 98 to purchase environmental credits from renewable natural gas for our utility customers;
- Launched a competitive renewable energy business line and hired the president of this business to pursue growth;
- Scored second in the West among large utilities in the 2021 J.D. Power Gas Utility Residential Customer Satisfaction Study, making this the 18th consecutive year customers have ranked NW Natural among the top two utilities;
- Filed an Oregon general rate case requesting a revenue requirement increase to support growth and system investments;
- Concluded the Washington general rate case providing a revenue requirement increase of \$8 million over two years;
- Purchased an ownership stake in Avion Water Company, Inc., the largest investor-owned water utility in Oregon, and closed four other water and wastewater utility transactions in 2021, bringing our total connections to approximately 33,000; and
- Increased dividends for the 66th consecutive year to shareholders.

Key financial highlights for NW Holdings include:

<i>In millions</i>	2021		2020		2019	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net income from continuing operations	\$ 78.7	\$ 2.56	\$ 70.3	\$ 2.30	\$ 65.3	\$ 2.19
Income (loss) from discontinued operations, net of tax	—	—	6.5	0.21	(3.6)	(0.12)
Consolidated net income	\$ 78.7	\$ 2.56	\$ 76.8	\$ 2.51	\$ 61.7	\$ 2.07

Key financial highlights for NW Natural include:

<i>In millions</i>	2021	2020	2019
	Amount	Amount	Amount
Consolidated net income	\$ 81.2	\$ 70.6	\$ 69.0
Natural gas distribution margin	\$ 479.8	\$ 438.1	\$ 422.7

2021 COMPARED TO 2020. Consolidated net income increased \$10.6 million at NW Natural primarily due to the following factors:

- \$41.7 million increase in NGD segment margin driven by the 2020 Oregon rate case and residential customer growth;
- \$7.9 million increase in asset management revenue primarily due to the 2021 cold weather event discussed below; and
- \$2.4 million decrease in other income (expense), net driven by higher interest income on regulatory assets and lower pension non-service costs; partially offset by
- \$19.9 million increase in operations and maintenance expenses due to higher information technology expenses, compensation and benefit costs, and lease expense;
- \$8.9 million increase in depreciation expense due to property, plant, and equipment additions as we continued to invest in our gas utility system;
- \$7.2 million increase in income tax expense due to an increase in pretax income and Oregon Corporate Activity Tax;
- \$3.7 million increase in general taxes primarily due to higher assessed property values; and
- \$2.1 million increase in interest expense primarily due to lower AFUDC interest income.

Net income from continuing operations increased \$8.4 million at NW Holdings primarily due to the following factors:

- \$10.6 million increase in consolidated net income at NW Natural as discussed above; partially offset by
- \$2.2 million decrease in other net income primarily reflecting higher business development and consulting costs at the holding company.

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

- \$15.4 million increase in NGD segment margin driven by the 2020 Oregon and 2019 Washington rate cases and residential customer growth; and
- \$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
- \$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
- \$7.0 million increase in income tax expense primarily due to 2019 including an income tax benefit related to the return of deferred Tax Cut and Jobs Act (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:

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

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

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

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

- Both NW Natural and NW Natural Water expect their capital projects in 2022 to move forward as planned.
- We have not experienced material disruptions in our supply chain for goods and services to date. Our suppliers may be subject to vaccine mandates and could be impacted by an inability to comply or loss of personnel, which could disrupt supplier performance or deliveries, and negatively impact our business. We are continuing to actively monitor, and have formulated and continue to evaluate contingency plans as necessary.
- NW Natural's customer growth rate is affected by both new meter connections and when existing customers close their accounts and disconnect their meters. Customer growth from construction and conversions remained strong during 2021 and commercial customer counts remained steady. Any slowdown in economic activity could result in a decline in new meter connections, which could adversely affect operating margins in 2022 and the following periods. We have resumed normal collection practices for all customers. There are several bill assistance options available to residential customers, including the arrearage management program, that was specifically designed to help with bills incurred during the pandemic. We have not experienced and do not currently anticipate significant residential meter disconnections.
- NW Natural has seen lower utility margin from a reduction in overall sales volumes during 2021 and 2020 attributed to COVID-19. Due to the seasonality of our gas utility business, we may continue to experience declines in volumes, particularly during our winter heating season, depending on the resiliency of businesses in the communities in which we serve into 2022. However, volumes do not translate directly to earnings as the majority of our NGD margin is not dependent on volumes.
- While we deferred to a regulatory asset certain COVID-related financial impacts as agreed upon with regulators, ultimate recovery of these costs and prudence review will be determined through separate proceedings and may be subject to modification as a result of those proceedings. The recognition of late fee revenue may also be delayed beyond our current expectations. See "Results of Operations – Regulatory Matters – COVID-19 Process and Deferral Dockets" below.

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

2022 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. Our new subsidiary, NW Natural Renewables, is focused on providing renewable natural gas to a variety of sectors. In 2022, we remain focused on the strategic pillars of our business: safe & reliable service; superior customer service; constructive legislative policies and regulation; growth; and driving toward 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. Additionally, NW Natural earned the designation of Customer Champion in Escalent's Congent trusted brand and customer engagement residential customer study for the last several years.

ADVANCING CONSTRUCTIVE LEGISLATIVE POLICIES AND REGULATION. NW Natural has a history of working productively with lawmakers and regulators. For example 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 2022, we intend to 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. With regulators, we continue to strive to work productively on open proceedings. 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 GROWTH. Homeowners in our service territory prefer natural gas for heating and cooking given its affordable, efficient, and reliable qualities. 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 and commercial sectors and multifamily developments. At NW Natural Water, we continue to be focused on supporting the fast-growing communities we currently serve and continuing our disciplined acquisition strategy. Finally, we know how important renewables, particularly renewable natural gas, are to addressing climate change. That is why we began a new business line in 2021 that is committed to leading as the energy market transitions and providing renewable natural gas to the utility, commercial, industrial and transportation sectors. In 2022, we intend to continue to pursue these renewable opportunities.

LEADING ON DECARBONIZATION. We are deeply committed to a clean energy future and environmental stewardship. NW Natural has been a leader among gas utilities in innovative programs designed to support a low carbon future. Notable programs have included a decoupling rate structure designed to weaken the link between earnings and gas consumption by customers adopted in 2007, establishment of a voluntary Smart Energy carbon offset program for customers established in 2007, and removal of all known cast iron and bare steel to create one of the tightest and most modern distribution systems in the country. 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 new technology. In 2020 and 2021, under Oregon Senate Bill 98, NW Natural began investing in and contracting for RNG-energy produced from capturing methane from decomposing organic material, including food, agricultural and forest waste, waste water and landfills, conditioning the methane to pipeline quality and adding it to natural gas systems as an energy source. RNG has powerful potential to reduce net GHG emissions and we have begun procuring it and its attributes on behalf of customers. To date, NW Natural has signed agreements with options to purchase or develop RNG for utility customers totaling about 3% of NW Natural's annual sales volume in Oregon. In 2022, NW Natural intends to continue striving to: execute on our renewable strategy by helping our customers reduce and offset their consumption, 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.

DIVIDENDS

NW Holdings dividend highlights include:

<i>Per common share</i>	2021	2020	2019
Dividends paid	\$ 1.9225	\$ 1.9125	\$ 1.9025

In January 2022, the Board of Directors of NW Holdings declared a quarterly dividend on NW Holdings common stock of \$0.4825 per share, payable on February 15, 2022, to shareholders of record on January 31, 2022, reflecting an indicated annual dividend rate of \$1.93 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 2021, approximately 88% of NGD customers were located in Oregon, with the remaining 12% in Washington. Earnings and cash flows from natural gas distribution operations are largely determined by rates set in general rate cases and other proceedings in Oregon and Washington. They are also affected by weather, the local economies in Oregon and Washington, the pace of customer growth in the residential, commercial, and industrial markets, customer preferences and NW Natural's ability to remain price competitive, control expenses, and obtain reasonable and timely regulatory recovery of its natural gas distribution-related costs, including operating expenses and investment costs in plant and other regulatory assets. See "*Most Recent Completed Rate Cases*" below.

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

OTHER. The wholly-owned regulated water businesses of NWN Water, a wholly-owned subsidiary of NW Holdings, are subject to regulation by the utility commissions in the states in which they are located, which currently 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 (OPUC Order). The OPUC 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 OPUC 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 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 OPUC Order approved 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.

New rates authorized by the OPUC Order were effective November 1, 2020.

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

WASHINGTON. On October 21, 2021, the WUTC issued an order concluding NW Natural's general rate case filed in December 2020 (WUTC Order). The WUTC Order provides for an annual revenue requirement increase over two years, consisting of a 6.4% or \$5.0 million increase in the first year beginning November 1, 2021 (Year One), and up to a 3.5% or \$3.0 million increase in the second year beginning November 1, 2022 (Year Two). The increase is based on the following assumptions:

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

The WUTC Order does not specify the underlying inputs to the cost of capital, including capital structure and return on equity. New rates authorized by the WUTC Order were effective November 1, 2021.

From November 1, 2019 through October 31, 2021, 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*" below.

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

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

Regulatory Proceeding Updates

2022 OREGON RATE CASE. On December 17, 2021, NW Natural filed a request for a general rate increase with the OPUC. The filing includes a requested \$73.5 million annual revenue requirement increase based upon the following assumptions or requests:

- Capital structure of 50% long-term debt and 50% equity;
- Return on equity of 9.5%;
- Cost of capital of 6.886%; and
- Average rate base of \$1.73 billion.

The filing includes an increase in average rate base of \$294 million compared to the last rate case due to several long-planned investments by NW Natural including the following:

- Upgrading technology including our enterprise resource planning system, cybersecurity and other critical technology systems;
- Supporting distribution system reinforcement and expansion as well as enhancing the resilience of our operating facilities and systems; and
- Investing in components of our Mist storage facility, which provides service during peak winter heating months.

The filing requests an additional incremental revenue amount of \$8.4 million primarily related to a renewable natural gas investment and technology upgrades and expenses, including cybersecurity items, that are not considered in NW Natural's annual revenue requirement.

NW Natural's filing will be reviewed by the OPUC and other stakeholders. The process is anticipated to take up to 10 months with new rates expected to take effect November 1, 2022.

Rate Mechanisms

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

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

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

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 2021-22 gas year with its forecasted sales volumes hedged at approximately 79% in total. The total hedged for Oregon was approximately 82%, including 62% in financial hedges and 19% in physical gas supplies. The total hedged for Washington was approximately 57%, including 44% in financial hedges and 13% in physical gas supplies.

NW Natural is also hedged between 2% and 29% for annual requirements over the subsequent five gas years, which consists of between 2% and 26% in Oregon and between 0% and 50% in Washington. Hedge levels are subject to change based on actual load volumes, which depend to a certain extent on weather, economic conditions, and estimated gas reserve production. Also, gas storage inventory levels may increase or decrease with storage expansion, changes in storage contracts with third parties, variations in the heat content of the gas, and/or storage recall by NW Natural.

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

Under the current PGA mechanism in Oregon, there is an incentive sharing provision whereby NW Natural is required to select each year an 80% deferral or a 90% deferral of higher or lower actual gas costs compared to estimated PGA prices, such that the impact on NW Natural's current earnings from the incentive sharing is either 20% or 10% of the difference between actual and estimated gas costs, respectively. For the 2020-21 and 2021-22 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.

During 2021, there was increased volatility and pricing in the current and forward gas markets. In response to higher than normal volatility in forward gas markets in 2021, NW Natural increased its hedging level for the 2021-22 PGA year in Oregon to 82% compared to 74% in the 2020-2021 PGA year.

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 2020-21 and 2021-22 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 2019, 2020, and 2021, the ROE threshold was 10.24%, 10.40%, and 10.40%, respectively. There were no refunds required for 2019 and 2020. NW Natural does not expect a refund for 2021 based on results, and anticipates filing its 2021 earnings test in May 2022.

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 (WARM), which is applied to residential and small commercial customer bills. This mechanism is designed to help stabilize the collection of fixed costs by adjusting residential and small commercial customer billings based on temperature variances from average weather, with rate decreases when the weather is colder than average and rate increases when the weather is warmer than average. The mechanism is applied to bills from December through mid-May of each heating season. The mechanism adjusts the margin component of customers' rates to reflect average weather, which uses the 25-year average temperature for each day of the billing period. Daily average temperatures and 25-year average temperatures are based on a set point temperature of 59 degrees Fahrenheit for residential customers and 58 degrees Fahrenheit for commercial customers. The collections of any unbilled WARM amounts due to tariff caps and floors are deferred and earn a carrying charge until collected, or returned, in the PGA the following year. Residential and small commercial customers in Oregon are allowed to opt out of the weather normalization mechanism, and as of December 31, 2021, 8% of total eligible customers had opted out. NW Natural does not have a weather normalization mechanism approved for Washington customers, which account for about 12% of total customers. See "Business Segment—*Natural Gas Distribution*" below.

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

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

Oregon SRRM

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

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

- Post-review - This class of costs represents remediation spend that has been deemed prudent and allowed after applying the earnings test, but is not yet included in amortization. NW Natural earns a carrying cost on these amounts at a rate equal to the five-year treasury rate plus 100 basis points.
- Amortization - This class of costs represents amounts included in current customer rates for collection and is calculated as one-fifth of the post-review deferred balance. NW Natural earns a carrying cost equal to the amortization rate determined annually by the OPUC, which approximates a short-term borrowing rate. NW Natural included \$6.3 million and \$4.2 million of deferred remediation expense approved by the OPUC for collection during the 2021-22 and 2020-21 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 17 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 2021, NW Natural has performed this test, which is anticipated to be submitted to the OPUC in May 2022. No earnings test adjustment is expected for 2021.

Washington ECRM

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

INTERSTATE STORAGE AND ASSET MANAGEMENT SHARING. On an annual basis, NW Natural credits amounts to Oregon and Washington customers as part of a regulatory incentive sharing mechanism related to net revenues earned from Mist gas storage and asset management activities. Previously, amounts were credited to Oregon customers in June. Starting in 2021, Oregon customers received this credit in February per the 2020 Oregon rate case order. In December 2021, the OPUC approved the annual 2022 bill credit for Oregon customer's share of interstate storage and asset management activities. The amount will be credited to Oregon customers over three equal installments in January, February and March 2022. This includes \$41.4 million of revenues generated for the November 2020 through October 2021 PGA year. A majority of this revenue is from the cold weather event in February 2021 discussed above. 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:

<i>In millions</i>	2021		2020		2019	
Oregon	\$	9.1	\$	17.0	\$	16.3
Washington	\$	3.1	\$	0.7	\$	1.2

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

Additionally, both Oregon and Washington approved our applications in 2020 to defer certain COVID-19 related costs.

Costs that may be recoverable include, but are not limited to, the following: personal protective equipment, cleaning supplies and services, bad debt expense, financing costs to secure liquidity, and certain lost revenue, net of offsetting direct expense reductions associated with COVID-19. As of December 31, 2021, we believe that approximately \$11.2 million of the financial effects related to COVID-19 are recoverable and deferred to a regulatory asset approximately \$8.6 million for incurred costs. In addition, we expect to recognize revenue in a future period for an additional \$2.6 million related to forgone late fee revenue.

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

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

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

ARREARAGE MANAGEMENT PROGRAMS. As part of the approved term sheets, NW Natural established programs in Oregon and Washington to identify and mitigate residential customer arrearages associated with COVID-19. Under the Oregon program, NW Natural can provide a one-time grant of up to \$1,200 per eligible residential customer. Under the Washington program, income-eligible customers may receive up to \$2,500 per year. Funding for these arrearage management programs may not exceed 1% of retail revenues. These programs are funded by NW Natural with recovery facilitated through the COVID-19 deferral dockets. As of December 31, 2021, the amount granted and deferred to a regulatory asset related to these programs was \$3.8 million of the \$6.8 million in total funds available.

RENEWABLE NATURAL GAS. On June 19, 2019, the Oregon legislature passed Senate Bill 98 (SB 98), which enables natural gas utilities to procure or develop RNG on behalf of their Oregon customers. The bill was signed into law by the governor in July 2019, and subsequently, the OPUC opened a docket in August 2019 regarding the rules for the bill. After working with parties, the OPUC adopted final rules in July 2020.

SB 98 and the rules outline the following parameters for the RNG program including: setting voluntary goals for adding as much as 30% renewable natural gas into the state's pipeline system by 2050; enabling gas utilities to invest in and own the cleaning

and conditioning equipment required to bring raw biogas and landfill gas up to pipeline quality, as well as the facilities to connect to the local gas distribution system; and allowing up to 5% of a utility's revenue requirement to be used to cover the incremental cost or investment in renewable natural gas infrastructure.

Further, the 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.

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 applied to calendar years beginning January 1, 2020. Under the terms of the Order in NW Natural's 2020 Oregon general rate case, NW Natural is authorized to begin to recover the expense associated with the CAT as a component of base rates. NW Natural is also directed to adjust the amount recovered for the CAT in each annual PGA to reflect changes in gross revenue and cost of goods sold that occur as a result of the PGA.

The Order also provides for certain adjustments if there are legislative, rulemaking, judicial, or policy decisions that would cause the calculation methodology used by NW Natural for the CAT to vary in a fundamental way. Additionally, the CAT deferred from January 2020 through June 2020 was 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 2021, NW Holdings, through its water subsidiaries, continued acquiring water utilities. NW Holdings purchased an ownership stake in Avion Water Company, Inc., the largest investor-owned water utility in Oregon, and closed on four other transactions in Washington and Idaho, representing approximately 6,500 connections. NW Holdings signed two additional agreements in Texas and Arizona representing approximately 25,500 connections. For our acquired water utilities, we have been executing general rate cases, and in 2021, we completed rate cases in Idaho, Oregon and Washington and filed a general rate case for Sunriver Water in Oregon to support infrastructure investments for safety and reliability. In January 2022, Sunriver Water entered into a settlement agreement with all parties in its rate case, subject to OPUC approval, with new rates effective May 2022.

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

The development of an IRP filing is an extensive and complex process that engages multiple stakeholders in an effort to build a robust and commonly understood analysis. The final product is intended to provide a long-term outlook of the supply-side and demand-side resource and compliance 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 executive order (EO) issued by the governor of Oregon, new regulations and requirements have been developed resulting in a new program known as the Climate Protection Plan. The Washington Department of Ecology is currently undergoing rule-making for the Climate Commitment Act. Both of these policies have the potential to impact long-term resource decisions. In order to reflect the outcomes of the EO proceedings, the time to file NW Natural's next full IRP was extended to July 2022 as approved by the OPUC and WUTC.

PIPELINE SECURITY. In May and July 2021, the Department of Homeland Security's (DHS) Transportation Security Administration (TSA) released two security directives applicable to certain notified owners and operators of natural gas pipeline facilities (including local distribution companies) that TSA has determined to be critical. The first security directive required notified owners/operators to implement cybersecurity incident reporting to the DHS, designate a cybersecurity coordinator, and perform a gap assessment of current entity cybersecurity practices against certain voluntary TSA security guidelines and report relevant results and proposed mitigation to applicable DHS agencies. The second security directive requires notified entities to implement a significant number of specified cybersecurity controls and processes. NW Natural is currently in the process of evaluating and implementing the security directives while ensuring safe and reliable operations. The impact on operations or an estimate or range of possible costs cannot be determined at this time. NW Natural is providing frequent updates to the TSA on NW Natural's progress on achieving the security directives. NW Natural filed requests with the OPUC and WUTC to defer the costs associated with complying with the second security directive and plans to seek recovery of these costs in future ratemaking proceedings. As of December 31, 2021, NW Natural has deferred to a regulatory asset \$1.0 million of costs incurred to date.

ERP UPGRADE DEFERRALS. In the fourth quarter of 2020, NW Natural filed requests to defer expenses pertaining to a project to upgrade the existing enterprise resource planning (ERP) system with the OPUC and WUTC. A stipulation supported by all parties in the Oregon docket was filed and approved by the OPUC in the third quarter of 2021. Under the settlement agreement, NW Natural can recover 100% of costs incurred up to the \$8.55 million estimate of Oregon-allocated costs provided in the docket.

For costs that exceed \$8.55 million up to \$12 million, 80% may be recovered from customers. For costs that exceed \$12 million, 50% may be recovered. As of December 31, 2021, NW Natural deferred to a regulatory asset \$6.7 million of expenses incurred to date. Approval of the Washington deferral was resolved as part of the most recent general rate case.

Environmental, Legislation and Regulation Matters

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

International

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

Federal

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

The U.S. Congress has not yet passed any federal climate change legislation and we cannot predict when or if Congress will pass such legislation and in what form. In the absence of such legislation, the Environmental Protection Agency (EPA) regulates GHG emissions pursuant to the Clean Air Act. 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. Additionally, other federal regulatory agencies are beginning to address greenhouse gas emissions through changes in their regulatory oversight approach and policies.

Washington State

Approximately 11% of NW Natural's revenues and 27% of new meters are attributable to Washington. Effective February 1, 2021, building codes in Washington state require new residential homes to achieve higher levels of energy efficiency based on specified carbon emissions assumptions, which calculate electric appliances to have lower on-site GHG emissions than comparable gas appliances. This increases the cost of new home construction incorporating natural gas depending on a number of factors including home size, equipment configurations, and building envelope measures. Additionally, changes to commercial codes have been proposed that, if adopted as currently drafted, could restrict or eliminate the use of gas space and water heating in new commercial construction beginning in July 2023. The Washington legislature is discussing matters relating to climate change and the use of natural gas during their 2022 legislative session. NW Natural is working with policymakers and a coalition of utilities, labor groups and business coalitions in Washington to help them understand the role of direct use natural gas, and in the coming years renewable natural gas and hydrogen, can play in pursuing more effective policies to reduce GHGs while preserving reliability, resiliency, energy choice, equity, and energy affordability.

Washington has also enacted the Climate Commitment Act (CCA), which establishes a comprehensive program that includes an overall limit for GHG emissions from major sources in the state that declines yearly beginning on January 1, 2023, resulting in an overall reduction of GHG emissions to 95% below 1990 levels by 2050. The Washington Department of Ecology has been directed to develop rules to create a cap-and-invest program, under which entities, including natural gas and electric utilities, and transportation and other fuel providers, which are subject to the CCA must either reduce their emissions or obtain allowances to cover any remaining emissions. These rules are expected by the end of 2022. NW Natural is subject to the CCA and intends to pursue inclusion of CCA compliance costs in rates.

Oregon State

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

In December 2021, the ODEQ concluded its rulemaking process and issued final cap and reduce rules for its Climate Protection Program (CPP), which became effective in January of 2022. The CPP outlines GHG emissions reduction goals of 50% by 2035 and 90% by 2050 from a 1990 baseline. The first three-year compliance period is 2022 through 2024. NW Natural is subject to the CPP, and pursuant to this rule, is required to make its first compliance filing in 2025. We intend to pursue inclusion of compliance costs for the CPP in rates. We also expect the CPP to be subject to legal challenge from a number of stakeholders.

NW Natural is also engaged in an OPUC Fact-Finding ("Fact-Finding Docket"), opened in response to the EO for the purpose of analyzing the potential natural gas utility bill impacts that may result from the ODEQ's CPP and to identify appropriate regulatory tools to mitigate potential customer impacts. The OPUC Staff has indicated that the ultimate goal of the Fact-Finding Docket is to inform future policy decisions and other key analyses to be considered in 2022, after the CPP is in place. We expect the Oregon Commission to issue a final report in 2022.

The Oregon legislature is discussing matters relating to climate change and the use of natural gas during their 2022 legislative session. NW Natural is working with policymakers and a coalition of utilities in Oregon to help stakeholders understand the role direct use natural gas, and in the coming years renewable natural gas and hydrogen, can play in pursuing more effective policies to reduce greenhouse gases while preserving reliability, resiliency, energy choice, equity, and energy affordability.

Local Jurisdictions and Other Advocacy

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, including limitations or bans on the use of natural gas in new construction or otherwise. NW Natural is actively engaged with such cities, local governments, and other advocates, including, among others the city of Eugene, Oregon, in our service territory and is working with these communities to help them understand the ways in which the natural gas system, and renewable fuels, can help them meet their decarbonization goals.

NW Natural Decarbonization Initiatives & Actions

Our customers are currently paying less for their natural gas today than they did 15 years ago. We expect that compliance with any form of regulation of GHG emissions, including the CPP in Oregon and CCA in Washington as well as voluntary actions under SB 98, will require additional resources and compliance tools. The developing and changing carbon credit markets and other compliance tool options, decades-long timeframes for compliance, likely changing and evolving laws and energy policy, and evolving technological advancements, all make it difficult to accurately predict long-term tools for and costs of compliance. Given that CCA rules are in development and the recency of the adoption of the final CPP rules, we have not completed our full integrated resources planning process to identify our compliance obligations and expected costs. Even as we develop these compliance and cost projections, they will be uncertain and subject to significant change over the nearly 30-year time horizon. It is our current expectation that costs associated with compliance generally would be recovered in rates and would result in an increase in the prices charged to customers. The CPP in Oregon is largely tied to the volume of natural gas consumed and as such, we currently expect that CPP cost impacts will be the lowest among residential customers because they generally consume less and highest among industrial customers that use significantly higher volumes of natural gas, with cost increases for commercial customers falling between residential and industrial customers. The projected customer bill impact of the CPP varies significantly based on forecasting assumptions related to permitted levels of rate recovery, available technologies and equipment, weather patterns and gas usage, customer growth or attrition, allocation of fixed costs among classes of customers, energy efficiency levels, availability, use and cost of renewables, feasibility of broad-scale hydrogen in the natural gas system, and a number of other assumptions used in the complex analysis of integrated resource planning.

It is difficult to assess whether building codes making use of natural gas more expensive for home builders or higher customer bills as compliance costs are included in rates will affect the competitiveness of our business or result in a decline in demand for natural gas. Both developments could negatively affect our gas utility customer growth. At the same time natural gas utilities will be subject to GHG emissions regulation, we expect that other energy source providers will be subject to similar, or in some cases stricter or more rapid, compliance requirements that are likely to affect their cost and competitiveness relative to natural gas as well. For example, President Biden has announced his intention to have a carbon-free electricity sector by 2035, 15 years before the target date of the CCA or CCP. In June 2021, the State of Oregon enacted HB 2021, a clean electricity bill that requires the

state's two largest investor-owned electric utilities and retail electricity service suppliers to reduce GHG emissions associated with electricity sold to Oregon customers to 100 percent below baseline levels by 2040 with interim steps, including an 80 percent reduction by 2030 and 90 percent reduction by 2035. This bill does not replace the separate renewable portfolio standards previously established in Oregon, which sets requirements for how much of the electricity used in Oregon must come from renewable resources. In Washington, SB 5116, the Clean Energy Transformation Act, requires all electric utilities in Washington to transition to carbon-neutral electricity by 2030 and to 100 percent carbon-free electricity by 2045. We expect that compliance with these and other laws will substantially increase the cost of energy for electric customers in our service territory. We are not able to determine at this time whether increased electricity costs will make natural gas use more or less competitive on a relative basis.

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

NW Natural continues to take proactive steps in seeking to reduce GHG emissions in our region and is proactively communicating with local, state, and federal governments and communities about those steps. NW Natural has been a leader among gas utilities in innovative programs. Notable programs have included a decoupling rate structure designed to weaken the link between earnings and gas consumption by customer adopted in 2007, and establishment of a voluntary Smart Energy carbon offset program for customers established in 2007, and removal of all known cast iron and bare steel to create one of the tightest and most modern distribution systems in the country. We continue to believe that NW Natural has an important role in providing affordable and equitable energy to the communities we serve. NW Natural is an important provider of energy to families and businesses in Oregon and southwest Washington. Yet, 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 with the goal of using our modern pipeline system to help the Pacific Northwest transition to a clean energy future.

In 2016, NW Natural initiated a multi-pronged, multi-year strategy to accelerate and deliver greater GHG emission reductions in the communities we serve. Key components of this strategy include customer energy efficiency, continued adoption of NW Natural's voluntary Smart Energy carbon offset program, and seeking to incorporate RNG and hydrogen into our gas supply. RNG is produced from organic materials including food, agricultural and forestry waste, wastewater, or landfills. We believe RNG has powerful potential to reduce net GHG emissions. Methane that would otherwise be released to the atmosphere 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. 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.

Under SB 98, 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. To that end, in 2020 and 2021, NW Natural announced several agreements and investments to procure RNG for its customers. In addition, NW Natural began a partnership with BioCarbN 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. The first project was commissioned in early 2022 with a second underway and planned to be commissioned in early 2023. To date, NW Natural has signed agreements with options to purchase or develop RNG for utility customers totaling about 3% of NW Natural's annual sales volume in Oregon.

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, 2021, 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. In addition to NW Natural's local gas distribution business, the NGD segment also includes the portion of the Mist underground storage facility used to serve NGD customers, the North Mist gas storage expansion, NWN Gas Reserves, which is a wholly owned subsidiary of Energy Corp., and NW Natural RNG Holding Company, LLC.

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

NGD segment highlights include:

<i>Dollars and therms in millions, except EPS data</i>	2021	2020	2019
NGD net income	\$ 69.0	\$ 63.6	\$ 60.8
Diluted EPS - NGD segment	\$ 2.24	\$ 2.08	\$ 2.04
Gas sold and delivered (in therms)	1,185	1,143	1,215
NGD margin ⁽¹⁾	\$ 479.8	\$ 438.1	\$ 422.7

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

2021 COMPARED TO 2020. NGD net income was \$69.0 million in 2021 compared to \$63.6 million in 2020. The primary factors contributing to the increase in NGD net income were as follows:

- \$41.7 million increase in NGD margin primarily due to:
 - \$36.4 million increase due to new customer rates primarily from the 2020 Oregon rate case that went into effect November 1, 2020;
 - \$5.7 million increase from residential customer growth and an increase in industrial customer volumes; partially offset by
 - \$3.6 million decrease primarily driven by a loss from the gas cost incentive sharing mechanism in Oregon.

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

- \$19.3 million increase in other NGD operating and maintenance expenses primarily due to higher information technology expenses, compensation and benefits costs, and lease expense;
- \$8.9 million increase in depreciation expense due to NGD plant additions as we continued to invest in our gas utility system;
- \$5.3 million higher income tax expense reflecting higher pretax income and Oregon CAT; and
- \$3.3 million increase in general taxes due primarily to higher assessed property values; partially offset by
- \$2.7 million increase in other income (expense), net primarily due to higher interest income on regulatory assets.

Total natural gas sold and delivered in 2021 increased 4% over 2020 primarily due to the recovery of commercial customer activity as pandemic restrictions lifted compared to the prior period and NGD meter growth.

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:

- \$15.4 million increase in NGD margin primarily due to:
 - \$17.7 million increase due to new customer rates from the 2020 Oregon and 2019 Washington rate cases;
 - \$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
 - \$3.9 million increase from customer growth; partially offset by
 - \$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;
 - \$4.0 million decrease primarily due to lower overrun and entitlement fees;
 - \$2.7 million decrease driven by warmer than average weather in 2020 compared average weather in 2019; and
 - \$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:

- \$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;
- \$13.8 million increase in depreciation and general tax expenses due to NGD plant additions, including the North Mist gas storage facility;
- \$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
- \$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.

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	2021	2020	2019	Favorable (Unfavorable)	
				2021 vs. 2020	2020 vs. 2019
<u>NGD volumes (therms):</u>					
Residential and commercial sales	703,054	677,271	734,347	25,783	(57,076)
Industrial sales and transportation	481,721	465,626	480,807	16,095	(15,181)
Total NGD volumes sold and delivered	1,184,775	1,142,897	1,215,154	41,878	(72,257)
<u>Operating revenues:</u>					
Residential and commercial sales	\$ 730,794	\$ 661,346	\$ 638,884	\$ 69,448	\$ 22,462
Industrial sales and transportation	65,299	58,678	56,553	6,621	2,125
Other distribution revenues	1,707	1,926	13,035	(219)	(11,109)
Other regulated services	19,087	19,122	12,056	(35)	7,066
Total operating revenues	816,887	741,072	720,528	75,815	20,544
Less: Cost of gas	292,538	262,980	255,135	(29,558)	(7,845)
Less: Environmental remediation expense	9,938	9,691	12,337	(247)	2,646
Less: Revenue taxes	34,600	30,291	30,325	(4,309)	34
NGD margin	\$ 479,811	\$ 438,110	\$ 422,731	\$ 41,701	\$ 15,379
<u>NGD margin⁽¹⁾</u>					
Residential and commercial sales	\$ 430,295	\$ 385,989	\$ 366,974	\$ 44,306	\$ 19,015
Industrial sales and transportation	32,182	30,800	31,985	1,382	(1,185)
Gain (loss) from gas cost incentive sharing	(3,381)	267	(1,299)	(3,648)	1,566
Other margin ⁽²⁾	1,633	1,938	13,021	(305)	(11,083)
Other regulated services	19,082	19,116	12,050	(34)	7,066
NGD margin	\$ 479,811	\$ 438,110	\$ 422,731	\$ 41,701	\$ 15,379
<u>Degree days⁽³⁾</u>					
Average ⁽⁴⁾	2,692	2,706	2,710	(14)	(4)
Actual	2,378	2,384	2,709	— %	(12)%
Percent warmer than average weather	(12)%	(12)%	— %		
<u>NGD meters - end of period:</u>					
Residential meters	715,958	704,675	692,012	11,283	12,663
Commercial meters	68,961	68,812	69,858	149	(1,046)
Industrial meters	978	989	1,007	(11)	(18)
Total number of meters	785,897	774,476	762,877	11,421	11,599
<u>NGD meter growth:</u>					
Residential meters	1.6 %	1.8 %			
Commercial meters	0.2 %	(1.5)%			
Industrial meters	(1.1)%	(1.8)%			
Total meter growth	1.5 %	1.5 %			

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

⁽²⁾ Other margin adjustments include net revenue recoveries of \$6.2 million for the year ended December 31, 2019 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.

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 81% 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—WARM" above.

NGD residential and commercial sales highlights include:

<i>In millions</i>	2021	2020	2019
Volumes (therms):			
Residential sales	445.6	435.2	457.2
Commercial sales	257.5	242.1	277.1
Total volumes	703.1	677.3	734.3
Operating revenues:			
Residential sales	\$ 506.2	\$ 460.3	\$ 437.7
Commercial sales	224.6	201.0	201.2
Total operating revenues	\$ 730.8	\$ 661.3	\$ 638.9
NGD Margin:			
Residential margin	\$ 312.5	\$ 281.1	\$ 265.9
Commercial margin	117.8	104.9	101.1
Total NGD margin	\$ 430.3	\$ 386.0	\$ 367.0

2021 COMPARED TO 2020. The increase of \$69.5 million in total residential and commercial operating revenue and \$44.3 million in NGD margin were primarily the result of new customer rates in Oregon that took effect on November 1, 2020, growth in residential customer meters, and higher commercial volumes as COVID-19 restrictions and closures were lifted. Sales volumes increased 25.8 million therms, or 4%, primarily due to growth in residential customer meters and higher commercial volumes as COVID-19 restrictions and closures were lifted.

2020 COMPARED TO 2019. The increase 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.

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:

<i>In millions</i>	2021	2020	2019
Volumes (therms):			
Firm and interruptible sales	90.8	82.9	84.0
Firm and interruptible transportation	390.9	382.7	396.8
Total volumes	481.7	465.6	480.8
NGD Margin:			
Firm and interruptible sales	\$ 12.6	\$ 11.6	\$ 12.1
Firm and interruptible transportation	19.6	19.2	19.9
Total NGD margin	\$ 32.2	\$ 30.8	\$ 32.0

2021 COMPARED TO 2020. NGD total industrial sales and transportation volumes increased 16.1 million therms, or 3%, primarily due to higher usage from multiple customers, most notably in the pulp and paper and chemical manufacturing industries. NGD margin increased \$1.4 million primarily driven by new rates in Oregon that took effect on November 1, 2020.

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.

Other Regulated Services Margin

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 margin highlights include:

<i>In millions</i>	2021	2020	2019
North Mist storage services	\$ 19.1	\$ 19.5	\$ 11.8
Other services	—	(0.4)	0.3
Total other regulated services	\$ 19.1	\$ 19.1	\$ 12.1

2021 COMPARED TO 2020. Other regulated services margin was relatively flat when compared to the prior period. The North Mist facility did not experience any significant fluctuations in storage service revenue. See Note 7 for more information regarding North Mist expansion lease accounting.

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.

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, renewable thermal certificate costs, 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—*Derivative Instruments and Hedging Activities*" below.

Cost of gas highlights include:

<i>In millions, except where indicated</i>	2021	2020	2019
Cost of gas	\$ 292.5	\$ 263.0	\$ 255.1
Volumes sold (therms) ⁽¹⁾	794	760	818
Average cost of gas (cents per therm)	\$ 0.37	\$ 0.35	\$ 0.31
Gain (loss) from gas cost incentive sharing	\$ (3.4)	\$ 0.3	\$ (1.3)

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

2021 COMPARED TO 2020. Cost of gas increased \$29.5 million, or 11%, primarily due to a \$3.4 million loss from gas cost incentive sharing driven by costs related to the 2021 cold weather event that were not deferred for future recovery. The remaining increase in cost of gas is primarily the result of a 4% increase in volumes sold driven by customer growth and higher commercial volumes as COVID-19 restrictions and closures were lifted. For a discussion of the gas cost incentive sharing mechanism, see "Regulatory Matters—Rate Mechanisms—*Purchased Gas Adjustment*" above.

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.

Other

Other activities aggregated and reported as other at NW Holdings include NNG Financial's investment in Kelso-Beaver Pipeline (KB Pipeline); NW Natural Renewables Holdings, LLC and its non-regulated renewable natural gas activities; 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 of its interest in Trail West Holdings, LLC (TWH) to an unrelated third party. See Note 13 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. To the extent that the capacity used is included in NGD rates, 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:

<i>In millions, except EPS data</i>	2021		2020		2019
NW Natural other - net income	\$	12.2	\$	7.0	\$ 8.1
Other NW Holdings activity		(2.5)		(0.3)	(3.6)
NW Holdings other - net income	\$	9.7	\$	6.7	\$ 4.5
Diluted EPS - NW Holdings - other	\$	0.32	\$	0.22	\$ 0.15

2021 COMPARED TO 2020. Other net income increased \$3.0 million and \$5.2 million at NW Holdings and NW Natural, respectively. The increase at NW Natural was primarily due to \$7.9 million of higher asset management revenue primarily related to the 2021 cold weather event, partially offset by \$2.1 million of income tax expense associated with the higher revenue. The increase at NW Holdings was driven by the increase at NW Natural, partially offset by higher business development and consulting costs at the holding company.

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.

Consolidated Operations

Operations and Maintenance

Operations and maintenance highlights include:

<i>In millions</i>	2021		2020		2019
NW Natural	\$	188.8	\$	168.9	\$ 169.1
Other NW Holdings operations and maintenance		15.4		11.2	9.1
NW Holdings	\$	204.2	\$	180.1	\$ 178.2

2021 COMPARED TO 2020. Operations and maintenance expense increased \$19.9 million for NW Natural primarily due to the following:

- \$7.4 million increase in contractor, professional service fees and license costs related to information technology system upgrades;
- \$4.8 million increase related to higher compensation and benefit costs; and
- \$3.6 million increase in lease expense related to a new headquarters and operations center.

Operations and maintenance expense increased \$24.1 million for NW Holdings primarily due to the following:

- \$4.2 million increase in other NW Holdings operations and maintenance expense primarily due to higher business development and consulting costs at the holding company; and
- \$19.9 million increase in operations and maintenance expense at NW Natural as discussed above.

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

- \$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
- \$0.6 million decrease in workers compensation expense as a result of fewer claims in 2020; partially offset by
- \$4.5 million increase in contractor and professional service expenses, and moving costs, as we moved to a new headquarters and operations center;
- \$1.6 million increase related to higher compensation costs attributable to annual employee cost increases; and

- \$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:

- \$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
- \$0.2 million decrease in operations and maintenance expense at NW Natural as discussed above.

Depreciation and Amortization

Depreciation and amortization highlights include:

<i>In millions</i>	2021	2020	2019
NW Natural	\$ 110.5	\$ 101.6	\$ 90.4
Other NW Holdings depreciation and amortization	3.0	2.1	1.1
NW Holdings	<u>\$ 113.5</u>	<u>\$ 103.7</u>	<u>\$ 91.5</u>

2021 COMPARED TO 2020. Depreciation and amortization expense increased \$8.9 million for NW Natural, primarily due to additional capital investments in the distribution system, Mist storage, and information technology systems, as well as renovation and construction of resource and operations service centers.

Depreciation and amortization expense increased \$9.8 million for NW Holdings, primarily due to a \$0.9 million increase in other NW Holdings depreciation and amortization related to water and wastewater acquisitions and an \$8.9 million increase at NW Natural as discussed above.

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.

Other Income (Expense), Net

Other income (expense), net highlights include:

<i>In millions</i>	2021	2020	2019
NW Natural total other income (expense), net	\$ (12.7)	\$ (15.1)	\$ (23.0)
Other NW Holdings activity	0.1	1.2	0.2
NW Holdings total other income (expense), net	<u>\$ (12.6)</u>	<u>\$ (13.9)</u>	<u>\$ (22.8)</u>

2021 COMPARED TO 2020. Other income (expense), net changed \$2.4 million at NW Natural primarily due to higher interest income on regulatory assets and lower pension non-service costs. Other income (expense), net changed \$1.3 million at NW Holdings driven by the change at NW Natural discussed above, partially offset by a gain recognized in the prior period related to the sale of Trail West. Other income (expense), net primarily consists of regulatory interest, pension and other postretirement non-service costs, gains from company-owned life insurance, and donations.

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.

Interest Expense, Net

Interest expense, net highlights include:

<i>In millions</i>	2021	2020	2019
NW Natural	\$ 43.0	\$ 40.9	\$ 41.3
Other NW Holdings interest expense	1.5	2.2	1.4
NW Holdings	<u>\$ 44.5</u>	<u>\$ 43.1</u>	<u>\$ 42.7</u>

2021 COMPARED TO 2020. Interest expense, net, increased \$2.1 million at NW Natural primarily due to lower AFUDC debt interest income and higher interest on long-term debt.

Interest expense, net, increased \$1.4 million at NW Holdings primarily due to the increase at NW Natural discussed above, partially offset by lower interest expense on the credit agreement at NW Holdings.

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.

Income Tax Expense

NW Holdings income tax expense highlights include:

<i>In millions</i>	2021	2020	2019
Income tax expense	\$ 27.4	\$ 21.1	\$ 12.6
Effective tax rate	25.8 %	23.1 %	16.2 %

NW Natural income tax expense highlights include:

<i>In millions</i>	2021	2020	2019
Income tax expense	\$ 28.3	\$ 21.1	\$ 14.1
Effective tax rate	25.9 %	23.0 %	16.9 %

2021 COMPARED TO 2020. The effective tax rate increased 2.7 and 2.9 percentage points at NW Holdings and NW Natural, respectively. The increase in the effective tax rate is primarily due to Oregon Corporate Activity Tax, the majority of which is incurred because of Oregon regulated operations and for which rate recovery began on November 1, 2020.

2020 COMPARED TO 2019. The effective tax rate increased 6.9 and 6.1 percentage points 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 Tax Cuts and Jobs Act benefits to customers and the regulatory pension disallowance.

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 for the year ended December 31, 2020.

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

FINANCIAL CONDITION

Capital Structure

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

When additional capital is required, debt or equity securities are issued depending on both the target capital structure and market conditions. These sources of capital are also used to fund long-term debt retirements and short-term commercial paper

maturities. See "*Liquidity and Capital Resources*" below and Note 9. Achieving our target capital structure and maintaining sufficient liquidity to meet operating requirements is necessary to maintain attractive credit ratings and provide access to the capital markets at reasonable costs.

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

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

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

	December 31,	
	2021	2020
Common equity	49.8 %	47.7 %
Long-term debt (including current maturities)	50.2	52.3
Total	100.0 %	100.0 %

Including short-term debt balances, as of December 31, 2021 and 2020, NW Holdings' consolidated capital structure included common equity of 39.5% and 41.4%, long-term debt of 44.0% and 40.0%, and short-term debt including current maturities of long-term debt of 16.5% and 18.6%, respectively. As of December 31, 2021 and 2020, NW Natural's consolidated capital structure included common equity of 44.2% and 42.1%, long-term debt of 44.7% and 43.2%, and short-term debt including current maturities of long-term debt of 11.1% and 14.7%, respectively.

During 2021, NW Natural's capital structure changed primarily due to the issuance of long-term debt and capital contributions from NW Holdings. NW Holdings' capital structure changed primarily due to issuances of common stock and increases in short-term debt at NW Holdings. See further discussion below in "Cash Flows — *Financing Activities*".

Liquidity and Capital Resources

At December 31, 2021 and December 31, 2020, NW Holdings had approximately \$18.6 million and \$30.2 million, and NW Natural had approximately \$12.3 million and \$10.5 million, of cash and cash equivalents, respectively. In order to maintain sufficient liquidity during periods when capital markets are volatile, NW Holdings and NW Natural may elect to maintain higher cash balances and add short-term borrowing capacity. NW Holdings and NW Natural may also pre-fund their respective capital expenditures when long-term fixed rate environments are attractive. NW Holdings and NW Natural expect to have ample liquidity in the form of cash on hand and from operations and available credit capacity under credit facilities to support funding needs.

In August 2021, NW Holdings initiated an at-the-market (ATM) equity program by entering into an equity distribution agreement under which NW Holdings may issue and sell from time to time shares of common stock, no par value, having an aggregate gross sales price of up to \$200 million. NW Holdings is under no obligation to offer and sell common stock under the ATM equity program, which expires in August 2024. Any shares of common stock offered under the ATM equity program are registered on NW Holdings' universal shelf registration statement filed with the SEC. During the year ended December 31, 2021, NW Holdings issued and sold 375,720 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$17.5 million, net of fees and commissions paid to agents of \$0.4 million. As of December 31, 2021, NW Holdings had issued and sold 375,720 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$17.5 million, net of fees and commissions paid to agents of \$0.4 million.

NW Holdings

For NW Holdings, short-term liquidity is primarily provided by cash balances, dividends from its operating subsidiaries, in particular NW Natural, available cash from a multi-year credit facility, and short-term credit facilities. NW Holdings also has a universal shelf registration statement filed with the SEC for the issuance of debt and equity securities. NW Holdings long-term debt, if any, and equity issuances are primarily used to provide equity contributions to NW Holdings' operating subsidiaries for operating and capital expenditures and other corporate purposes. Over the next three years, we estimate NW Holdings' and NW Natural's combined incremental capital needs to be in the range of \$600 million to \$700 million. NW Holdings intends to use raised capital to support NW Natural, NW Natural Water, and NW Natural Renewables operating and capital expenditure programs. NW Holdings' issuance of securities is not subject to regulation by state public utility commissions, but the dividends from NW Natural to NW Holdings are subject to regulatory ring-fencing provisions. NW Holdings guarantees the debt of its wholly-owned subsidiary, NWN Water. See "*Long-Term Debt*" below for more information regarding NWN Water debt.

As part of the ring-fencing conditions agreed upon with the OPUC and WUTC, NW Natural may not pay dividends or make distributions to NW Holdings if NW Natural's credit ratings and common equity ratio, defined as the ratio of equity to long-term

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

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

At December 31, 2021 and 2020, NW Natural satisfied the ring-fencing provisions described above.

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

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

NW Natural

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

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

In the event senior unsecured long-term debt ratings are downgraded, or outstanding derivative positions exceed a certain credit threshold, counterparties under derivative contracts could require NW Natural to post cash, a letter of credit, or other forms of collateral, which could expose NW Natural to additional cash requirements and may trigger increases in short-term borrowings while in a net loss position. NW Natural was not required to post collateral at December 31, 2021. See "*Credit Ratings*" below and Note 15.

Other items that may have a significant impact on NW Natural's liquidity and capital resources include NW Natural's pension contribution requirements and environmental expenditures.

PENSION CONTRIBUTIONS. NW Natural does not expect to make contributions to its company-sponsored defined benefit plan, which is closed to new employees, over the next several years under applicable laws and regulations. See "*Application of Critical Accounting Policies—Pensions and Postretirement Benefits*" below and Note 10 for more information.

ENVIRONMENTAL EXPENDITURES. NW Natural expects to continue using cash resources to fund environmental liabilities for future environmental remediation or action. NW Natural has authorizations in Oregon and Washington to defer costs related to remediation of properties that are owned or were previously owned by NW Natural. In Oregon, a Site Remediation and Recovery Mechanism (SRRM) is currently in place to recover prudently incurred costs allocable to Oregon customers, subject to an earnings test. On October 21, 2019 the WUTC authorized an Environmental Cost Recovery Mechanism (ECRM) for recovery of prudently incurred costs allocable to Washington customers beginning November 1, 2019. See Note 17 and "*Results of Operations—Regulatory Matters—Environmental Cost Deferral and Recovery*" above.

Based on several factors, including current credit ratings, NW Natural's commercial paper program, current cash reserves, committed credit facilities, and an expected ability to issue long-term debt and receive equity contributions from NW Holdings, NW Natural believes its liquidity is sufficient to meet anticipated near-term cash requirements, including all contractual obligations, and investing and financing activities as discussed in "Cash Flows" below.

NW NATURAL DIVIDENDS. The declarations and amount of future dividends to NW Holdings will depend upon earnings, cash flows, financial condition, the satisfaction of OPUC and WUTC regulatory ring-fencing restrictions, and other factors. The amount and timing of dividends payable on common stock is subject to approval of the NW Natural Board of Directors.

Gas and Pipeline Capacity Purchase Agreements

NW Natural has signed agreements providing for the reservation of firm pipeline capacity under which it is required to make fixed monthly payments for contracted capacity. The pricing component of the monthly payment is established, subject to change, by U.S. or Canadian regulatory bodies, or is established directly with private counterparties, as applicable. In addition, NW Natural has entered into long-term agreements to release firm pipeline capacity. NW Natural also enters into short-term and long-term gas purchase agreements. Refer to Note 16 for gas and pipeline capacity purchase commitments.

NW Natural Renewables is a newly formed and non-utility regulated subsidiary of NW Natural Holdings established to pursue non-regulated renewable natural gas activities. In September 2021, a subsidiary of NW Natural Renewables and a subsidiary of EDL, a global producer of sustainable distributed energy, executed agreements to develop two production facilities that are designed to convert landfill waste gases to renewable natural gas (RNG). Testing and commissioning of the production facilities is expected to occur in 2023. Upon completion of each facility, the subsidiary of NW Natural Renewables is committed to make cash payments totaling \$50.1 million to partially fund the infrastructure required to condition biogas and connect gas production to existing regional pipeline networks. Alongside these development agreements, a subsidiary of NW Natural Renewables and a subsidiary of EDL executed agreements designed to secure a 20-year supply of RNG for NW Natural Renewables. At December 31, 2021, the amount of RNG purchases based on prices and quantities specified in the agreements are as follows: approximately \$9.2 million in 2023, \$10.5 million in 2024, \$21.0 million in 2025, \$21.0 million in 2026 and \$584.0 million thereafter.

Other Purchase Agreements

Other purchase commitments primarily consist of remaining balances under existing purchase orders and gas storage agreements. At December 31, 2021, the amount due over the duration of the purchase agreements totaled \$48.1 million. Except for these certain purchase commitments, NW Holdings and NW Natural have no material off-balance sheet financing arrangements.

Short-Term Debt

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

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

In June 2021, NW Natural entered into a \$100.0 million 364-Day Term Loan Credit Agreement (Term Loan) and borrowed the full amount. All principal and interest under the Term Loan was repaid in December 2021.

At December 31, 2021 and 2020, NW Natural's short-term debt outstanding of \$245.5 million and \$231.5 million, respectively, consisted of commercial paper borrowings. At December 31, 2021 and 2020, NW Holdings' short-term debt outstanding of \$389.5 million and \$304.5 million, respectively, consisted of the commercial paper outstanding at NW Natural and \$144.0 million and \$73.0 million, respectively, of balances outstanding under the credit agreement at NW Holdings. The weighted average interest rate of commercial paper at NW Natural at December 31, 2021 and 2020 was 0.3% and 0.4%, respectively. The weighted average interest rate on the credit agreement at NW Holdings at December 31, 2021 and 2020 was 1.1% and 1.2%, respectively.

Credit Agreements

NW Holdings

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

All lenders under the NW Holdings credit agreement are major financial institutions with committed balances and investment grade credit ratings as of December 31, 2021 as follows:

In millions

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

Based on credit market conditions, it is possible one or more lending commitments could be unavailable to NW Holdings if the lender defaulted due to lack of funds or insolvency; however, NW Holdings does not believe this risk to be imminent due to the lenders' strong investment-grade credit ratings.

The NW Holdings credit agreement permits the issuance of letters of credit in an aggregate amount of up to \$40 million. The principal amount of borrowings under the credit agreement is due and payable on the maturity date. The credit agreement requires NW Holdings to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Holdings was in compliance with this covenant at December 31, 2021 and 2020, with consolidated indebtedness to total capitalization ratios of 60.5% and 58.6%, respectively.

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

The NW Holdings credit agreement also includes a mechanism that can increase or decrease the undrawn interest rate by up to 1 basis point and undrawn interest rate by up to 5 basis points in accordance with NW Holdings' independently verified achievement of quantifiable metrics related to two goals—one related to carbon savings and one related to in-line inspections of NW Natural's transmission pipeline. Performance against these metrics is designed to be assessed annually with pricing adjustments, if any, resetting off of primary pricing annually and not cumulatively.

Interest charges on the NW Holdings credit agreement are indexed to the London Interbank Offered Rate (LIBOR). The agreement contains provisions addressing the end of the use of LIBOR as a benchmark rate of interest and a mechanism for determining an alternative benchmark rate of interest without an amendment to the credit agreement. If the provisions are triggered, LIBOR would be replaced by a secured overnight financing rate (SOFR)-based rate, if one can be determined, or, if not, LIBOR may be replaced by a rate selected by NW Holdings and the administrative agent under the agreement. The replacement rate is also subject to a spread adjustment which may be positive, negative or zero.

NW Holdings had no letters of credit issued and outstanding at December 31, 2021 and 2020.

NW Natural

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

All lenders under the NW Natural credit agreement are major financial institutions with committed balances and investment grade credit ratings as of December 31, 2021 as follows:

In millions

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

Based on credit market conditions, it is possible one or more lending commitments could be unavailable to NW Natural if the lender defaulted due to lack of funds or insolvency; however, NW Natural does not believe this risk to be imminent due to the lenders' strong investment-grade credit ratings.

The NW Natural credit agreement permits the issuance of letters of credit in an aggregate amount of up to \$60 million. The principal amount of borrowings under the credit agreement is due and payable on the maturity date. There were no outstanding

balances under this credit agreement at December 31, 2021 or 2020. The credit agreement requires NW Natural to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and accelerate the maturity of all amounts outstanding. NW Natural was in compliance with this covenant at December 31, 2021 and 2020, with consolidated indebtedness to total capitalization ratios of 55.8% and 57.9%, respectively.

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

The NW Natural credit agreement also includes a mechanism that can increase or decrease the undrawn interest rate by up to 1 basis point and undrawn interest rate by up to 5 basis points in accordance with NW Natural's independently verified achievement of quantifiable metrics related to two goals—one related to carbon savings and one related to in-line inspections of NW Natural's transmission pipeline. Performance against these metrics is designed to be assessed annually with pricing adjustments, if any, resetting off of primary pricing annually and not cumulatively.

Interest charges on the NW Natural credit agreement are indexed to LIBOR. The agreement contains provisions addressing the end of the use of LIBOR as a benchmark rate of interest and a mechanism for determining an alternative benchmark rate of interest without an amendment to the credit agreement. If the provisions are triggered, LIBOR would be replaced by a secured overnight financing rate (SOFR)-based rate, if one can be determined, or, if not, LIBOR may be replaced by a rate selected by NW Natural and the administrative agent under the agreement. The replacement rate is also subject to a spread adjustment which may be positive, negative or zero.

Credit Ratings

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

The following table summarizes NW Natural's current credit ratings:

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

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

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

Long-Term Debt

Issuance of Long-Term Debt

In November 2021, NW Natural issued \$130.0 million of First Mortgage Bonds (FMBs) with an interest rate of 3.08% due in 2051. Issued as a sustainability bond, net proceeds from the sale of the FMBs were added to the general funds of NW Natural and used for general corporate purposes, while an amount equivalent to the net proceeds from the sale of the bonds was or will be allocated to finance and/or refinance, in whole or in part, investments in one or more new or existing projects of NW Natural deemed to be an eligible project in the bond offering. Projects deemed eligible for the FMB offering included expenditures related to RNG and hydrogen generation and infrastructure, programs related to energy efficiency, expenditures related to operations or service centers that have or are expected to receive LEED Gold or Platinum certification, and expenditures and program investments related to enabling opportunities for diverse business enterprises.

In June 2021, NWN Water, a wholly-owned subsidiary of NW Holdings, entered into a five-year term loan agreement for \$55.0 million. The loan carried an interest rate of 0.90% at December 31, 2021, which is based upon the one-month LIBOR rate. The loan is guaranteed by NW Holdings and requires NW Holdings to maintain a consolidated indebtedness to total capitalization ratio of 70% or less. Failure to comply with this covenant would entitle the lenders to terminate their lending commitments and

accelerate the maturity of all amounts outstanding. NW Holdings was in compliance with this covenant at December 31, 2021, with a consolidated indebtedness to total capitalization ratio of 60.5%.

Retirement of Long-Term Debt

The following NW Natural debentures were retired in the periods indicated:

<i>In millions</i>	Year Ended December 31,		
	2021	2020	2019
NW Natural First Mortgage Bonds:			
Series 8.31% due 2019	\$ —	\$ —	\$ 10
Series 7.63% due 2019	—	—	20
Series 5.37% due 2020	—	75	—
Series 9.05% due 2021	10	—	—
Series 3.18% due 2021	50	—	—
Total	<u>\$ 60</u>	<u>\$ 75</u>	<u>\$ 30</u>

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

Maturities and Interest on Long-Term Debt

Maturities and payment of interest on long-term debt for each of the annual periods through December 31, 2026 and thereafter are as follows:

<i>In millions</i>	Long-term debt maturities	Interest on long-term debt
NW Natural:		
2022	\$ —	\$ 42.6
2023	90.0	41.7
2024	—	38.6
2025	30.0	38.0
2026	55.0	36.0
Thereafter	819.7	513.9
NW Natural Total	<u>\$ 994.7</u>	<u>\$ 710.8</u>
Other NW Holdings:		
2022	\$ 0.3	\$ 0.8
2023	0.4	1.3
2024	0.3	1.4
2025	0.3	1.3
2026	55.3	0.7
Thereafter	1.9	0.2
Other NW Holdings Total	<u>\$ 58.5</u>	<u>\$ 5.7</u>
NW Holdings:		
2022	\$ 0.3	\$ 43.4
2023	90.4	43.0
2024	0.3	40.0
2025	30.3	39.3
2026	110.3	36.7
Thereafter	821.6	514.1
NW Holdings Total	<u>\$ 1,053.2</u>	<u>\$ 716.5</u>

Bankruptcy Ring-fencing Restrictions

As part of the ring-fencing conditions agreed upon with the OPUC and WUTC, NW Natural is required to have one director who is independent from NW Natural management and from NW Holdings and to issue one share of NW Natural preferred stock to an independent third party. NW Natural was in compliance with both of these ring-fencing provisions as of December 31, 2021 and 2020. NW Natural may file a voluntary petition for bankruptcy only if approved unanimously by the Board of Directors of NW Natural, including the independent director, and by the holder of the preferred share.

Cash Flows

Operating Activities

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

<i>In millions</i>	2021	2020	2019
NW Natural cash provided by operating activities	\$ 141.5	\$ 148.5	\$ 186.9
NW Holdings cash provided by operating activities	\$ 160.4	\$ 145.3	\$ 186.0

The significant drivers of changes in cash provided by operating activities discussed below apply to both NW Holdings and NW Natural.

2021 COMPARED TO 2020. The significant factors contributing to the \$7.0 million decrease at NW Natural cash flow provided by operating activities were as follows:

- \$58.1 million increase in net deferred gas costs as the actual costs during the 2020-21 winter season were 21% above the PGA estimates primarily due to the 2021 cold weather event as opposed to gas costs in the 2019-20 winter season that were in line with estimates embedded in the PGA,
- \$26.5 million decrease due to increased receivables; partially offset by
- \$51.7 million increase in the regulatory incentive sharing mechanism related to revenues earned from Mist gas storage and asset management activities primarily related to the 2021 cold weather event, and
- \$19.4 million of lower contributions to the defined benefit pension plan.

The \$15.1 million increase in NW Holdings cash flow provided by operating activities were driven by the above factors affecting NW Natural, in addition to:

- \$14.0 million increase due to lower income and other taxes, and
- \$9.7 million increase due to lower deferred environmental expenses.

2020 COMPARED TO 2019. The significant factors contributing to the \$40.7 million and \$38.4 million decreases in NW Holdings and NW Natural cash flow provided by operating activities, respectively, were as follows:

- a decrease of \$25.8 million at NW Natural from increased receivables;
- a decrease of \$18.0 million due to higher contributions paid to qualified defined benefit pension plans;
- a decrease of \$15.8 million from decreased cash collections from our decoupling mechanism; and
- a decrease of \$11.6 million due to higher environmental expenditures; partially offset by
- a decrease of \$41.1 million in net deferred gas costs as the actual costs during the 2019-20 winter season were in line with estimates embedded in the PGA as opposed to gas costs in the 2018-2019 winter season that were 14% above PGA estimates.

During the year ended December 31, 2021, NW Natural contributed \$9.6 million to its qualified defined benefit pension plan, compared to \$29.0 million for 2020 and \$11.0 million in 2019. The American Rescue Plan, which was signed into law on March 11, 2021, includes a provision for pension relief that extends the amortization period for required contributions from 7 to 15 years and provides for the stabilization of interest rates used to calculate future required contributions. As a result, NW Natural does not expect to make any plan contributions during 2022. The amount and timing of future contributions will depend on market interest rates and investment returns on the plans' assets. See Note 10.

NW Holdings and NW Natural have lease and purchase commitments relating to our operating activities that are financed with cash flows from operations. For information on cash flow requirements related to leases and other purchase commitments, see Note 7 and Note 16.

Investing Activities

<i>In millions</i>	2021	2020	2019
NW Natural cash used in investing activities	\$ (275.7)	\$ (264.1)	\$ (243.1)
NW Holdings cash used in investing activities	\$ (300.1)	\$ (294.3)	\$ (303.8)

2021 COMPARED TO 2020. Cash used in investing activities increased \$11.6 million at NW Natural and \$5.8 million at NW Holdings, respectively.

The increase at NW Natural is primary driven by an increase in capital expenditures of \$12.2 million for customer growth, system reinforcement, and technology. The increase at NW Holdings is driven by the \$14.5 million purchase of an equity method investment and \$12.5 million of proceeds from the sale of discontinued operations in the prior year, partially offset by a \$37.0 million decrease in cash paid for acquisitions.

2020 COMPARED TO 2019. Cash used in investing activities decreased \$9.5 million at NW Holdings and increased \$21.0 million and NW Natural, respectively.

The decrease in cash used at NW Holdings was driven by \$12.5 million of proceeds from the sale of Gill Ranch and \$7.0 million from the sale of Trail West. The increase in cash used at NW Natural was due to continued capital expenditures for customer growth, system reinforcement, and technology, partially offset by lower leasehold improvement expenditures at the new corporate operations center and \$8.1 million of proceeds from the sale of assets.

NW Natural capital expenditures for 2022 are expected to be in the range of \$310 million to \$350 million and for the five-year period from 2022 to 2026 are expected to range from \$1.3 billion to \$1.5 billion. NW Natural Water is expected to invest approximately \$15 million in 2022 related to maintenance capital expenditures for water and wastewater utilities owned as of December 31, 2021, and for the five-year period from 2022 to 2026 capital expenditures are expected to invest approximately \$60 million to \$70 million.

The timing and amount of the core capital expenditures and projects for 2022 and the next five years could change based on regulation, growth, and cost estimates. Additional investments in our infrastructure during and after 2022 that are not incorporated in the estimates provided above will depend largely on additional regulations, growth, and expansion opportunities. Required funds for the investments are expected to be internally generated or financed with long-term debt or equity, as appropriate.

Financing Activities

<i>In millions</i>	2021		2020		2019	
NW Natural cash provided by financing activities	\$	139.3	\$	122.4	\$	54.9
NW Holdings cash provided by financing activities	\$	131.4	\$	171.8	\$	115.5

2021 COMPARED TO 2020. Cash provided by financing activities increased \$16.9 million at NW Natural primarily driven by higher short-term debt borrowings of \$297.6 million and \$116.0 million in capital contributions by NW Holdings, partially offset by \$390.1 million of lower proceeds from and repayments of commercial paper with maturities greater than 90 days.

Cash provided by financing activities decreased \$40.4 million at NW Holdings primarily due to \$390.1 million of lower proceeds from and repayments of commercial paper with maturities greater than 90 days, partially offset by higher other short-term debt borrowings of \$319.6 million and cash proceeds of \$17.5 million from the ATM equity program.

2020 COMPARED TO 2019. Cash provided by financing activities increased \$56.3 million and \$67.5 million at NW Holdings and NW Natural, respectively.

The increase in cash provided by financing activities at NW Natural was primarily driven by \$198.8 million of higher borrowings of short-term debt, net, and \$2.0 million of higher cash dividends paid. The increases were partially offset by decreases of \$35.0 million in long-term debt borrowings and \$93.2 million in capital contributions from NW Holdings to NW Natural in 2019.

The increase at NW Holdings was primarily due to \$223.9 million higher in short-term borrowings, partially offset by decreases of \$93.0 million in common stock issuance proceeds and \$70.0 million lower repayments of long-term debt.

Pension Cost and Funding Status of Qualified Retirement Plans

NW Natural's pension costs are determined in accordance with accounting standards for compensation and retirement benefits. See "Application of Critical Accounting Policies and Estimates – *Pensions and Postretirement Benefits*" below. Pension expense for NW Natural's qualified defined benefit plan, which is allocated between operations and maintenance expenses and capital expenditures totaled \$16.6 million in 2021, a decrease of \$1.8 million from 2020. The fair market value of pension assets in this plan increased to \$399.2 million at December 31, 2021 from \$373.9 million at December 31, 2020. The increase was due to a gain on plan assets of \$38.7 million and \$9.6 million in employer contributions, partially offset by benefit payments of \$23.0 million.

Contributions made to NW Natural's company-sponsored qualified defined benefit pension plan are based on actuarial assumptions and estimates, tax regulations, and funding requirements under federal law. The qualified defined benefit pension plan was underfunded by \$104.7 million at December 31, 2021. The American Rescue Plan, which was signed into law on March 11, 2021, includes a provision for pension relief that extends the amortization period for required contributions from 7 to 15 years and provides for the stabilization of interest rates used to calculate future required contributions. As a result, NW Natural does not expect to make any plan contributions during 2022. The amount and timing of future contributions will depend on market interest rates and investment returns on the plan's assets. See Note 10 for information regarding employer contributions and estimated future benefit payments and other pension disclosures.

Contingent Liabilities

Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable in accordance with accounting standards for contingencies. See "Application of Critical Accounting Policies and Estimates—*Environmental Contingencies*" below. At December 31, 2021, NW Natural's total estimated liability related to environmental sites was \$115.8 million. See Note 17 and "Results of Operations—Regulatory Matters—Rate Mechanisms—*Environmental Cost Deferral and Recovery*" above.

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

New Accounting Pronouncements

For a description of recent accounting pronouncements that may have an impact on our financial condition, results of operations, or cash flows, see Note 2.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Management has discussed its current estimates and judgments used in the application of critical accounting policies with the Audit Committees of the Boards of NW Holdings and NW Natural. Within the context of critical accounting policies and estimates, management is not aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Regulatory Accounting

The NGD segment is regulated by the OPUC and WUTC, which establish the rates designed to recover specific costs of providing regulatory services, and, to a certain extent, set forth special accounting treatment for certain regulatory transactions for which NW Natural records regulatory assets and liabilities. In general, the same accounting principles as non-regulated companies reporting under U.S. GAAP are used. However, authoritative guidance for regulated operations (regulatory accounting) requires different accounting treatment for regulated companies to show the effects of such regulation. For example, NW Natural accounts for the cost of gas using a PGA deferral and cost recovery mechanism, which is submitted for approval annually to the OPUC and WUTC. See "Results of Operations—Regulatory Matters—Rate Mechanisms—*Purchased Gas Adjustment*" above. There are other expenses and revenues that the OPUC or WUTC may require NW Natural to defer for recovery or refund in future periods. Regulatory accounting requires NW Natural to account for these types of deferred expenses (or deferred revenues) as regulatory assets (or regulatory liabilities) on the balance sheet. When the recovery of these regulatory assets from, or refund of regulatory liabilities to, customers is approved, NW Natural recognizes the expense or revenue on the income statement at the same time the adjustment to amounts included in rates charged to customers.

The conditions that must be satisfied to adopt the accounting policies and practices of regulatory accounting include:

- an independent regulator sets rates;
- the regulator sets the rates to cover specific costs of delivering service; and
- the service territory lacks competitive pressures to reduce rates below the rates set by the regulator.

Because NW Natural's NGD operations satisfy all three conditions, NW Natural continues to apply regulatory accounting to NGD operations. Future accounting changes, regulatory changes, or changes in the competitive environment could require NW Natural to discontinue the application of regulatory accounting for some or all of our regulated businesses. This would require the write-off of those regulatory assets and liabilities that would no longer be probable of recovery from or refund to customers.

Based on current accounting and regulatory competitive conditions, NW Natural believes it is reasonable to expect continued application of regulatory accounting for NGD activities. Further, it is reasonable to expect the recovery or refund of NW Natural's regulatory assets and liabilities at December 31, 2021 through future customer rates. If it is determined that all or a portion of

these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then NW Natural would be required to write-off the net unrecoverable balances against earnings in the period such determination is made. The net balance in regulatory asset and liability accounts was a net liability of \$382.7 million and \$308.5 million as of December 31, 2021 and 2020, respectively. See Note 2 for more detail on regulatory balances.

Revenue Recognition

Revenues, which are derived primarily from the sale, transportation, and storage of natural gas, are recognized upon the delivery of gas commodity or services rendered to customers.

Accrued Unbilled Revenue

For a description of the policy regarding accrued unbilled revenue, most of which relates to the NGD business at NW Natural, see Note 2. The following table presents changes in key metrics if the estimated percentage of unbilled volume at December 31 was adjusted up or down by 1%:

In millions	2021			
	Up 1%		Down 1%	
Unbilled revenue increase (decrease) ⁽¹⁾	\$	1.2	\$	(1.2)
Margin increase (decrease) ⁽¹⁾		0.4		(0.4)
Net income before tax increase (decrease) ⁽¹⁾		0.4		(0.4)

⁽¹⁾ Includes impact of regulatory mechanisms including decoupling mechanism and excludes the impact of unbilled revenue from water services.

Derivative Instruments and Hedging Activities

NW Natural's gas acquisition and hedging policies set forth guidelines for using financial derivative instruments to support prudent risk management strategies. These policies specifically prohibit the use of derivatives for trading or speculative purposes. Financial derivative contracts are utilized to hedge a portion of natural gas sale requirements. These contracts include swaps, options, and combinations of option contracts. NW Natural primarily uses these derivative financial instruments to manage commodity price variability. A small portion of NW Natural's derivative hedging strategy involves foreign currency exchange contracts.

Derivative instruments are recorded on the balance sheet at fair value. If certain regulatory conditions are met, then the derivative instrument fair value is recorded together with an offsetting entry to a regulatory asset or liability account pursuant to regulatory accounting, and no unrealized gain or loss is recognized in current income or loss. See "Regulatory Accounting" above for additional information. The gain or loss from the fair value of a derivative instrument subject to regulatory deferral is included in the recovery from, or refund to, NGD business customers in future periods. If a derivative contract is not subject to regulatory deferral, then the accounting treatment for unrealized gains and losses is recorded in accordance with accounting standards for derivatives and hedging which is either in current income or loss or in accumulated other comprehensive income or loss (AOCI or AOCL). Derivative contracts outstanding at December 31, 2021, 2020 and 2019 were measured at fair value using models or other market accepted valuation methodologies derived from observable market data. Estimates of fair value may change significantly from period-to-period depending on market conditions, notional amounts, and prices. These changes may have an impact on results of operations, but the impact would largely be mitigated due to the majority of derivative activities being subject to regulatory deferral treatment. For more information on derivative activity and associated regulatory treatment, see Note 2 and Note 15.

The following table summarizes the amount of gains realized from commodity price transactions for the last three years:

In millions	2021		2020		2019	
NGD business net gain on commodity swaps	\$	50.9	\$	2.3	\$	17.9

Realized gains and losses from commodity hedges shown above were recorded in cost of gas and were, or will be, included in annual PGA rates.

Pensions and Postretirement Benefits

NW Natural maintains a qualified non-contributory defined benefit pension plan, non-qualified supplemental pension plans for eligible executive officers and certain key employees, and other postretirement employee benefit plans covering certain non-union employees. NW Natural also has a qualified defined contribution plan (Retirement K Savings Plan) for all eligible employees. Only the qualified defined benefit pension plan and Retirement K Savings Plan have plan assets, which are held in qualified trusts to fund the respective retirement benefits. The qualified defined benefit retirement plan for union and non-union employees was closed to new participants several years ago. Non-union and union employees hired or re-hired after December 31, 2006 and 2009, respectively, and employees of certain NW Holdings subsidiaries are provided an enhanced Retirement K Savings Plan benefit. The postretirement Welfare Benefit Plan for non-union employees was also closed to new participants several years ago.

Net periodic pension and postretirement benefit costs (retirement benefit costs) and projected benefit obligations (benefit obligations) are determined using a number of key assumptions including discount rates, rate of compensation increases, retirement ages, mortality rates and an expected long-term return on plan assets. See Note 10.

Accounting standards also require balance sheet recognition of unamortized actuarial gains and losses and prior service costs in AOCI or AOCL, net of tax. However, the retirement benefit costs related to qualified defined benefit pension and postretirement benefit plans are generally recovered in rates charged to NGD customers, which are set based on accounting standards for pensions and postretirement benefit expenses. As such, NW Natural received approval from the OPUC to recognize the unamortized actuarial gains and losses and prior service costs as a regulatory asset or regulatory liability based on expected rate recovery, rather than including it as AOCI or AOCL under common equity. See "Regulatory Accounting" above and Note 2, "Industry Regulation".

A number of factors, as discussed above, are considered in developing pension and postretirement benefit assumptions. For the December 31, 2021 measurement date, NW Natural reviewed and updated:

- the weighted-average discount rate assumptions for pensions increased from 2.36% for 2020 to 2.71% for 2021, and our weighted-average discount rate assumptions for other postretirement benefits increased from 2.34% for 2020 to 2.72% for 2021. The new rate assumptions were determined for each plan based on a matching of benchmark interest rates to the estimated cash flows, which reflect the timing and amount of future benefit payments. Benchmark interest rates are drawn from the FTSE Above Median Curve, which consists of high quality bonds rated AA- or higher by S&P or Aa3 or higher by Moody's;
- the expected annual rate of future compensation for bargaining unit employees, which was updated from a range of 3.50% to 6.50% for 2020, was 3.50 % in 2021 and thereafter. The rate increase for non bargaining unit employees is 4.00% in 2022 and 3.50% thereafter.
- the expected long-term return on qualified defined benefit plan assets decreased from 7.25% in 2020 to 7.00% for 2021;
- Mortality assumptions are reviewed annually and are updated for material changes as necessary. In 2021, mortality rate assumptions were updated from Pri-2012 mortality tables using scale MP-2020 to Pri-2012 mortality tables using scale MP-2021, which partially offset increases of the projected benefit obligation; and
- other key assumptions, which were based on actual plan experience and actuarial recommendations.

At December 31, 2021, the net pension liability (benefit obligations less market value of plan assets) for the Pension Plan decreased \$46.5 million compared to 2020. The decrease in the net pension liability is primarily due to the \$25.3 million increase in plan assets and the \$21.3 million decrease to the pension benefit obligation. The liability for non-qualified plans decreased \$2.3 million, and the liability for other postretirement benefits decreased \$1.8 million in 2021.

The expected long-term rate of return on plan assets is determined by averaging the expected earnings for the target asset portfolio. In developing expected return, historical actual performance and long-term return projections are analyzed, which gives consideration to the current asset mix and target asset allocation.

NW Natural believes its pension assumptions are appropriate based on plan design and an assessment of market conditions. The following shows the sensitivity of retirement benefit costs and benefit obligations to changes in certain actuarial assumptions:

<i>Dollars in millions</i>	Change in Assumption	Impact on 2021 Retirement Benefit Costs	Impact on Retirement Benefit Obligations at Dec. 31, 2021
Discount rate:	(0.25) %		
Qualified defined benefit plans		\$ 1.8	\$ 16.8
Non-qualified plans		—	0.8
Other postretirement benefits		0.1	0.8
Expected long-term return on plan assets:	(0.25) %		
Qualified defined benefit plans		0.8	N/A

Income Taxes

Valuation Allowances

Deferred tax assets are recognized to the extent that these assets are believed to be more likely than not to be realized. In making such a determination, available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. NW Holdings and NW Natural have determined that all recorded deferred tax assets are more likely than not to be realized as of December 31, 2021. See Note 11.

Uncertain Tax Benefits

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in the jurisdictions in which we operate. A tax benefit from a material uncertain tax position will only be recognized when it is more likely

than not that the position, or some portion thereof, will be sustained upon examination, including resolution of any related appeals or litigation processes, on the basis of the technical merits. NW Holdings and NW Natural participate in the Compliance Assurance Process (CAP) with the Internal Revenue Service (IRS). Under the CAP program companies work with the IRS to identify and resolve material tax matters before the federal income tax return is filed each year. No reserves for uncertain tax benefits were recorded during 2021, 2020, or 2019. See Note 11.

Tax Legislation

When significant proposed or enacted changes in income tax rules occur we consider whether there may be a material impact to our financial position, results of operations, cash flows, or whether the changes could materially affect existing assumptions used in making estimates of tax related balances.

The final tangible property regulations applicable to all taxpayers were issued on September 13, 2013 and were generally effective for taxable years beginning on or after January 1, 2014. In addition, procedural guidance related to the regulations was issued under which taxpayers may make accounting method changes to comply with the regulations. We have evaluated the regulations and do not anticipate any material impact. However, unit-of-property guidance applicable to natural gas distribution networks has not yet been issued and is expected in the near future. We will further evaluate the effect of these regulations after this guidance is issued, but believe the current method is materially consistent with the new regulations and do not expect this additional guidance to have a material effect on our financial statements.

Regulatory Matters

Regulatory tax assets and liabilities are recorded to the extent it is probable they will be recoverable from, or refunded to, customers in the future. At December 31, 2021 and 2020, NW Natural had net regulatory income tax assets of \$12.4 million and \$14.6 million, respectively, representing future rate recovery of deferred tax liabilities resulting from differences in NGD plant financial statement and tax bases and NGD plant removal costs. These regulatory assets are currently being recovered through customer rates. At December 31, 2021 and 2020, regulatory income tax assets of \$2.4 million and \$2.5 million, respectively, were recorded by NW Natural, representing probable future rate recovery of deferred tax liabilities resulting from the equity portion of AFUDC. At December 31, 2021 and 2020, regulatory income tax assets of \$0.4 million and \$1.7 million, respectively, were recorded by NW Natural, representing future recovery of Oregon Corporate Activity Tax that was deferred between January 1, 2020 and October 31, 2020.

At December 31, 2021 and 2020, regulatory liability balances, representing the estimated net benefit to NGD customers resulting from the change in deferred taxes as a result of the TCJA, of \$189.6 million and \$197.8 million, respectively, were recorded by NW Natural. These balances include a gross up for income taxes of \$50.2 million and \$52.4 million, respectively.

The TCJA includes specific guidance for determining the shortest time period over which the portion of this regulatory liability resulting from accelerated cost recovery of NGD plant may accrue to the benefit of customers to avoid incurring federal normalization penalties. However, it is anticipated that until such time that customers receive the direct benefit of this regulatory liability, the balance, net of the additional gross up for income taxes, will continue to provide an indirect benefit to customers by reducing the NGD rate base which determines customer rates for service.

Environmental Contingencies

Environmental liabilities are accounted for in accordance with accounting standards under the loss contingency guidance when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Amounts recorded for environmental contingencies take numerous factors into consideration, including, among other variables, changes in enacted laws, regulatory orders, estimated remediation costs, interest rates, insurance proceeds, participation by other parties, timing of payments, and the input of legal counsel and third-party experts. Accordingly, changes in any of these variables or other factual circumstances could have a material impact on the amounts recorded for our environmental liabilities. For a complete discussion of environmental accounting policies refer to Note 2. For a discussion of current environmental sites and liabilities refer to Note 17. In addition, for information regarding the regulatory treatment of these costs and NW Natural's regulatory recovery mechanism, see "Results of Operations—Regulatory Matters—Rate Mechanisms—*Environmental Cost Deferral and Recovery*" above.

Impairment of Long-Lived Assets and Goodwill

Long-Lived Assets

We review the carrying value of long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment of long-lived assets include a significant adverse change in the extent or manner in which the asset is used, a significant adverse change in legal factors or business climate that could affect the value of the asset, or a significant decline in the observable market value or expected future cash flows of the asset, among others.

When such factors are present, we assess the recoverability by determining whether the carrying value of the asset will be recovered through expected future cash flows. An asset is determined to be impaired when the carrying value of the asset exceeds the expected undiscounted future cash flows from the use and eventual disposition of the asset. If an impairment is indicated, we record an impairment loss for the difference between the carrying value and the fair value of the long-lived assets. Fair value is estimated using appropriate valuation methodologies, which may include an estimate of discounted cash flows.

Goodwill and Business Combinations

In a business combination, goodwill is initially measured as any excess of the acquisition-date fair value of the consideration transferred over the acquisition-date fair value of the net identifiable assets acquired.

The carrying value of goodwill is reviewed annually during the fourth quarter using balances as of October 1, or whenever events or changes in circumstance indicate that such carrying values may not be recoverable.

NW Holdings' policy for goodwill assessments begins with a qualitative analysis in which events and circumstances are evaluated, including macroeconomic conditions, industry and market conditions, regulatory environments, and the overall financial performance of the reporting unit. If the qualitative assessment indicates that the carrying value may be at risk of recoverability, a quantitative evaluation is performed to measure the carrying value against the fair value of the reporting unit. This evaluation may involve the assessment of future cash flows and other subjective factors for which uncertainty exists and could impact the estimation of future cash flows. These factors include, but are not limited to, the amount and timing of future cash flows, future growth rates, and the discount rate. Unforeseen events and changes in circumstances or market conditions could adversely affect these estimates, which could result in an impairment charge. A qualitative assessment was performed during the fourth quarter of 2021 which indicated a quantitative assessment was not required; thus, no goodwill impairment was recorded. See Note 2 and Note 14 for additional information.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date, and the fair value of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred. When NW Natural acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. When there is substantial judgment or uncertainty around the fair value of acquired assets, we may engage a third party expert to assist in determining the fair values of certain assets or liabilities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NW Holdings and NW Natural are exposed to various forms of market risk including commodity supply risk, commodity price risk, interest rate risk, foreign currency risk, credit risk and weather risk. The following describes NW Holdings' and NW Natural's exposure to these risks, as applicable.

Commodity Supply Risk

NW Natural enters into spot, short-term, and long-term natural gas supply contracts, along with associated pipeline transportation contracts, to manage commodity supply risk. Historically, NW Natural has arranged for physical delivery of an adequate supply of gas, including gas in Mist storage and off-system storage facilities, to meet expected requirements of core NGD customers. NW Natural's long-term gas supply contracts are primarily index-based and subject to monthly re-pricing, a strategy that is intended to substantially mitigate credit exposure to physical gas counterparties. Absolute notional amounts under physical gas contracts related to open positions on derivative instruments were 432 million therms and 458 million therms as of December 31, 2021 and 2020, respectively.

Commodity Price Risk

Natural gas commodity prices are subject to market fluctuations due to unpredictable factors including weather, pipeline transportation congestion, drilling technologies, market speculation, and other factors that affect supply and demand. Commodity price risk is hedged with financial swaps, storage and physical gas reserves from a long-term investment in working interests in gas leases operated by Jonah Energy. These hedges are generally included in NW Natural's annual PGA filing for recovery, subject to a regulatory prudence review. Notional amounts under financial derivative contracts were \$159.9 million and \$168.5 million as of December 31, 2021 and 2020, respectively. The fair value of financial swaps, based on market prices at December 31, 2021, was an unrealized gain of \$51.2 million, which would result in cash inflows of \$21.3 million in 2022, \$24.0 million in 2023, and \$5.9 million in 2024.

Interest Rate Risk

NW Holdings and NW Natural are exposed to interest rate risk primarily associated with new debt financing needed to fund capital requirements, including future contractual obligations and maturities of long-term and short-term debt. Interest rate risk is primarily managed through the issuance of fixed-rate debt with varying maturities. NW Holdings and NW Natural may also enter into financial derivative instruments, including interest rate swaps, options and other hedging instruments, to manage and mitigate interest rate exposure. NW Holdings and NW Natural did not have any interest rate swaps outstanding as of December 31, 2021 or 2020.

Foreign Currency Risk

The costs of certain pipeline and off-system storage services purchased from Canadian suppliers are subject to changes in the value of the Canadian currency in relation to the U.S. currency. Foreign currency forward contracts are used to hedge against fluctuations in exchange rates for NW Natural's commodity-related demand and reservation charges paid in Canadian dollars. Notional amounts under foreign currency forward contracts were \$6.3 million and \$5.9 million as of December 31, 2021 and 2020, respectively. If all of the foreign currency forward contracts had been settled on December 31, 2021, a loss of \$26 thousand would have been realized. See Note 15.

Credit Risk

Credit Exposure to Natural Gas Suppliers

Certain gas suppliers have either relatively low credit ratings or are not rated by major credit rating agencies. To manage this supply risk, NW Natural purchases gas from a number of different suppliers at liquid exchange points. NW Natural evaluates and monitors suppliers' creditworthiness and maintains the ability to require additional financial assurances, including deposits, letters of credit, or surety bonds, in case a supplier defaults. In the event of a supplier's failure to deliver contracted volumes of gas, the NGD business would need to replace those volumes at prevailing market prices, which may be higher or lower than the original transaction prices. NW Natural expects these costs would be subject to its PGA sharing mechanism discussed above. Since most of NW Natural's commodity supply contracts are priced at the daily or monthly market index price tied to liquid exchange points, and NW Natural has adequate storage flexibility, NW Natural believes it is unlikely a supplier default would have a material adverse effect on its financial condition or results of operations.

Credit Exposure to Financial Derivative Counterparties

Based on estimated fair value at December 31, 2021, NW Natural's overall credit exposure relating to commodity contracts was \$51.2 million. We generally have credit exposure to financial derivative counterparties when forward gas prices exceed our hedge prices, which was the case with all financial swap counterparties at December 31, 2021. NW Natural's financial derivatives policy requires counterparties to have at least an investment-grade credit rating at the time the derivative instrument is entered into and specific limits on the contract amount and duration based on each counterparty's credit rating. NW Natural actively monitors and manages derivative credit exposure and places counterparties on hold for trading purposes or requires cash collateral, letters of credit, or guarantees as circumstances warrant.

The following table summarizes NW Natural's overall financial swap and option credit exposure, based on estimated fair value, and the corresponding counterparty credit ratings. The table uses credit ratings from S&P and Moody's, reflecting the higher of the S&P or Moody's rating or a middle rating if the entity is split-rated with more than one rating level difference:

<i>In millions</i>	Financial Derivative Position by Credit Rating Unrealized Fair Value Gain (Loss)			
	2021		2020	
AA/Aa	\$	44.3	\$	11.2
A/A		6.9		1.6
Total	\$	51.2	\$	12.8

In most cases, NW Natural also mitigates the credit risk of financial derivatives by having master netting arrangements with counterparties which provide for making or receiving net cash settlements. Transactions of the same type in the same currency that have settlement on the same day with a single counterparty are netted and a single payment is delivered or received depending on which party is due funds.

Additionally, NW Natural has master contracts in place with each derivative counterparty, most of which include provisions for posting or calling for collateral. Generally, NW Natural can obtain cash or marketable securities as collateral with one day's notice. Various collateral management strategies are used to reduce liquidity risk. The collateral provisions vary by counterparty but are not expected to result in the significant posting of collateral, if any. NW Natural has performed stress tests on the portfolio and concluded the liquidity risk from collateral calls is not material. Derivative credit exposure is primarily with investment grade counterparties rated AA-/Aa3 or higher. Contracts are diversified across counterparties, business types and countries to reduce credit and liquidity risk.

At December 31, 2021, financial derivative credit risk on a volumetric basis was geographically concentrated 37% in the United States and 63% in Canada, based on counterparties' location. At December 31, 2020, financial derivative credit risk on a volumetric basis was geographically concentrated 43% in the United States and 57% in Canada with our counterparties.

Credit Exposure to Insurance Companies

Credit exposure to insurance companies for loss or damage claims could be material. NW Holdings and NW Natural regularly monitor the financial condition of insurance companies who provide general liability insurance policy coverage to NW Holdings, NW Natural, their predecessors, and their subsidiaries.

Weather Risk

NW Natural has a weather normalization mechanism in Oregon; however, it is exposed to weather risk primarily from NGD business operations. A large percentage of NGD margin is volume driven, and current rates are based on an assumption of average weather. NW Natural's weather normalization mechanism in Oregon is for residential and commercial customers, which is intended to stabilize the recovery of NGD business fixed costs and reduce fluctuations in customers' bills due to colder or warmer than average weather. Customers in Oregon are allowed to opt out of the weather normalization mechanism. As of December 31, 2021, approximately 8% of Oregon customers had opted out. In addition to the Oregon customers opting out, Washington residential and commercial customers account for approximately 12% of our total customer base and are not covered by weather normalization. The combination of Oregon and Washington customers not covered by a weather normalization mechanism is 19% of all residential and commercial customers. See "Results of Operations—Regulatory Matters—Rate Mechanisms—WARM" above.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

TABLE OF CONTENTS

	Page
1. Management's Reports on Internal Control Over Financial Reporting	73
2. Reports of Independent Registered Public Accounting Firm (PCAOB ID 238)	75
3. Consolidated Financial Statements:	
Consolidated Statements of Comprehensive Income (Loss) of Northwest Natural Holding Company for the Years Ended December 31, 2021, 2020, and 2019	79
Consolidated Balance Sheets of Northwest Natural Holding Company at December 31, 2021 and 2020	80
Consolidated Statements of Shareholders' Equity of Northwest Natural Holding Company for the Years Ended December 31, 2021, 2020, and 2019	82
Consolidated Statements of Cash Flows of Northwest Natural Holding Company for the Years Ended December 31, 2021, 2020, and 2019	83
Consolidated Statements of Comprehensive Income (Loss) of Northwest Natural Gas Company for the Years Ended December 31, 2021, 2020, and 2019	85
Consolidated Balance Sheets of Northwest Natural Gas Company at December 31, 2021 and 2020	86
Consolidated Statements of Shareholder's Equity of Northwest Natural Gas Company for the Years Ended December 31, 2021, 2020, and 2019	88
Consolidated Statements of Cash Flows of Northwest Natural Gas Company for the Years Ended December 31, 2021, 2020, and 2019	89
Notes to Consolidated Financial Statements	90
4. Supplementary Data for the Years Ended December 31, 2021, 2020, and 2019:	
Financial Statement Schedules	
Schedule I - Condensed Financial Information of Northwest Natural Holding Company at December 31, 2021 and 2020, and for the Years Ended December 31, 2021, 2020, and 2019	129
Schedule II – Valuation and Qualifying Accounts and Reserves of Northwest Natural Holding Company and Northwest Natural Gas Company for the Years Ended December 31, 2021, 2020, and 2019	133

Supplemental Schedules Omitted

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included elsewhere in the financial statements.

NW HOLDINGS MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

NW Holdings management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended. NW Holdings' internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). NW Holdings' internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions involving company assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the NW Holdings Board of Directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use, or disposition of NW Holdings' assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements or fraud. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NW Holdings management assessed the effectiveness of NW Holdings' internal control over financial reporting as of December 31, 2021. In making this assessment, NW Holdings management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*.

Based on NW Holdings management's assessment and those criteria, NW Holdings management has concluded that it maintained effective internal control over financial reporting as of December 31, 2021.

The effectiveness of internal control over financial reporting as of December 31, 2021 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this annual report.

/s/ David H. Anderson

David H. Anderson
President and Chief Executive Officer

/s/ Frank H. Burkhartsmeier

Frank H. Burkhartsmeier
Senior Vice President and Chief Financial Officer

February 25, 2022

NW NATURAL MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

NW Natural management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended. NW Natural's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). NW Natural's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions involving company assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the NW Natural Board of Directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use, or disposition of NW Natural's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements or fraud. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NW Natural management assessed the effectiveness of NW Natural's internal control over financial reporting as of December 31, 2021. In making this assessment, NW Natural management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*.

Based on NW Natural management's assessment and those criteria, NW Natural management has concluded that it maintained effective internal control over financial reporting as of December 31, 2021.

/s/ David H. Anderson
David H. Anderson
President and Chief Executive Officer

/s/ Frank H. Burkhartsmeier
Frank H. Burkhartsmeier
Senior Vice President and Chief Financial Officer

February 25, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Northwest Natural Holding Company

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Northwest Natural Holding Company and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for the Effects of Regulatory Matters

As described in Note 2 to the consolidated financial statements, there were \$387.0 million of regulatory assets and \$770.6 million of regulatory liabilities as of December 31, 2021. As disclosed by management, the Company has operations that are subject to the actions of regulators which establish rates in general rate cases and other proceedings which are designed to recover specific costs of providing regulatory services for which management records regulatory assets and liabilities. Regulatory accounting requires management to account for deferred expenses (or deferred revenues) as regulatory assets (or regulatory liabilities) on the balance sheet. When the recovery of these regulatory assets from, or refund of regulatory liabilities to, customers is approved, management recognizes the expense or revenue on the income statement at the same time the adjustment to amounts is included in rates charged to customers.

The principal considerations for our determination that performing procedures relating to the Company's accounting for the effects of regulatory matters is a critical audit matter are the significant judgment by management in assessing the potential outcomes and related accounting impacts of rate cases and other proceedings. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence obtained related to the recovery of regulatory assets and the settlement of regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of rates cases and other proceedings, including the probability of recovery of regulatory assets and the settlement of regulatory liabilities and related accounting and disclosure impacts. These procedures also included, among others (i) evaluating the reasonableness of management's assessment regarding the probability of recovery of regulatory assets and settlement of regulatory liabilities, (ii) evaluating the sufficiency of the disclosures in the consolidated financial statements, and (iii) testing the regulatory assets and liabilities, including those subject to regulatory proceedings, also involved considering the provisions and formulas outlined in rate orders, other regulatory correspondence, and the application of relevant regulatory precedents.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
February 25, 2022

We have served as the Company's auditor since 1997.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of Northwest Natural Gas Company:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Northwest Natural Gas Company and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income (loss), of shareholder's equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for the Effects of Regulatory Matters

As described in Note 2 to the consolidated financial statements, there were \$386.9 million of regulatory assets and \$769.6 million of regulatory liabilities as of December 31, 2021. As disclosed by management, the Company has operations that are subject to the actions of regulators which establish rates in general rate cases and other proceedings which are designed to recover specific costs of providing regulatory services for which management records regulatory assets and liabilities. Regulatory accounting requires management to account for deferred expenses (or deferred revenues) as regulatory assets (or regulatory liabilities) on the balance sheet. When the recovery of these regulatory assets from, or refund of regulatory liabilities to, customers is approved, management recognizes the expense or revenue on the income statement at the same time the adjustment to amounts is included in rates charged to customers.

The principal considerations for our determination that performing procedures relating to the Company's accounting for the effects of regulatory matters is a critical audit matter are the significant judgment by management in assessing the potential outcomes and related accounting impacts of rate cases and other proceedings. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence obtained related to the recovery of regulatory assets and the settlement of regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of rates cases and other proceedings, including the probability of recovery of regulatory assets and the settlement of regulatory liabilities and related accounting and disclosure impacts. These procedures also included, among others (i) evaluating the reasonableness of management's assessment regarding the probability of recovery of regulatory assets

and settlement of regulatory liabilities, (ii) evaluating the sufficiency of the disclosures in the consolidated financial statements, and (iii) testing the regulatory assets and liabilities, including those subject to regulatory proceedings, also involved considering the provisions and formulas outlined in rate orders, other regulatory correspondence, and the application of relevant regulatory precedents.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
February 25, 2022

We have served as the Company's auditor since 1997.

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2021	2020	2019
<i>In thousands, except per share data</i>			
Operating revenues	\$ 860,400	\$ 773,679	\$ 746,372
Operating expenses:			
Cost of gas	292,314	262,755	254,911
Operations and maintenance	204,227	180,129	178,191
Environmental remediation	9,938	9,691	12,337
General taxes	38,633	35,078	32,388
Revenue taxes	34,740	30,291	30,325
Depreciation and amortization	113,534	103,683	91,496
Other operating expenses	3,897	3,701	3,250
Total operating expenses	697,283	625,328	602,898
Income from operations	163,117	148,351	143,474
Other income (expense), net	(12,559)	(13,944)	(22,836)
Interest expense, net	44,486	43,052	42,685
Income before income taxes	106,072	91,355	77,953
Income tax expense	27,406	21,082	12,642
Net income from continuing operations	78,666	70,273	65,311
Income (loss) from discontinued operations, net of tax	—	6,508	(3,576)
Net income	78,666	76,781	61,735
Other comprehensive income (loss):			
Change in employee benefit plan liability, net of taxes of \$(219) for 2021, \$1,025 for 2020, and \$956 for 2019	593	(2,848)	(2,655)
Amortization of non-qualified employee benefit plan liability, net of taxes of \$(320) for 2021, \$(244) for 2020, and \$(172) for 2019	905	679	476
Comprehensive income	\$ 80,164	\$ 74,612	\$ 59,556
Average common shares outstanding:			
Basic	30,702	30,541	29,786
Diluted	30,752	30,599	29,859
Earnings from continuing operations per share of common stock:			
Basic	\$ 2.56	\$ 2.30	\$ 2.19
Diluted	2.56	2.30	2.19
Earnings (loss) from discontinued operations per share of common stock:			
Basic	\$ —	\$ 0.21	\$ (0.12)
Diluted	—	0.21	(0.12)
Earnings per share of common stock:			
Basic	\$ 2.56	\$ 2.51	\$ 2.07
Diluted	2.56	2.51	2.07

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS

<i>In thousands</i>	As of December 31,	
	2021	2020
Assets:		
Current assets:		
Cash and cash equivalents	\$ 18,559	\$ 30,168
Accounts receivable	101,495	88,083
Accrued unbilled revenue	82,169	57,949
Allowance for uncollectible accounts	(2,018)	(3,219)
Regulatory assets	72,391	31,745
Derivative instruments	48,130	13,678
Inventories	57,262	42,691
Income taxes receivable	—	6,000
Other current assets	59,288	56,150
Total current assets	437,276	323,245
Non-current assets:		
Property, plant, and equipment	3,997,243	3,734,039
Less: Accumulated depreciation	1,125,873	1,079,269
Total property, plant, and equipment, net	2,871,370	2,654,770
Regulatory assets	314,579	348,927
Derivative instruments	10,730	6,135
Other investments	89,278	83,743
Operating lease right of use asset, net	75,049	77,446
Assets under sales-type leases	138,995	143,759
Goodwill	70,570	69,225
Other non-current assets	56,757	49,129
Total non-current assets	3,627,328	3,433,134
Total assets	\$ 4,064,604	\$ 3,756,379

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS

<i>In thousands</i>	As of December 31,	
	2021	2020
Liabilities and equity:		
Current liabilities:		
Short-term debt	\$ 389,500	\$ 304,525
Current maturities of long-term debt	345	95,344
Accounts payable	133,486	97,966
Taxes accrued	15,520	13,812
Interest accrued	7,503	7,441
Regulatory liabilities	112,281	50,362
Derivative instruments	10,402	4,198
Operating lease liabilities	1,296	1,105
Other current liabilities	54,432	52,330
Total current liabilities	724,765	627,083
Long-term debt	1,044,587	860,081
Deferred credits and other non-current liabilities:		
Deferred tax liabilities	340,231	319,292
Regulatory liabilities	658,332	639,663
Pension and other postretirement benefit liabilities	166,684	217,287
Derivative instruments	412	2,852
Operating lease liabilities	79,468	80,621
Other non-current liabilities	114,979	120,767
Total deferred credits and other non-current liabilities	1,360,106	1,380,482
Commitments and contingencies (see Note 16 and Note 17)		
Equity:		
Common stock - no par value; authorized 100,000 shares; issued and outstanding 31,129 and 30,589 at December 31, 2021 and 2020, respectively	590,771	565,112
Retained earnings	355,779	336,523
Accumulated other comprehensive loss	(11,404)	(12,902)
Total equity	935,146	888,733
Total liabilities and equity	\$ 4,064,604	\$ 3,756,379

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>In thousands</i>	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2018	\$ 457,640	\$ 312,182	\$ (7,188)	\$ 762,634
Comprehensive income (loss)	—	61,735	(2,179)	59,556
Dividends on common stock, \$1.90 per share	—	(56,833)	—	(56,833)
Stock-based compensation	2,601	—	—	2,601
Shares issued pursuant to equity based plans	5,085	—	—	5,085
Issuance of common stock, net of issuance costs	92,956	—	—	92,956
Reclassification of tax effects from the TCJA	—	1,366	(1,366)	—
Balance at December 31, 2019	558,282	318,450	(10,733)	865,999
Comprehensive income (loss)	—	76,781	(2,169)	74,612
Dividends on common stock, \$1.91 per share	—	(58,708)	—	(58,708)
Stock-based compensation	4,361	—	—	4,361
Shares issued pursuant to equity based plans	2,469	—	—	2,469
Balance at December 31, 2020	565,112	336,523	(12,902)	888,733
Comprehensive income (loss)	—	78,666	1,498	80,164
Dividends on common stock, \$1.92 per share	—	(59,410)	—	(59,410)
Stock-based compensation	3,615	—	—	3,615
Shares issued pursuant to equity based plans	4,543	—	—	4,543
Issuance of common stock, net of issuance costs	17,501	—	—	17,501
Balance at December 31, 2021	<u>\$ 590,771</u>	<u>\$ 355,779</u>	<u>\$ (11,404)</u>	<u>\$ 935,146</u>

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands</i>	Year Ended December 31,		
	2021	2020	2019
Operating activities:			
Net income	\$ 78,666	\$ 76,781	\$ 61,735
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	113,534	103,683	91,496
Regulatory amortization of gas reserves	13,897	17,779	19,172
Deferred income taxes	14,617	18,667	6,317
Qualified defined benefit pension plan expense	16,556	18,370	16,497
Contributions to qualified defined benefit pension plans	(9,590)	(28,980)	(10,970)
Deferred environmental expenditures, net	(18,187)	(27,871)	(16,226)
Environmental remediation expense	9,938	9,691	12,337
Regulatory disallowance of pension costs	—	—	10,500
Gain on sale of discontinued operations, net of tax	—	(5,902)	—
Other	11,569	(6,942)	14,760
Changes in assets and liabilities:			
Receivables, net	(44,128)	(16,799)	5,844
Inventories	(14,571)	1,262	(5,969)
Income and other taxes	3,292	(10,710)	4,528
Accounts payable	12,118	(15,910)	(16,485)
Deferred gas costs	(40,541)	17,590	(23,471)
Asset optimization revenue sharing	44,458	(7,244)	655
Decoupling mechanism	(5,206)	2,884	18,661
Other, net	(26,069)	(2,925)	(4,080)
Discontinued operations	—	1,894	712
Cash provided by operating activities	160,353	145,318	186,013
Investing activities:			
Capital expenditures	(293,892)	(273,016)	(223,471)
Acquisitions, net of cash acquired	(1,289)	(38,263)	(56,786)
Leasehold improvement expenditures	(1,364)	(7,878)	(18,812)
Proceeds from the sale of assets	3,926	8,149	659
Purchase of equity method investment	(14,450)	—	—
Proceeds from sale of equity method investment	7,000	7,000	—
Proceeds from sale of discontinued operations	—	12,500	—
Other	(54)	1,654	(3,544)
Discontinued operations	—	(4,423)	(1,827)
Cash used in investing activities	(300,123)	(294,277)	(303,781)

	Year Ended December 31,		
	2021	2020	2019
Financing activities:			
Proceeds from common stock issued, net	17,501	—	92,956
Long-term debt issued	185,000	150,000	175,000
Long-term debt retired	(95,000)	(75,000)	(30,000)
Proceeds from term loan due within one year	100,000	150,000	—
Repayment of term loan	(100,000)	(150,000)	—
Proceeds from commercial paper, maturities greater than three months	—	195,025	—
Repayments of commercial paper, maturities greater than three months	(195,025)	—	—
Changes in other short-term debt, net	280,000	(39,600)	(68,520)
Cash dividend payments on common stock	(55,919)	(55,420)	(53,339)
Other	(5,121)	(3,228)	(599)
Cash provided by financing activities	131,436	171,777	115,498
Increase (decrease) in cash, cash equivalents and restricted cash	(8,334)	22,818	(2,270)
Cash, cash equivalents and restricted cash, beginning of period	35,454	12,636	14,906
Cash, cash equivalents and restricted cash, end of period	<u>\$ 27,120</u>	<u>\$ 35,454</u>	<u>\$ 12,636</u>
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalization	\$ 43,719	\$ 42,651	\$ 41,231
Income taxes paid (refunded)	10,555	13,644	(96)

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>In thousands</i>	Year Ended December 31,		
	2021	2020	2019
Operating revenues	\$ 843,057	\$ 758,748	\$ 739,944
Operating expenses:			
Cost of gas	292,538	262,980	255,135
Operations and maintenance	188,762	168,869	169,091
Environmental remediation	9,938	9,691	12,337
General taxes	38,150	34,459	32,075
Revenue taxes	34,600	30,291	30,325
Depreciation and amortization	110,504	101,586	90,405
Other operating expenses	3,332	3,232	3,230
Total operating expenses	677,824	611,108	592,598
Income from operations	165,233	147,640	147,346
Other income (expense), net	(12,745)	(15,116)	(22,968)
Interest expense, net	42,983	40,866	41,339
Income before income taxes	109,505	91,658	83,039
Income tax expense	28,333	21,095	14,065
Net income	81,172	70,563	68,974
Other comprehensive income (loss):			
Change in employee benefit plan liability, net of taxes of \$(219) for 2021, \$1,025 for 2020, and \$956 for 2019	593	(2,848)	(2,655)
Amortization of non-qualified employee benefit plan liability, net of taxes of \$(320) for 2021, \$(244) for 2020, and \$(172) for 2019	905	679	476
Comprehensive income	\$ 82,670	\$ 68,394	\$ 66,795

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS

<i>In thousands</i>	As of December 31,	
	2021	2020
Assets:		
Current assets:		
Cash and cash equivalents	\$ 12,271	\$ 10,453
Accounts receivable	99,780	80,035
Accrued unbilled revenue	82,028	57,890
Receivables from affiliates	261	660
Allowance for uncollectible accounts	(1,962)	(3,107)
Regulatory assets	72,391	31,745
Derivative instruments	48,130	13,678
Inventories	56,752	42,325
Other current assets	47,378	49,318
Total current assets	417,029	282,997
Non-current assets:		
Property, plant, and equipment	3,931,640	3,683,776
Less: Accumulated depreciation	1,119,361	1,075,446
Total property, plant, and equipment, net	2,812,279	2,608,330
Regulatory assets	314,539	348,887
Derivative instruments	10,730	6,135
Other investments	74,786	83,726
Operating lease right of use asset, net	74,987	77,328
Assets under sales-type leases	138,995	143,759
Other non-current assets	55,027	48,174
Total non-current assets	3,481,343	3,316,339
Total assets	\$ 3,898,372	\$ 3,599,336

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED BALANCE SHEETS

<i>In thousands</i>	As of December 31,	
	2021	2020
Liabilities and equity:		
Current liabilities:		
Short-term debt	\$ 245,500	\$ 231,525
Current maturities of long-term debt	—	59,955
Accounts payable	131,475	95,170
Payables to affiliates	1,248	13,820
Taxes accrued	15,476	13,724
Interest accrued	7,296	7,338
Regulatory liabilities	112,281	50,362
Derivative instruments	10,402	4,198
Operating lease liabilities	1,273	1,054
Other current liabilities	53,591	51,907
Total current liabilities	578,542	529,053
Long-term debt	986,495	857,265
Deferred credits and other non-current liabilities:		
Deferred tax liabilities	337,717	318,034
Regulatory liabilities	657,350	638,793
Pension and other postretirement benefit liabilities	166,684	217,287
Derivative instruments	412	2,852
Operating lease liabilities	79,431	80,559
Other non-current liabilities	113,934	120,309
Total deferred credits and other non-current liabilities	1,355,528	1,377,834
Commitments and contingencies (see Note 16 and Note 17)		
Equity:		
Common stock	435,515	319,506
Retained earnings	553,696	528,580
Accumulated other comprehensive loss	(11,404)	(12,902)
Total equity	977,807	835,184
Total liabilities and equity	\$ 3,898,372	\$ 3,599,336

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

<i>In thousands</i>	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2018	\$ 226,452	\$ 496,404	\$ (7,188)	\$ 715,668
Comprehensive income (loss)	—	68,974	(2,179)	66,795
Dividends on common stock	—	(53,372)	—	(53,372)
Capital contribution from parent	93,105	—	—	93,105
Reclassification of tax effects from the TCJA	—	1,366	(1,366)	—
Balance at December 31, 2019	319,557	513,372	(10,733)	822,196
Comprehensive income (loss)	—	70,563	(2,169)	68,394
Dividends on common stock	—	(55,355)	—	(55,355)
Other	(51)	—	—	(51)
Balance at December 31, 2020	319,506	528,580	(12,902)	835,184
Comprehensive income (loss)	—	81,172	1,498	82,670
Dividends on common stock	—	(56,056)	—	(56,056)
Capital contributions from parent	116,009	—	—	116,009
Balance at December 31, 2021	<u>\$ 435,515</u>	<u>\$ 553,696</u>	<u>\$ (11,404)</u>	<u>\$ 977,807</u>

See Notes to Consolidated Financial Statements

NORTHWEST NATURAL GAS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands</i>	Year Ended December 31,		
	2021	2020	2019
Operating activities:			
Net income	\$ 81,172	\$ 70,563	\$ 68,974
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	110,504	101,586	90,405
Regulatory amortization of gas reserves	13,897	17,779	19,172
Deferred income taxes	13,223	4,645	4,046
Qualified defined benefit pension plan expense	16,556	18,370	16,497
Contributions to qualified defined benefit pension plans	(9,590)	(28,980)	(10,970)
Deferred environmental expenditures, net	(18,187)	(27,871)	(16,226)
Environmental remediation expense	9,938	9,691	12,337
Regulatory disallowance of pension costs	—	—	10,500
Other	9,464	(7,025)	13,170
Changes in assets and liabilities:			
Receivables, net	(43,030)	(16,540)	9,264
Inventories	(14,427)	1,539	(5,990)
Income and other taxes	(10,405)	10,832	496
Accounts payable	8,728	(18,909)	(18,548)
Deferred gas costs	(40,541)	17,590	(23,471)
Asset optimization revenue sharing	44,458	(7,244)	655
Decoupling mechanism	(5,206)	2,884	18,661
Other, net	(25,060)	(393)	(2,081)
Cash provided by operating activities	141,494	148,517	186,891
Investing activities:			
Capital expenditures	(278,237)	(266,048)	(221,380)
Leasehold improvement expenditures	(1,364)	(7,878)	(18,812)
Proceeds from the sale of assets	3,926	8,149	659
Other	(54)	1,654	(3,544)
Cash used in investing activities	(275,729)	(264,123)	(243,077)
Financing activities:			
Long-term debt issued	130,000	150,000	140,000
Long-term debt retired	(60,000)	(75,000)	(30,000)
Proceeds from term loan due within one year	100,000	150,000	—
Repayment of term loan	(100,000)	(150,000)	—
Proceeds from commercial paper, maturities greater than three months	—	195,025	—
Repayment of commercial paper, maturities greater than three months	(195,025)	—	—
Changes in other short-term debt, net	209,000	(88,600)	(92,400)
Cash contributions received from parent	116,009	—	93,155
Cash dividend payments on common stock	(56,056)	(55,355)	(53,372)
Other	(4,600)	(3,632)	(2,510)
Cash provided by financing activities	139,328	122,438	54,873
Increase (decrease) in cash, cash equivalents and restricted cash	5,093	6,832	(1,313)
Cash, cash equivalents and restricted cash, beginning of period	15,739	8,907	10,220
Cash, cash equivalents and restricted cash, end of period	\$ 20,832	\$ 15,739	\$ 8,907
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalization	\$ 42,395	\$ 40,624	\$ 39,927
Income taxes paid	26,451	6,100	2,479

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

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

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

NW Holdings and NW Natural consolidate all entities in which they have a controlling financial interest. Investments in corporate joint ventures and partnerships that NW Holdings does not directly or indirectly control, and for which it is not the primary beneficiary, include NNG Financial's investment in Kelso-Beaver Pipeline and NWN Water's investment in Avion Water Company, Inc., which are accounted for under the equity method. See Note 13 for activity related to equity method investments. NW Holdings and its direct and indirect subsidiaries are collectively referred to herein as NW Holdings, and NW Natural and its direct and indirect subsidiaries are collectively referred to herein as NW Natural. The consolidated financial statements of NW Holdings and NW Natural are presented after elimination of all intercompany balances and transactions.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimates, and changes would most likely be reported in future periods. Management believes the estimates and assumptions used are reasonable.

Industry Regulation

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

In applying regulatory accounting principles, NW Holdings and NW Natural capitalize or defer certain costs and revenues as regulatory assets and liabilities pursuant to orders of the applicable state public utility commission, which provide for the recovery of revenues or expenses from, or refunds to, utility customers in future periods, including a return or a carrying charge in certain cases.

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

<i>In thousands</i>	Regulatory Assets	
	2021	2020
Current:		
Unrealized loss on derivatives ⁽¹⁾	\$ 10,402	\$ 4,198
Gas costs	35,641	1,979
Environmental costs ⁽²⁾	6,694	4,992
Decoupling ⁽³⁾	969	361
Pension balancing ⁽⁴⁾	7,131	7,131
Income taxes	2,568	3,484
Other ⁽⁵⁾	8,986	9,600
Total current	<u>\$ 72,391</u>	<u>\$ 31,745</u>
Non-current:		
Unrealized loss on derivatives ⁽¹⁾	\$ 412	\$ 2,852
Pension balancing ⁽⁴⁾	38,302	43,383
Income taxes	12,609	15,368
Pension and other postretirement benefit liabilities	116,440	170,812
Environmental costs ⁽²⁾	94,636	90,623
Gas costs	15,477	3,925
Decoupling ⁽³⁾	—	1,031
Other ⁽⁵⁾	36,663	20,893
Total non-current	<u>\$ 314,539</u>	<u>\$ 348,887</u>
Other (NW Holdings)	40	40
Total non-current -NW Holdings	<u>\$ 314,579</u>	<u>\$ 348,927</u>

<i>In thousands</i>	Regulatory Liabilities	
	2021	2020
Current:		
Gas costs	\$ 70	\$ 1,118
Unrealized gain on derivatives ⁽¹⁾	48,130	13,674
Decoupling ⁽³⁾	4,475	11,793
Income taxes ⁽⁶⁾	8,192	8,217
Asset optimization revenue sharing	45,124	10,298
Other ⁽⁵⁾	6,290	5,262
Total current	<u>\$ 112,281</u>	<u>\$ 50,362</u>
Non-current:		
Gas costs	\$ 250	\$ 314
Unrealized gain on derivatives ⁽¹⁾	10,730	6,135
Decoupling ⁽³⁾	3,412	1,723
Income taxes ⁽⁶⁾	181,404	189,587
Accrued asset removal costs ⁽⁷⁾	445,952	427,960
Asset optimization revenue sharing	1,810	1,231
Other ⁽⁵⁾	13,792	11,843
Total non-current	<u>\$ 657,350</u>	<u>\$ 638,793</u>
Other (NW Holdings)	982	870
Total non-current -NW Holdings	<u>\$ 658,332</u>	<u>\$ 639,663</u>

- (1) Unrealized gains or losses on derivatives are non-cash items and, therefore, do not earn a rate of return or a carrying charge. These amounts are recoverable through natural gas distribution rates as part of the annual Purchased Gas Adjustment (PGA) mechanism when realized at settlement.
- (2) Refer to the Environmental Cost Deferral and Recovery table in Note 17 for a description of environmental costs.
- (3) This deferral represents the margin adjustment resulting from differences between actual and expected volumes.
- (4) Refer to Note 10 for information regarding the deferral of pension expenses.
- (5) Balances consist of deferrals and amortizations under approved regulatory mechanisms and typically earn a rate of return or carrying charge.
- (6) This balance represents estimated amounts associated with the Tax Cuts and Jobs Act. See Note 11.
- (7) Estimated costs of removal on certain regulated properties are collected through rates. See "Accounting Policies—Plant, Property, and Accrued Asset Removal Costs" below.

The amortization period for NW Natural's regulatory assets and liabilities ranges from less than one year to an indeterminable period. Regulatory deferrals for gas costs payable are generally amortized over 12 months beginning each November 1 following the gas contract year during which the deferred gas costs are recorded. Similarly, most other regulatory deferred accounts are amortized over 12 months. However, certain regulatory account balances, such as income taxes, environmental costs, pension liabilities, and accrued asset removal costs, are large and tend to be amortized over longer periods once NW Natural has agreed upon an amortization period with the respective regulatory agency.

We believe all costs incurred and deferred at December 31, 2021 are prudent. All regulatory assets and liabilities are reviewed annually for recoverability, or more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then NW Natural would be required to write-off the net unrecoverable balances in the period such determination is made.

Regulatory interest income of \$6.1 million and \$4.8 million and regulatory interest expense of \$1.3 million and \$1.8 million was recognized within other income (expense), net for the years ended December 31, 2021 and 2020, respectively.

Environmental Regulatory Accounting

See Note 17 for information about the SRRM and OPUC orders regarding implementation.

COVID-19 Impact

During 2020, our regulated utilities received approval in their respective jurisdictions to defer certain financial impacts associated with COVID-19 such as bad debt expense, financing costs to secure liquidity, lost revenues related to late fees and reconnection fees, and other COVID-19 related costs, net of offsetting direct expense reductions associated with COVID-19. As of December 31, 2021 and 2020, we had a regulatory asset of approximately \$8.6 million and \$4.8 million, respectively, for incurred costs associated with COVID-19 that we believe are recoverable.

New Accounting Standards

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

Recently Adopted Accounting Pronouncements

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

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

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

Recently Issued Accounting Pronouncements

LEASES. In July 2021, the FASB issued ASU 2021-05, "Leases (Topic 842), Lessors - Certain Leases with Variable Lease Payments." The purpose of the amendment is to require lessors to account for certain lease transactions that contain variable lease payments as operating leases. The amendments in this ASU are intended to eliminate the recognition of any day-one loss associated with certain sales-type and direct-financing lease transactions. The changes do not impact lessee accounting. The new guidance is effective on January 1, 2022 and may be adopted using either a retrospective or prospective approach. We do not expect the ASU to materially affect the financial statements and disclosures of NW Holdings or NW Natural.

Accounting Policies

The accounting policies discussed below apply to both NW Holdings and NW Natural.

Plant, Property, and Accrued Asset Removal Costs

Plant and property are stated at cost, including capitalized labor, materials, and overhead. In accordance with regulatory accounting standards, the cost of acquiring and constructing long-lived plant and property generally includes an allowance for funds used during construction (AFUDC) or capitalized interest. AFUDC represents the regulatory financing cost incurred when debt and equity funds are used for construction (see “AFUDC” below). When constructed assets are subject to market-based rates rather than cost-based rates, the financing costs incurred during construction are included in capitalized interest in accordance with U.S. GAAP, not as regulatory financing costs under AFUDC.

In accordance with long-standing regulatory treatment, our depreciation rates consist of three components: one based on the average service life of the asset, a second based on the estimated salvage value of the asset, and a third based on the asset's estimated cost of removal. We collect, through rates, the estimated cost of removal on certain regulated properties through depreciation expense, with a corresponding offset to accumulated depreciation. These removal costs are non-legal obligations as defined by regulatory accounting guidance. Therefore, we have included these costs as non-current regulatory liabilities rather than as accumulated depreciation on our consolidated balance sheets. In the rate setting process, the liability for removal costs is treated as a reduction to the net rate base on which the NGD business has the opportunity to earn its allowed rate of return.

The costs of NGD plant retired or otherwise disposed of are removed from NGD plant and charged to accumulated depreciation for recovery or refund through future rates. Gains from the sale of regulated assets are generally deferred and refunded to customers. For assets not related to NGD, we record a gain or loss upon the disposal of the property, and the gain or loss is recorded in operating income or loss in the consolidated statements of comprehensive income.

The provision for depreciation of NGD property, plant, and equipment is recorded under the group method on a straight-line basis with rates computed in accordance with depreciation studies approved by regulatory authorities. The weighted-average depreciation rate for NGD assets in service was approximately 3.0% for 2021, 3.0% for 2020, and 2.9% for 2019, reflecting the approximate weighted-average economic life of the property. This includes 2021 weighted-average depreciation rates for the following asset categories: 2.6% for transmission and distribution plant, 2.0% for gas storage facilities, 6.2% for general plant, and 6.1% for intangible and other fixed assets.

AFUDC. Certain additions to NGD plant include AFUDC, which represents the net cost of debt and equity funds used during construction. AFUDC is calculated using actual interest rates for debt and authorized rates for ROE, if applicable. If short-term debt balances are less than the total balance of construction work in progress, then a composite AFUDC rate is used to represent interest on all debt funds, shown as a reduction to interest charges, and on ROE funds, shown as other income. While cash is not immediately recognized from recording AFUDC, it is realized in future years through rate recovery resulting from the higher NGD cost of service. Our composite AFUDC rate was 0.7% in 2021, 1.9% in 2020, and 3.9% in 2019.

IMPAIRMENT OF LONG-LIVED ASSETS. We review the carrying value of long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Factors that would necessitate an impairment assessment of long-lived assets include a significant adverse change in the extent or manner in which the asset is used, a significant adverse change in legal factors or business climate that could affect the value of the asset, or a significant decline in the observable market value or expected future cash flows of the asset, among others.

When such factors are present, we assess the recoverability by determining whether the carrying value of the asset will be recovered through expected future cash flows. An asset is determined to be impaired when the carrying value of the asset exceeds the expected undiscounted future cash flows from the use and eventual disposition of the asset. If an impairment is indicated, we record an impairment loss for the difference between the carrying value and the fair value of the long-lived assets. Fair value is estimated using appropriate valuation methodologies, which may include an estimate of discounted cash flows.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand plus highly liquid investment accounts with original maturity dates of three months or less. At December 31, 2021, NW Holdings had no outstanding checks and at December 31, 2020, NW Holdings had outstanding checks of \$4.4 million, substantially all of which is recorded at NW Natural. These balances are included in accounts payable in the NW Holdings and NW Natural balance sheets.

Restricted cash is primarily comprised of funds from public purpose charges for programs that assist low-income customers with bill payments or energy efficiency. These balances are included in other current assets in the NW Holdings and NW Natural balance sheets. There were no transfers between restricted cash and cash and cash equivalents during the years ended December 31, 2021 and 2020. Prior period amounts have been reclassified to conform prior period information to the current presentation.

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

<i>In thousands</i>	December 31,	
	2021	2020
Cash and cash equivalents	\$ 18,559	\$ 30,168
Restricted cash included in other current assets	8,561	5,286
Cash, cash equivalents and restricted cash	<u>\$ 27,120</u>	<u>\$ 35,454</u>

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

<i>In thousands</i>	December 31,	
	2021	2020
Cash and cash equivalents	\$ 12,271	\$ 10,453
Restricted cash included in other current assets	8,561	5,286
Cash, cash equivalents and restricted cash	<u>\$ 20,832</u>	<u>\$ 15,739</u>

Revenue Recognition and Accrued Unbilled Revenue

Revenues, derived primarily from the sale and transportation of natural gas, are recognized upon delivery of gas or water, or service to customers. Revenues include accruals for gas or water delivered but not yet billed to customers based on estimates of deliveries from meter reading dates to month end (accrued unbilled revenue). Accrued unbilled revenue is dependent upon a number of factors that require management's judgment, including total natural gas receipts and deliveries, customer use of natural gas or water by billing cycle, and weather factors. Accrued unbilled revenue is reversed the following month when actual billings occur. NW Holdings' accrued unbilled revenue at December 31, 2021 and 2020 was \$82.2 million and \$57.9 million, respectively, substantially all of which is accrued unbilled revenue at NW Natural.

Revenues not related to NGD are derived primarily from Interstate Storage Services, asset management activities at the Mist gas storage facility, and other investments and business activities. At the Mist underground storage facility, revenues are primarily firm service revenues in the form of fixed monthly reservation charges. In addition, we also have asset management service revenue from an independent energy marketing company that optimizes commodity, storage, and pipeline capacity release transactions. Under this agreement, guaranteed asset management revenue is recognized using a straight-line, pro-rata methodology over the term of each contract. Revenues earned above the guaranteed amount are recognized as they are earned.

Revenue Taxes

Revenue-based taxes are primarily franchise taxes, which are collected from customers and remitted to taxing authorities. Revenue taxes are included in operating expenses in the statements of comprehensive income for NW Holdings and NW Natural. Revenue taxes at NW Holdings were \$34.7 million, \$30.3 million, and \$30.3 million for 2021, 2020, and 2019, respectively.

Accounts Receivable and Allowance for Uncollectible Accounts

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

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

After considering the significant exposure to COVID-19 related job losses in Oregon and Washington state, NW Holdings and NW Natural expanded our standard review procedures for our allowance for uncollectible accounts calculation, including analyzing the unemployment rate and comparing it to historic economic data during the 2007-2009 time period when the country experienced an economic recession. We are also considering other qualitative information including recent customer interactions

related to payment plans and credit issues, statistics from our website related to credit inquiries, and bill assistance programs including the arrearage management program. For the residential allowance calculation, we consider the funds applied or granted to customers through a variety of assistance programs including the COVID-19 arrearage management programs in Oregon and Washington. During the third quarter of 2021, the normal collection process for residential accounts resumed. For residential and commercial accounts, we have resumed normal collection processes and our provision is based on historical write-off trends and current information on delinquent accounts. For industrial accounts, we continue to analyze those accounts on an account-by-account basis with specific reserves taken as necessary.

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

<i>In thousands</i>	As of December 31, 2020	Year ended December 31, 2021		As of December 31, 2021
	Beginning Balance	Provision recorded, net of adjustments	Write-offs recognized, net of recoveries	Ending Balance
Allowance for uncollectible accounts:				
Residential	\$ 2,153	\$ 783	\$ (1,476)	\$ 1,460
Commercial	704	(250)	(276)	178
Industrial	142	(79)	4	67
Accrued unbilled and other	220	270	(177)	313
Total	\$ 3,219	\$ 724	\$ (1,925)	\$ 2,018

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

Inventories

NGD gas inventories, which consist of natural gas in storage for NGD customers, are stated at the lower of weighted-average cost or net realizable value. The regulatory treatment of these inventories provides for cost recovery in customer rates. NGD gas inventories injected into storage are priced in inventory based on actual purchase costs, and those withdrawn from storage are charged to cost of gas during the period they are withdrawn at the weighted-average inventory cost.

Gas storage inventories mainly consist of natural gas received as fuel-in-kind from storage customers. Gas storage inventories are valued at the lower of average cost or net realizable value. Cushion gas is not included in inventory balances, is recorded at original cost, and is classified as a long-term plant asset.

Materials and supplies inventories consist of inventories both related to and unrelated to NGD and are stated at the lower of average cost or net realizable value.

NW Natural's NGD and gas storage inventories totaled \$37.4 million and \$24.7 million at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, NW Holdings' materials and supplies inventories, which are comprised primarily of NW Natural's materials and supplies, totaled \$19.4 million and \$18.0 million, respectively.

During 2021, NW Natural entered into certain agreements to purchase renewable thermal certificates (RTCs). RTCs are initially recorded at cost and subsequently assessed for impairment based on the lower-of-cost or market model. All RTCs purchased during 2021 were retired or used on customers behalf prior to December 31, 2021.

Gas Reserves

Gas reserves are payments to acquire and produce natural gas reserves. Gas reserves are stated at cost, adjusted for regulatory amortization, with the associated deferred tax benefits recorded as liabilities on the balance sheet. The current portion is calculated based on expected gas deliveries within the next fiscal year. NW Natural recognizes regulatory amortization of this asset on a volumetric basis calculated using the estimated gas reserves and the estimated terms extracted and sold each month. The amortization of gas reserves is recorded to cost of gas along with gas production revenues and production costs. See Note 13.

Derivatives

NW Natural's derivatives are measured at fair value and recognized as either assets or liabilities on the balance sheet. Changes in the fair value of the derivatives are recognized in earnings unless specific regulatory or hedge accounting criteria are met. Accounting for derivatives and hedges provides an exception for contracts intended for normal purchases and normal sales for

which physical delivery is probable. In addition, certain derivative contracts are approved by regulatory authorities for recovery or refund through customer rates. Accordingly, the changes in fair value of these approved contracts are deferred as regulatory assets or liabilities pursuant to regulatory accounting principles. NW Natural's financial derivatives generally qualify for deferral under regulatory accounting. NW Natural's index-priced physical derivative contracts also qualify for regulatory deferral accounting treatment.

Derivative contracts entered into for NGD requirements after the annual PGA rate has been set and maturing during the PGA year are subject to the PGA incentive sharing mechanism. In Oregon, NW Natural participates in a PGA sharing mechanism under which it is required to select either an 80% or 90% deferral of higher or lower gas costs such that the impact on current earnings from the gas cost sharing is either 20% or 10% of gas cost differences compared to PGA prices, respectively. For each of the PGA years in Oregon beginning November 1, 2021, 2020, and 2019, NW Natural selected the 90% deferral of gas cost differences. In Washington, 100% of the differences between the PGA prices and actual gas costs are deferred. See Note 15.

NW Natural's financial derivatives policy sets forth the guidelines for using selected derivative products to support prudent risk management strategies within designated parameters. NW Natural's objective for using derivatives is to decrease the volatility of gas prices and cash flows without speculative risk. The use of derivatives is permitted only after the risk exposures have been identified, are determined not to exceed acceptable tolerance levels, and are determined necessary to support normal business activities. NW Natural does not enter into derivative instruments for trading purposes. All derivatives for NW Holdings are currently held at NW Natural.

Fair Value

In accordance with fair value accounting, we use the following fair value hierarchy for determining inputs for our debt, pension plan assets, and derivative fair value measurements:

- Level 1: Valuation is based on quoted prices for identical instruments traded in active markets;
- Level 2: Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market; and
- Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions market participants would use in valuing the asset or liability.

In addition, the fair value for certain pension trust investments is determined using Net Asset Value per share (NAV) as a practical expedient, and therefore they are not classified within the fair value hierarchy. These investments primarily consist of institutional investment products.

When developing fair value measurements, it is our policy to use quoted market prices whenever available or to maximize the use of observable inputs and minimize the use of unobservable inputs when quoted market prices are not available. Fair values are primarily developed using industry-standard models that consider various inputs including: (a) quoted future prices for commodities; (b) forward currency prices; (c) time value; (d) volatility factors; (e) current market and contractual prices for underlying instruments; (f) market interest rates and yield curves; (g) credit spreads; and (h) other relevant economic measures. NW Natural considers liquid points for natural gas hedging to be those points for which there are regularly published prices in a nationally recognized publication or where the instruments are traded on an exchange.

Goodwill and Business Combinations

NW Holdings, through its wholly-owned subsidiary NWN Water and NWN Water's wholly-owned subsidiaries, has completed various acquisitions that resulted in the recognition of goodwill. Goodwill is measured as the excess of the acquisition-date fair value of the consideration transferred over the acquisition-date fair value of the net identifiable assets assumed. Adjustments are recorded during the measurement period to finalize the allocation of the purchase price. The carrying value of goodwill is reviewed annually during the fourth quarter using balances as of October 1, or whenever events or changes in circumstance indicate that such carrying values may not be recoverable. The goodwill assessment policy begins with a qualitative analysis in which events and circumstances are evaluated, including macroeconomic conditions, industry and market conditions, regulatory environments, and overall financial performance of the reporting unit. If the qualitative assessment indicates that the carrying value may be at risk of recoverability, a quantitative evaluation is performed to measure the carrying value of the goodwill against the fair value of the reporting unit. The reporting unit is determined primarily based on current operating segments and the level of review provided by the Chief Operating Decision Maker (CODM) and/or segment management on the operating segment's financial results. Reporting units are evaluated periodically for changes in the corporate environment.

As of December 31, 2021 and 2020, NW Holdings had goodwill of \$70.6 million and \$69.2 million, respectively. All of NW Holdings' goodwill was acquired through the business combinations completed by NWN Water and its wholly-owned subsidiaries. No impairment charges were recorded as a result of the fourth quarter goodwill impairment assessment.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date, and the fair value of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred. When NW Natural acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual

terms, economic circumstances and pertinent conditions as of the acquisition date. When there is substantial judgment or uncertainty around the fair value of acquired assets, we may engage a third party expert to assist in determining the fair values of certain assets or liabilities.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the enactment date period unless, for NW Natural, a regulatory order specifies deferral of the effect of the change in tax rates over a longer period of time.

For NW Natural, deferred income tax assets and liabilities are also recognized for temporary differences where the deferred income tax benefits or expenses have previously been flowed through in the ratemaking process of the NGD business. Regulatory tax assets and liabilities are recorded on these deferred tax assets and liabilities to the extent it is believed they will be recoverable from or refunded to customers in future rates.

Deferred investment tax credits on NGD plant additions, which reduce income taxes payable, are deferred for financial statement purposes and amortized over the life of the related plant.

NW Holdings files consolidated or combined income tax returns that include NW Natural. Income tax expense is allocated on a separate company basis incorporating certain consolidated return considerations. Subsidiary income taxes payable or receivable are generally settled with NW Holdings, the common agent for income tax matters.

Interest and penalties related to unrecognized tax benefits, if any, are recognized within income tax expense and accrued interest and penalties are recognized within the related tax liability line in the consolidated balance sheets. No accrued interest or penalties for uncertain tax benefits have been recorded. See Note 11.

Environmental Contingencies

Loss contingencies are recorded as liabilities when it is probable a liability has been incurred and the amount of the loss is reasonably estimable in accordance with accounting standards for contingencies. Estimating probable losses requires an analysis of uncertainties that often depend upon judgments about potential actions by third parties. Accruals for loss contingencies are recorded based on an analysis of potential results.

With respect to environmental liabilities and related costs, estimates are developed based on a review of information available from numerous sources, including completed studies and site specific negotiations. NW Natural's policy is to accrue the full amount of such liability when information is sufficient to reasonably estimate the amount of probable liability. When information is not available to reasonably estimate the probable liability, or when only the range of probable liabilities can be estimated and no amount within the range is more likely than another, it is our policy to accrue at the low end of the range. Accordingly, due to numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several site investigations, in some cases, it may not be possible to reasonably estimate the high end of the range of possible loss. In those cases, the nature of the potential loss and the fact that the high end of the range cannot be reasonably estimated is disclosed. See Note 17.

Unconsolidated Affiliates

NW Holdings and NWN Water have equity interests in businesses which we account for under the equity method as we do not exercise control of the major operating and financial policies. The carrying value of these investments as of December 31, 2021 was \$14.5 million. The business transactions with our equity method investments are not significant. We regularly assesses the profitability and valuation of our investments for any potential impairment. See Note 13.

Subsequent Events

We monitor significant events occurring after the balance sheet date and prior to the issuance of the financial statements to determine the impacts, if any, of events on the financial statements to be issued.

3. EARNINGS PER SHARE

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

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

In thousands, except per share data

	2021	2020	2019
Net income from continuing operations	\$ 78,666	\$ 70,273	\$ 65,311
Income (loss) from discontinued operations, net of tax	—	6,508	(3,576)
Net income	\$ 78,666	\$ 76,781	\$ 61,735
Average common shares outstanding - basic	30,702	30,541	29,786
Additional shares for stock-based compensation plans (See Note 8)	50	58	73
Average common shares outstanding - diluted	30,752	30,599	29,859
Earnings from continuing operations per share of common stock:			
Basic	\$ 2.56	\$ 2.30	\$ 2.19
Diluted	2.56	2.30	2.19
Earnings (loss) from discontinued operations per share of common stock:			
Basic	\$ —	\$ 0.21	\$ (0.12)
Diluted	—	0.21	(0.12)
Earnings per share of common stock:			
Basic	\$ 2.56	\$ 2.51	\$ 2.07
Diluted	2.56	2.51	2.07
Additional information:			
Anti-dilutive shares	7	1	—

4. SEGMENT INFORMATION

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

No individual customer accounts for over 10% of NW Holdings' or NW Natural's operating revenues.

Natural Gas Distribution

NW Natural's local gas distribution segment (NGD) is a regulated utility principally engaged in the purchase, sale, and delivery of natural gas and related services to customers in Oregon and southwest Washington. The NGD business is responsible for building and maintaining a safe and reliable pipeline distribution system, purchasing sufficient gas supplies from producers and marketers, contracting for firm and interruptible transportation of gas over interstate pipelines to bring gas from the supply basins into its service territory, and re-selling the gas to customers subject to rates, terms, and conditions approved by the OPUC or WUTC. NGD also includes taking customer-owned gas and transporting it from interstate pipeline connections, or city gates, to the customers' end-use facilities for a fee, which is approved by the OPUC or WUTC. Approximately 88% of NGD customers are located in Oregon and 12% in Washington. On an annual basis, residential and commercial customers typically account for around 60% of total NGD volumes delivered and around 90% of NGD margin. Industrial customers largely account for the remaining volumes and NGD margin. A small amount of the margin is also derived from miscellaneous services, gains or losses from an incentive gas cost sharing mechanism, and other service fees.

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

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

NW Natural

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

Earnings from Interstate Storage Services assets are primarily related to firm storage capacity revenues. Earnings from the Mist facility also include revenue, net of amounts shared with NGD customers, from management of NGD assets at Mist and upstream pipeline capacity when not needed to serve NGD customers. Under the Oregon sharing mechanism, NW Natural retains 80% of the pre-tax income from these services when the costs of the capacity were not included in NGD rates, or 10% of

the pre-tax income when the costs have been included in these rates. The remaining 20% and 90%, respectively, are recorded to a deferred regulatory account for crediting back to NGD customers.

NW Holdings

NW Holdings' activities in Other include all remaining activities not associated with NW Natural, specifically NWN Water, which consolidates the water and wastewater utility operations and is pursuing other investments in the water sector through itself and wholly-owned subsidiaries; NWN Gas Storage, a wholly-owned subsidiary of NWN Energy; NWN Energy's equity investment in Trail West Holdings, LLC (TWH) through August 6, 2020; and other pipeline assets in NNG Financial. For more information on the sale of TWH, see Note 13. Other also includes corporate revenues and expenses that cannot be allocated to other operations, including certain business development activities.

Segment Information Summary

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

<i>In thousands</i>	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
2021					
Operating revenues	\$ 816,887	\$ 26,170	\$ 843,057	\$ 17,343	\$ 860,400
Depreciation and amortization	109,475	1,029	110,504	3,030	113,534
Income (loss) from operations	147,902	17,331	165,233	(2,116)	163,117
Net income (loss) from continuing operations	68,988	12,184	81,172	(2,506)	78,666
Capital expenditures	275,267	2,970	278,237	15,655	293,892
Total assets at December 31, 2021	3,846,112	52,260	3,898,372	166,232	4,064,604
2020					
Operating revenues	\$ 741,072	\$ 17,676	\$ 758,748	\$ 14,931	\$ 773,679
Depreciation and amortization	100,591	995	101,586	2,097	103,683
Income (loss) from operations	137,724	9,916	147,640	711	148,351
Net income (loss) from continuing operations	63,555	7,008	70,563	(290)	70,273
Capital expenditures	263,777	2,271	266,048	6,968	273,016
Total assets at December 31, 2020	3,549,868	49,468	3,599,336	157,043	3,756,379
2019					
Operating revenues	\$ 720,528	\$ 19,416	\$ 739,944	\$ 6,428	\$ 746,372
Depreciation and amortization	89,415	990	90,405	1,091	91,496
Income (loss) from operations	135,918	11,428	147,346	(3,872)	143,474
Net income (loss) from continuing operations	60,828	8,146	68,974	(3,663)	65,311
Capital expenditures	219,880	1,500	221,380	2,091	223,471
Total assets at December 31, 2019 ⁽¹⁾	3,273,835	47,652	3,321,487	91,833	3,413,320

⁽¹⁾ Total assets for NW Holdings exclude assets related to discontinued operations of \$15.1 million as of December 31, 2019.

Natural Gas Distribution Margin

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

The following table presents additional segment information concerning NGD margin:

<i>In thousands</i>	2021	2020	2019
NGD margin calculation:			
NGD operating revenues	\$ 797,800	\$ 721,950	\$ 708,472
Other regulated services	19,087	19,122	12,056
Total NGD operating revenues	816,887	741,072	720,528
Less: NGD cost of gas	292,538	262,980	255,135
Environmental remediation expense	9,938	9,691	12,337
Revenue taxes	34,600	30,291	30,325
NGD margin	\$ 479,811	\$ 438,110	\$ 422,731

5. COMMON STOCK

As of December 31, 2021 and 2020, NW Holdings had 100 million shares of common stock authorized. As of December 31, 2021, NW Holdings had 156,107 shares reserved for issuance of common stock under the Employee Stock Purchase Plan (ESPP) and 454,902 shares reserved for issuance under the Dividend Reinvestment and Direct Stock Purchase Plan (DRPP). At NW Holdings' election, shares sold through the DRPP may be purchased in the open market or through original issuance of shares reserved for issuance under the DRPP.

In August 2021, NW Holdings initiated an at-the-market (ATM) equity program by entering into an equity distribution agreement under which NW Holdings may issue and sell from time to time shares of common stock, no par value, having an aggregate gross sales price of up to \$200 million. NW Holdings is under no obligation to offer and sell common stock under the ATM equity program, which expires in August 2024. Any shares of common stock offered under the ATM equity program are registered on NW Holdings' universal shelf registration statement filed with the SEC. As of December 31, 2021, NW Holdings had issued and sold 375,720 shares of common stock pursuant to the ATM equity program resulting in cash proceeds of \$17.5 million, net of fees and commissions paid to agents of \$0.4 million. The ATM equity program was initiated to raise funds for general corporate purposes, including equity contributions to NW Holdings' subsidiaries, NW Natural and NW Natural Water. Contributions to NW Natural and NW Natural Water will be used for general corporate purposes.

Stock Repurchase Program

NW Holdings has a share repurchase program under which it may purchase its common shares on the open market or through privately negotiated transactions. NW Holdings currently has Board authorization through May 2022 to repurchase up to an aggregate of the greater of 2.8 million shares or \$100 million. No shares of common stock were repurchased pursuant to this program during the year ended December 31, 2021. Since the plan's inception in 2000 under NW Natural, a total of 2.1 million shares have been repurchased at a total cost of \$83.3 million.

The following table summarizes the changes in the number of shares of NW Holdings' common stock issued and outstanding:

<i>In thousands</i>	Shares
Balance, December 31, 2018	28,880
Sales to employees under ESPP	18
Stock-based compensation	83
Equity issuance	1,438
Sales to shareholders under DRPP	53
Balance, December 31, 2019	30,472
Sales to employees under ESPP	3
Stock-based compensation	46
Sales to shareholders under DRPP	68
Balance, December 31, 2020	30,589
Sales to employees under ESPP	48
Stock-based compensation	49
Equity issuance	376
Sales to shareholders under DRPP	67
Balance, December 31, 2021	31,129

6. REVENUE

The following table presents disaggregated revenue from continuing operations:

Year ended December 31, 2021					
<i>In thousands</i>	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
Natural gas sales	\$ 783,027	\$ —	\$ 783,027	\$ —	\$ 783,027
Gas storage revenue, net	—	10,830	10,830	—	10,830
Asset management revenue, net	—	9,387	9,387	—	9,387
Appliance retail center revenue	—	5,953	5,953	—	5,953
Other revenue	1,615	—	1,615	17,343	18,958
Revenue from contracts with customers	784,642	26,170	810,812	17,343	828,155
Alternative revenue	14,694	—	14,694	—	14,694
Leasing revenue	17,551	—	17,551	—	17,551
Total operating revenues	\$ 816,887	\$ 26,170	\$ 843,057	\$ 17,343	\$ 860,400

Year ended December 31, 2020					
<i>In thousands</i>	NGD	Other (NW Natural)	NW Natural	Other (NW Holdings)	NW Holdings
Natural gas sales	\$ 710,422	\$ —	\$ 710,422	\$ —	\$ 710,422
Gas storage revenue, net	—	9,759	9,759	—	9,759
Asset management revenue, net	—	2,532	2,532	—	2,532
Appliance retail center revenue	—	5,385	5,385	—	5,385
Other revenue	1,337	—	1,337	14,931	16,268
Revenue from contracts with customers	711,759	17,676	729,435	14,931	744,366
Alternative revenue	10,870	—	10,870	—	10,870
Leasing revenue	18,443	—	18,443	—	18,443
Total operating revenues	\$ 741,072	\$ 17,676	\$ 758,748	\$ 14,931	\$ 773,679

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

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

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

Natural Gas Distribution

Natural Gas Sales

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

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

Alternative Revenue

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

Leasing Revenue

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

NW Natural Other

Gas Storage Revenue

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

Asset Management Revenue

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

As of December 31, 2021, unrecognized revenue for the fixed component of the transaction price related to gas storage and asset management revenue was approximately \$98.4 million. Of this amount, approximately \$19.7 million will be recognized in 2022, \$18.1 million in 2023, \$15.7 million in 2024, \$13.5 million in 2025, and \$31.4 million thereafter. The amounts presented here are calculated using current contracted rates.

Appliance Retail Center Revenue

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

NW Holdings Other

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

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