NORTHWEST NATURAL GAS CO
Form 10-Q
May 05, 2015

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

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to____________
Commission file number 1-15973

NORTHWEST NATURAL GAS COMPANY
(Exact name of registrant as specified in its charter)

Oregon (State or other jurisdiction of incorporation or organization)	93-0256722 (I.R.S. Employer Identification No.)

220 N.W. Second Avenue, Portland, Oregon 97209
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (503) 226-4211

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [X] Accelerated Filer [ ]

Non-accelerated Filer [ ] Smaller Reporting Company [ ]

(Do not check if a Smaller Reporting Company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

At April 24, 2015, 27,332,671 shares of the registrant’s Common Stock (the only class of Common Stock) were outstanding.

NORTHWEST NATURAL GAS COMPANY
For the Quarterly Period Ended March 31, 2015

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FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects" and similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements regarding the following:

- plans, objectives, goals, and strategies;
- assumptions and estimates;
- future events or performance;
- trends, timing and cyclicality;
- risks;
- earnings and dividends;
- capital structure;
- growth;
- customer rates;
- commodity costs;
- gas reserves;
- operational performance and costs;
- energy policy and preferences;
- efficacy of derivatives and hedges;
- liquidity and financial positions;
- project and program development, expansion, or investment;
- competition;
- procurement and development of gas supplies;
- estimated expenditures;
- costs of compliance;
- credit exposures;
- potential efficiencies;
- rate or regulatory recovery or refunds;
- impacts of laws, rules and regulations;
- tax liabilities or refunds;
- levels and pricing of gas storage contracts;
- outcomes and effects of potential claims, litigation, regulatory actions, and other administrative matters;
- projected obligations under retirement plans;
- availability, adequacy, and shift in mix, of gas supplies;
- approval and adequacy of regulatory deferrals;
- potential regulatory disallowances;
- effects of regulatory mechanisms; and
- environmental, regulatory, litigation and insurance costs and recoveries, and timing thereof.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our 2014 Annual Report on Form 10-K, Part I, Item 1A "Risk Factors" and Part II, Item 7 and Item 7A, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and “Quantitative and Qualitative Disclosures about Market Risk,” and in Part I, Items 2 and 3, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk,” and Part II, Item 1A, “Risk Factors,” herein.

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

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
In thousands, except per share data	2015	2014
Operating revenues	$261,665	$293,386
Operating expenses:		
Cost of gas	125,705	155,201
Operations and maintenance	54,116	35,386
General taxes	8,732	8,182
Depreciation and amortization	20,111	19,589
Total operating expenses	208,664	218,358
Income from operations	53,001	75,028
Other income and expense, net	5,049	1,383
Interest expense, net	10,481	11,542
Income before income taxes	47,569	64,869
Income tax expense	19,083	26,985
Net income	28,486	37,884
Other comprehensive income:		
Amortization of non-qualified employee benefit plan liability, net of taxes of $216 and $109 for the three months ended March 31, 2015 and 2014, respectively	332	165
Comprehensive income	$28,818	$38,049
Average common shares outstanding:		
Basic	27,301	27,094
Diluted	27,369	27,126
Earnings per share of common stock:		
Basic	$1.04	$1.40
Diluted	1.04	1.40
Dividends declared per share of common stock	0.465	0.460

See Notes to Unaudited Consolidated Financial Statements

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NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	March 31, 2015	March 31, 2014	December 31, 2014
Assets:			
Current assets:			
Cash and cash equivalents	$5,218	$17,929	$9,534
Accounts receivable	68,531	87,264	69,818
Accrued unbilled revenue	30,076	33,515	57,963
Allowance for uncollectible accounts	(1,363)	(2,235)	(969)
Regulatory assets	67,702	27,834	68,562
Derivative instruments	658	15,846	243
Inventories	69,289	33,469	77,832
Gas reserves	19,112	21,990	20,020
Income taxes receivable	2,000	—	1,000
Deferred tax assets	13,491	4,915	23,785
Other current assets	17,271	13,595	34,772
Total current assets	291,985	254,122	362,560
Non-current assets:			
Property, plant, and equipment	3,017,754	2,939,760	2,992,560
Less: Accumulated depreciation	883,254	868,257	870,967
Total property, plant, and equipment, net	2,134,500	2,071,503	2,121,593
Gas reserves	125,187	134,894	129,280
Regulatory assets	348,421	285,046	368,908
Derivative instruments	117	1,078	—
Other investments	68,614	67,288	68,238
Restricted cash	3,000	4,000	3,000
Other non-current assets	10,577	12,453	11,366
Total non-current assets	2,690,416	2,576,262	2,702,385
Total assets	$2,982,401	$2,830,384	$3,064,945

See Notes to Unaudited Consolidated Financial Statements

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NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	March 31, 2015	March 31, 2014	December 31, 2014
Liabilities and equity:			
Current liabilities:			
Short-term debt	$156,200	$32,600	$234,700
Current maturities of long-term debt	40,000	80,000	40,000
Accounts payable	62,904	89,201	91,366
Taxes accrued	17,755	34,146	10,031
Interest accrued	10,427	11,144	6,079
Regulatory liabilities	24,263	37,686	19,105
Derivative instruments	23,242	1,191	29,894
Other current liabilities	35,950	38,069	38,235
Total current liabilities	370,741	324,037	469,410
Long-term debt	621,700	661,700	621,700
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	523,929	489,108	530,965
Regulatory liabilities	326,424	308,858	317,205
Pension and other postretirement benefit liabilities	235,516	147,733	236,735
Derivative instruments	1,117	96	3,515
Other non-current liabilities	118,059	119,376	118,094
Total deferred credits and other non-current liabilities	1,205,045	1,065,171	1,206,514
Commitments and contingencies (see Note 13)	—	—	—
Equity:			
Common stock - no par value; authorized 100,000 shares; issued and outstanding 27,332, 27,132, and 27,284 at March 31, 2015 and 2014 and December 31, 2014, respectively	376,656	366,560	375,117
Retained earnings	418,003	419,109	402,280
Accumulated other comprehensive loss	(9,744)	(6,193)	(10,076)
Total equity	784,915	779,476	767,321
Total liabilities and equity	$2,982,401	$2,830,384	$3,064,945

See Notes to Unaudited Consolidated Financial Statements

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

In thousands	Three Months Ended March 31, 2015	2014
Operating activities:		
Net income	$28,486	$37,884
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	20,111	19,589

Regulatory amortization of gas reserves	5,255	2,981
Deferred tax liabilities, net	5,918	205
Non-cash expenses related to qualified defined benefit pension plans	1,509	1,278
Contributions to qualified defined benefit pension plans	(2,630)	(2,800)
Deferred environmental (expenditures), net of recoveries	(3,315)	83,252
Non-cash regulatory disallowance of prior environmental cost deferrals	15,000	—
Non-cash interest income on deferred environmental expenses	(5,322)	—
Other	900	603
Changes in assets and liabilities:		
Receivables	29,193	23,216
Inventories	8,543	27,200
Taxes accrued	6,724	26,824
Accounts payable	(26,550)	(1,671)
Interest accrued	4,348	4,041
Deferred gas costs	13,074	(14,049)
Other, net	17,005	11,579
Cash provided by operating activities	118,249	220,132
Investing activities:		
Capital expenditures	(27,135)	(25,588)
Utility gas reserves	(1,860)	(19,681)
Other	49	(191)
Cash used in investing activities	(28,946)	(45,460)
Financing activities:		
Common stock issued, net	700	1,400
Change in short-term debt	(78,500)	(155,600)
Cash dividend payments on common stock	(12,688)	(12,456)
Other	(3,131)	442
Cash used in financing activities	(93,619)	(166,214)
Increase (decrease) in cash and cash equivalents	(4,316)	8,458
Cash and cash equivalents, beginning of period	9,534	9,471
Cash and cash equivalents, end of period	$5,218	$17,929
Supplemental disclosure of cash flow information:		
Interest paid	$5,399	$7,502
Income taxes paid	—	—

See Notes to Unaudited Consolidated Financial Statements

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NORTHWEST NATURAL GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements represent the consolidated results of Northwest Natural Gas Company (NW Natural or the Company) and all companies we directly or indirectly control, either through majority ownership or otherwise. We have two core businesses: our regulated local gas distribution business, referred to as the utility segment, which serves residential, commercial, and industrial customers in Oregon and southwest Washington; and our gas storage businesses, referred to as the gas storage segment, which provides storage services for utilities, gas marketers, electric generators, and large industrial users from facilities located in Oregon and California. In addition, we have investments and other non-utility activities we aggregate and report as other.

Our core utility business assets and operating activities are largely included in the parent company, NW Natural. Our direct and indirect wholly-owned subsidiaries include NW Natural Energy, LLC (NWN Energy), NW Natural Gas Storage, LLC (NWN Gas Storage), Gill Ranch Storage, LLC (Gill Ranch), NNG Financial Corporation (NNG Financial), Northwest Energy Corporation (Energy Corp), and NW Natural Gas Reserves, LLC (NWN Gas Reserves). Investments in corporate joint ventures and partnerships we do not directly or indirectly control, and for which we are not the primary beneficiary, are accounted for under the equity method, which includes NWN Energy’s investment in Trail West Holdings, LLC (TWH) and NNG Financial's investment in Kelso-Beaver (KB) Pipeline. NW Natural and its affiliated companies are collectively referred to herein as NW Natural. The consolidated unaudited financial statements are presented after elimination of all intercompany balances and transactions, except for amounts required to be included under regulatory accounting standards to reflect the effect of such regulation. In this report, the term “utility” is used to describe our regulated gas distribution business, and the term “non-utility” is used to describe our gas storage businesses and other non-utility investments and business activities.

Certain prior year balances in our unaudited consolidated financial statements and notes have been reclassified to conform with the current presentation. These reclassifications had no effect on our prior year’s consolidated results of operations, financial condition, or cash flows.

Information presented in these interim consolidated financial statements is unaudited, but includes all material adjustments that management considers necessary for fair presentation of the results for each period reported including normal recurring accruals. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2014 Annual Report on Form 10-K (2014 Form 10-K). A significant part of our business is of a seasonal nature; therefore, results of operations for interim periods are not necessarily indicative of full year results.

2. SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are described in Note 2 of the 2014 Form 10-K. There were no material changes to those accounting policies during the three months ended March 31, 2015. The following are current updates to certain critical accounting policy estimates and new accounting standards.

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Regulatory Accounting

In applying regulatory accounting in accordance with generally accepted accounting principles in the United States of America (GAAP), we capitalize or defer certain costs and revenues as regulatory assets and liabilities. These deferrals were as follows:

	Regulatory Assets		
	March 31,		December 31,
In thousands	2015	2014	2014
Current:			
Unrealized loss on derivatives(1)	$23,242	$1,191	$29,889
Gas costs	19,653	14,168	21,794
Other(2)	24,807	12,475	16,879
Total current	$67,702	$27,834	$68,562
Non-current:			
Unrealized loss on derivatives(1)	$1,117	$96	$3,515
Pension balancing(3)	35,374	27,328	32,541
Deferred income taxes	44,767	49,007	47,427
Pension and other postretirement benefit liabilities	197,601	123,399	201,845
Environmental costs(4)	50,175	63,517	58,859
Gas costs	4,334	6,541	5,971
Other(2)	15,053	15,158	18,750
Total non-current	$348,421	$285,046	$368,908

	Regulatory Liabilities		
	March 31,		December 31,
In thousands	2015	2014	2014
Current:			
Gas costs	$12,774	$9,137	$5,700
Unrealized gain on derivatives(1)	436	15,788	240
Other(2)	11,053	12,761	13,165
Total current	$24,263	$37,686	$19,105
Non-current:			
Gas costs	$4,729	$2,602	$2,507
Unrealized gain on derivatives(1)	117	1,078	—
Accrued asset removal costs(5)	315,946	299,026	311,238
Other(2)	5,632	6,152	3,460
Total non-current	$326,424	$308,858	$317,205

(1) Unrealized gains or losses on derivatives are non-cash items and, therefore, do not earn a rate of return or a carrying charge. These amounts are recoverable through utility rates as part of the annual Purchased Gas Adjustment (PGA) mechanism when realized at settlement.

(2) These balances primarily consist of deferrals and amortizations under approved regulatory mechanisms. The accounts being amortized typically earn a rate of return or carrying charge.

(3) The deferral of certain pension expenses above or below the amount set in rates was approved by the Public Utility Commission of Oregon (OPUC), with recovery of these deferred amounts through the implementation of a balancing account, which includes the expectation of lower net periodic benefit costs in future years. Deferred pension expense balances include accrued interest at the utility's authorized rate of return, with the equity portion of interest income being unrecognized until amounts are collected in rates.

(4) Environmental costs relate to specific sites approved for regulatory deferral by the OPUC and Washington Utilities and Transportation Commission (WUTC). In Oregon, we earn a carrying charge on cash amounts paid, whereas amounts accrued but not yet paid do not earn a carrying charge until expended. We also accrue a carrying charge

on insurance proceeds for amounts owed to customers. In Washington, a carrying charge related to deferred amounts will be determined in a future proceeding. See Note 13.

(5) Estimated costs of removal on certain regulated properties are collected through rates. See Note 2 of the 2014 Form 10-K.

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Environmental Regulatory Accounting

On February 20, 2015 the OPUC issued an Order addressing outstanding implementation items related to the Site Remediation and Recovery Mechanism (SRRM). Under the Order, $15 million of $95 million in total environmental remediation expenses deferred through 2012 were disallowed. The OPUC found the $95 million to be prudently incurred but disallowed this amount from rate recovery based on its determination of how an earnings test should apply to years between 2003 and 2012, with adjustments for factors the OPUC deemed relevant. The Company recognized the $15 million pre-tax disallowance, or $9.1 million after-tax charge, during the first quarter of 2015. The charge was recorded in operations and maintenance expense. As a result of the order, we recognized $5.3 million of interest income related to the equity component on our deferred environmental expenses. See Note 13.

New Accounting Standards

Recent Accounting Pronouncements

DEBT ISSUANCE COSTS. On April 7, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires the presentation of debt issuance costs in the balance sheet as a direct deduction from the associated debt liability. The new requirements are effective for the Company beginning January 1, 2016. Early adoption is permitted, and the new guidance will be applied on a retrospective basis. NW Natural does not plan to adopt the standard early and does not expect the ASU to materially effect its financial statements and disclosures.

REVENUE RECOGNITION. On May 28, 2014, the FASB issued ASU 2014-09 Revenue From Contracts with Customers. The underlying principle of the guidance requires entities to recognize revenue depicting the transfer of goods or services to customers at amounts expected to be entitled to in exchange for those goods or services. The model provides a five-step approach to revenue recognition: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when, or as, each performance obligation is satisfied. The new requirements are effective for the Company beginning January 1, 2017, and either a full retrospective or simplified transition adoption method is allowed; early adoption is not permitted. On April 1, 2015, the FASB proposed deferring the effective date by one year to January 1, 2018 for annual reporting periods beginning after December 15, 2017. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The proposal is expected to be finalized in the second quarter of 2015. The Company is currently assessing the effect of this standard on our financial statements and disclosures.

Subsequent Event

See Note 14 for information regarding the amendment of our Gill Ranch debt agreement.

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3. EARNINGS PER SHARE

Basic earnings per share are computed using net income and the weighted average number of common shares outstanding for each period presented. Diluted earnings per share are computed in the same manner, except it uses 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. Diluted earnings per share are calculated as follows:

	Three Months Ended March 31,	
In thousands, except per share data	2015	2014
Net income	$28,486	$37,884
Average common shares outstanding - basic	27,301	27,094
Additional shares for stock-based compensation plans outstanding	68	32
Average common shares outstanding - diluted	27,369	27,126
Earnings per share of common stock - basic	$1.04	$1.40
Earnings per share of common stock - diluted	$1.04	$1.40
Additional information:		
Antidilutive shares excluded from net income per diluted common share calculation	28	44

4. SEGMENT INFORMATION

We primarily operate in two reportable business segments: local gas distribution and gas storage. We also have other investments and business activities not specifically related to one of these two reporting segments, which we aggregate and report as other. We refer to our local gas distribution business as the utility, and our gas storage segment and other as non-utility. Our utility segment also includes the utility portion of our Mist underground storage facility in Oregon (Mist) and NWN Gas Reserves, which is a wholly-owned subsidiary of Energy Corp. Our gas storage segment includes NWN Gas Storage, which is a wholly-owned subsidiary of NWN Energy, Gill Ranch, which is a wholly-owned subsidiary of NWN Gas Storage, the non-utility portion of Mist, and all third-party asset management services. Other includes NNG Financial and NWN Energy's equity investment in Trail West Holdings, LLC (TWH), which is pursuing development of a cross-Cascades transmission pipeline project. See Note 4 in our 2014 Form 10-K for further discussion of our segments.

Inter-segment transactions are insignificant. The following table presents summary financial information concerning the reportable segments:

	Three Months Ended March 31,			
In thousands	Utility	Gas Storage	Other	Total
2015				
Operating revenues	$256,306	$5,303	$56	$261,665
Depreciation and amortization	18,475	1,636	—	20,111
Income from operations	51,880	1,055	66	53,001
Net income	28,335	114	37	28,486
Capital expenditures	25,809	1,326	—	27,135
Total assets at March 31, 2015	2,696,506	270,992	14,903	2,982,401
2014				
Operating revenues	$285,495	$7,835	$56	$293,386
Depreciation and amortization	17,967	1,622	—	19,589
Income from operations	71,457	3,553	18	75,028
Net income	36,019	1,627	238	37,884

Capital expenditures	25,350	238	—	25,588
Total assets at March 31, 2014	2,506,930	307,055	16,399	2,830,384
Total assets at December 31, 2014	$2,775,011	$273,813	$16,121	$3,064,945

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Utility Margin

Utility margin is a financial measure consisting of utility operating revenues, which are reduced by revenue taxes and the associated cost of gas. The cost of gas purchased for utility customers is generally a pass-through cost in the amount of revenues billed to regulated utility customers. By subtracting costs of gas from utility operating revenues, utility margin provides a key metric used by our chief operating decision maker in assessing the performance of the utility segment. The gas storage segment and other emphasize growth in operating revenues as opposed to margin because they do not incur a product cost (i.e. cost of gas sold) like the utility and, therefore, use operating revenues and net income to assess performance.

The following table presents additional segment information concerning utility margin:

	Three Months Ended March 31,	
In thousands	2015	2014
Utility margin calculation:		
Utility operating revenues	$256,306	$285,495
Less: Utility cost of gas	125,705	155,201
Utility margin	$130,601	$130,294

5. STOCK-BASED COMPENSATION

Our stock-based compensation plans include a Long-Term Incentive Plan (LTIP) under which various types of equity awards may be granted. For additional information on our stock-based compensation plans, see Note 6 in the 2014 Form 10-K and the updates provided below.

Long-Term Incentive Plan

Performance-Based Stock Awards

LTIP performance shares incorporate a combination of market, performance, and service-based factors. During the first quarter of 2015, 44,550 performance-based shares were granted under the LTIP based on target-level awards with a weighted-average grant date fair value of $52.05 per share. As of March 31, 2015, there was $3.2 million of unrecognized compensation cost from LTIP grants, which is expected to be recognized through 2017. Fair value for the market based portion of the LTIP was estimated as of the date of grant using a Monte-Carlo option pricing model based on the following assumptions:

Stock price on valuation date	$47.64	
Performance term (in years)	3.0	
Quarterly dividends paid per share	$0.465	
Expected dividend yield	3.8	%
Dividend discount factor	0.8966	

Performance-Based Restricted Stock Units (RSUs)

During the first quarter of 2015, 28,020 RSUs were granted under the LTIP with a weighted-average grant date fair value of $47.64 per share. The fair value of a RSU is equal to the closing market price of the Company's common stock on the grant date. As of March 31, 2015, there was $3.3 million of unrecognized compensation cost from grants of RSUs, which is expected to be recognized over a period extending through 2019. Generally, the RSUs awarded include a performance-based threshold and a vesting period of four years from the grant date. An RSU obligates the Company upon vesting to issue the RSU holder one share of common stock plus a cash payment equal to the total amount of dividends paid per share between the grant date and vesting date of that portion of the RSU.

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6. DEBT

Short-Term Debt

At March 31, 2015, our short-term debt consisted of commercial paper notes payable with a maximum maturity of 89 days, an average maturity of 57 days, and an outstanding balance of $156.2 million. The carrying cost of our commercial paper approximates fair value using Level 2 inputs due to the short-term nature of the notes. See Note 2 in our 2014 Form 10-K for a description of the fair value hierarchy.

Current Maturities of Long-Term Debt

The utility has long-term debt due within the next 12 months consisting of $40 million of first mortgage bonds (FMBs) with a coupon rate of 4.70% and maturity in June 2015.

Long-Term Debt

At March 31, 2015, our utility segment had long-term debt, including current maturities referred to above, of $641.7 million. Utility long-term debt consists of FMBs with maturity dates ranging from 2015 through 2042, interest rates ranging from 3.176% to 9.05%, and a weighted-average coupon rate of 5.64%.

At March 31, 2015, our gas storage segment’s long-term debt consisted of $20 million of fixed-rate senior collateralized debt with a maturity date of November 30, 2016 and an interest rate of 7.75%. This debt is collateralized by all of the membership interests in Gill Ranch and is nonrecourse to NW Natural. Under the amended loan agreement, $20 million of variable-rate debt was retired in June 2014. As part of the amended agreement, the earnings before interest, tax, depreciation, and amortization (EBITDA) covenant requirement was suspended through March 31, 2015 and the EBITDA hurdles thereafter were lowered. The debt service reserve requirement was fixed at $3 million.

On April 28, 2015, Gill Ranch entered into a second amendment to the loan agreement under which the EBITDA covenant requirement is suspended through maturity of the loan. As part of the second amendment Gill Ranch will increase the debt reserve account by $4.5 million with contributions of $1.5 million by each of May 30, 2015, January 30, 2016, and August 30, 2016. Additionally, Gill Ranch must receive common equity contributions from its parent NWN Gas Storage of at least $2 million by August 31, 2015 and of at least $4 million by August 31, 2016.

Fair Value of Long-Term Debt

Our outstanding debt does not trade in active markets. We estimate the fair value of our debt using utility companies with similar credit ratings, terms, and remaining maturities to our debt that actively trade in public markets. These valuations are based on Level 2 inputs as defined in the fair value hierarchy. See Note 2 in our 2014 Form 10-K.

The following table provides an estimate of the fair value of our long-term debt, including current maturities of long-term debt, using market prices in effect on the valuation date:

	March 31,		December 31,
In thousands	2015	2014	2014
Carrying amount	$661,700	$741,700	$661,700
Estimated fair value	762,554	820,458	756,808

See Note 7 in our 2014 Form 10-K for more detail on our long-term debt.

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7. PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS

The following table provides the components of net periodic benefit cost for the Company's pension and other postretirement benefit plans:

	Three Months Ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
In thousands	2015	2014	2015	2014
Service cost	$2,308	$1,918	$145	$136
Interest cost	4,596	4,512	291	309
Expected return on plan assets	(5,174)	(4,886)	—	—
Amortization of net actuarial loss	4,561	2,580	126	46
Amortization of prior service costs	58	56	49	49
Net periodic benefit cost	6,349	4,180	611	540
Amount allocated to construction	(1,825)	(1,201)	(191)	(171)
Amount deferred to regulatory balancing account[1]	(2,175)	(1,101)	—	—
Net amount charged to expense	$2,349	$1,878	$420	$369

(1) The deferral of certain pension expenses above or below the amount set in rates was approved by the OPUC, with recovery of these deferred amounts through the implementation of a balancing account, which includes the expectation of lower net periodic benefit costs in future years. Deferred pension expense balances include accrued interest at the utility's authorized rate of return, with the equity portion of the interest being unrecognized until amounts are collected in rates.

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

	Three Months Ended March 31,	
In thousands	2015	2014
Beginning balance	$(10,076)	$(6,358)
Amounts reclassified from AOCL:		
Amortization of prior service costs	—	(2)
Amortization of actuarial losses	548	276
Total reclassifications before tax	548	274
Tax expense	(216)	(109)
Total reclassifications for the period	332	165
Ending balance	$(9,744)	$(6,193)

Employer Contributions to Company-Sponsored Defined Benefit Pension Plan

For the three months ended March 31, 2015, we made cash contributions totaling $2.6 million to our qualified defined benefit pension plan. We expect further plan contributions of $12.3 million during the remainder of 2015.

Defined Contribution Plan

The Retirement K Savings Plan provided to our employees is a qualified defined contribution plan under Internal Revenue Code Section 401(k). Company contributions to this plan totaled $1.1 million and $0.5 million for the three months ended March 31, 2015 and 2014, respectively.

See Note 8 in the 2014 Form 10-K for more information concerning these retirement and other postretirement benefit plans.

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8. INCOME TAX

An estimate of annual income tax expense is made each interim period using estimates for annual pre-tax income, regulatory flow-through adjustments, tax credits, and other items. The estimated annual effective tax rate is applied to year-to-date, pre-tax income to determine income tax expense for the interim period consistent with the annual estimate.

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

	Three Months Ended March 31,	
Dollars in thousands	2015	2014
Income tax at statutory rates (federal and state)	$18,892	$25,721
Increase (decrease):		
Differences required to be flowed-through by regulatory commissions	1,329	1,433
Other, net	(1,138)	(169)
Income tax expense	$19,083	$26,985
Effective income tax rate	40.1%	41.6%

The decrease in the income tax expense amount for the three months ended March 31, 2015, compared to the same period in 2014, was primarily due to lower pre-tax income. The effective tax rate for the three months ended March 31, 2015, compared to the same period in 2014, decreased as a result of depletion deductions from gas reserves activity. Additionally, there was a $0.6 million income tax charge in the first quarter of 2014 due to the revaluation of deferred tax balances related to a higher effective tax rate in Oregon. See Note 9 in the 2014 Form 10-K for more detail on income taxes and effective tax rates.

The Company's examination under the IRS Compliance Assurance Process for the 2013 tax year was completed during the first quarter of 2015. The examination did not result in a material change to the return as originally filed.

9. PROPERTY, PLANT, AND EQUIPMENT

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

	March 31,		December 31,
In thousands	2015	2014	2014
Utility plant in service	$2,676,280	$2,605,018	$2,661,097
Utility construction work in progress	34,048	30,699	24,886
Less: Accumulated depreciation	847,278	838,285	836,510
Utility plant, net	1,863,050	1,797,432	1,849,473
Non-utility plant in service	299,969	297,352	297,295
Non-utility construction work in progress	7,457	6,691	9,282
Less: Accumulated depreciation	35,976	29,972	34,457
Non-utility plant, net	271,450	274,071	272,120
Total property, plant, and equipment	$2,134,500	$2,071,503	$2,121,593
Capital expenditures in accrued liabilities	$8,451	$7,769	$8,757

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10. GAS RESERVES

Our gas reserves are stated at cost, net of regulatory amortization, with the associated deferred tax benefits recorded as liabilities on the balance sheet.

We entered into our original agreements with Encana Oil & Gas (USA) Inc. (Encana) in 2011 to develop physical gas reserves to provide long-term gas price protection for utility customers. Encana began drilling in 2011 under these agreements. We hold working interests in certain sections of the Jonah Field. Gas produced in these sections is sold at prevailing market prices, and revenues from such sales, less associated production costs, are credited to the utility's cost of gas. The cost of gas, including a carrying cost for the rate base investment, is included in NW Natural's annual Oregon PGA filing, which allows us to recover these costs through customer rates. Our net investment under the original agreement earns a rate of return and provides long-term price protection for our utility customers.

On March 28, 2014, we amended the original gas reserves agreement in order to facilitate Encana's proposed sale of its interest in the Jonah field to Jonah Energy LLC (Jonah Energy). Under the amendment, we ended the drilling program with Encana, but increased our working interests in our assigned sections of the Jonah field. We also retained the right to invest in new wells with Jonah Energy.

Since the amendment, we have been notified by Jonah Energy of investment opportunities in the sections of the Jonah field where we have working interests. The amended agreement allows us to invest in additional wells on a well-by-well basis with drilling costs and resulting gas volumes shared at our amended proportionate working interest for each well in which we invest. We elected to participate in some of the additional wells drilled in 2014, and we may have the opportunity to participate in more wells in the future.

We filed an application requesting regulatory deferral in Oregon for these additional investments. We have also signed a memorandum of understanding with all parties agreeing that individual wells drilled in any year will be reviewed for prudence annually. Accordingly, we filed in 2015 seeking cost recovery for the additional wells drilled in 2014, and we expect the OPUC to review and determine the prudence of this investment in 2015. Our cumulative investment of approximately $10 million in these additional wells has been accounted for as a utility investment. If regulatory approval is not received, our investment in these additional wells would follow oil and gas accounting.

The following table outlines our net investment in gas reserves:

	March 31,		December 31,
In thousands	2015	2014	2014
Gas reserves, current	$19,112	$21,990	$20,020
Gas reserves, non-current	168,352	156,450	167,190
Less: Accumulated amortization	43,165	21,556	37,910
Total gas reserves[1]	144,299	156,884	149,300
Less: Deferred tax liabilities on gas reserves	28,383	30,704	18,551
Net investment in gas reserves[1]	$115,916	$126,180	$130,749

(1) Total gas reserves includes our investment in additional wells, subject to regulatory deferral approvals, with total gas reserves of $9.2 million and net investment of $8.3 million at March 31, 2015 and no net investment or total gas reserves from additional wells at March 31, 2014.

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11. INVESTMENTS

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

VIE Analysis
TWH is a development stage Variable Interest Entity, with our investment in TWP reported under equity method accounting. We have determined we are not the primary beneficiary of TWH's activities, in accordance with the authoritative guidance related to consolidations, as we only have a 50% share of the entity and there are no stipulations that allow us a disproportionate influence over it. Our investment in TWH and TWP are included in other investments on our balance sheet. If we do not develop this investment, then our maximum loss exposure related to TWH is limited to our equity investment balance, less our share of any cash or other assets available to us as a 50% owner. Our investment balance in TWH was $13.4 million at March 31, 2015 and 2014 and December 31, 2014. See Note 12 in our 2014 Form 10-K.

Other Investments
Other investments include financial investments in life insurance policies, which are accounted for at cash surrender value, net of policy loans. See Note 12 in the 2014 Form 10-K.

12. DERIVATIVE INSTRUMENTS

We enter into financial derivative contracts to hedge a portion of our utility's natural gas sales requirements. These contracts include swaps, options, and combinations of option contracts. We primarily use these derivative financial instruments to manage commodity price variability. A small portion of our derivative hedging strategy involves foreign currency exchange contracts.

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

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

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

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

In thousands	March 31, 2015	2014	December 31, 2014
Natural gas (in therms):			

Financial	229,925	295,125	287,475
Physical	250,250	875,150	420,980
Foreign exchange	$8,690	$5,590	$12,230

Purchased Gas Adjustment
As of November 1, 2014, we reached our target hedge percentage for the 2014-15 gas year; hedge transactions are recoverable through the Company's PGA mechanism.

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Unrealized and Realized Gain/Loss

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

	Three Months Ended March 31,			
	2015		2014	
In thousands	Natural gas commodity	Foreign currency	Natural gas commodity	Foreign currency
Benefit (expense) to cost of gas	$(23,481)	$(741)	$15,912	$275
Operating revenues	638	—	—	—
Less:				
Amounts deferred to regulatory accounts on the balance sheet	23,065	741	(15,875)	(275)
Total gain in pre-tax earnings	$222	$—	$37	$—

Outstanding derivative instruments related to regulated utility operations are deferred in accordance with regulatory accounting standards. The cost of foreign currency forward contracts and natural gas derivative contracts are recognized immediately in the cost of gas; however, costs above or below the amount embedded in the current year PGA are subject to a regulatory deferral tariff and therefore, are recorded as a regulatory asset or liability.

We realized a net loss of $14.1 million and a net gain of $8.5 million for the three months ended March 31, 2015 and 2014, respectively, from the settlement of natural gas financial derivative contracts. Realized gains and losses are recorded in cost of gas, deferred through our regulatory accounts and amortized through customer rates in the following year.

Credit Risk Management of Financial Derivative Instruments

No collateral was posted with, or by, our counterparties as of March 31, 2015 or 2014. We attempt to minimize the potential exposure to collateral calls by counterparties to manage our liquidity risk. Counterparties generally allow a certain credit limit threshold before requiring us to post collateral against loss positions. Given our counterparty credit limits and portfolio diversification, we have not been subject to collateral calls in 2014 or 2015. Our collateral call exposure is set forth under credit support agreements, which generally contain credit limits. We could also be subject to collateral call exposure where we have agreed to provide adequate assurance, which is not specific as to the amount of credit limit allowed, but could potentially require additional collateral in the event of a material adverse change. Based on current financial swap and option contracts outstanding, which reflect net unrealized losses of $23.1 million at March 31, 2015, we have estimated the level of collateral demands, with and without potential adequate assurance calls, using current gas prices and various credit downgrade rating scenarios for NW Natural as follows:

		Credit Rating Downgrade Scenarios			
In thousands	(Current Ratings) A+/A3	BBB+/Baa1	BBB/Baa2	BBB-/Baa3	Speculative
With Adequate Assurance Calls	$—	$—	$—	$—	$20,683
Without Adequate Assurance Calls	—	—	—	—	15,773

Our financial derivative instruments are subject to master netting arrangements; however, they are presented on a gross basis in our statement of financial position. The Company and its counterparties have the ability to set-off their obligations to each other under specified circumstances. Such circumstances may include a defaulting party, a credit change due to a merger affecting either party, or any other termination event.

If netted by counterparty, our net derivative position would result in an asset of $0.6 million and a liability of $24.2 million as of March 31, 2015. As of March 31, 2014, our derivative position would have resulted in an asset of $16.6 million and a liability of $1.0 million, and as of December 31, 2014, our position would have resulted in an asset of $0.2 million and a liability of $33.4 million.

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We are exposed to derivative credit and liquidity risk primarily through securing fixed price natural gas commodity swaps to hedge the risk of price increases for our natural gas purchases made on behalf of customers. See Note 13 in our 2014 Form 10-K for additional information.

Fair Value

In accordance with fair value accounting, we include nonperformance risk in calculating fair value adjustments. This includes a credit risk adjustment based on the credit spreads of our counterparties when we are in an unrealized gain position, or on our own credit spread when we are in an unrealized loss position. The inputs in our valuation models include natural gas futures, volatility, credit default swap spreads, and interest rates. Additionally, our assessment of non-performance risk is generally derived from the credit default swap market and from bond market credit spreads. The impact of the credit risk adjustments for all outstanding derivatives was immaterial to the fair value calculation at March 31, 2015. As of March 31, 2015 and 2014 and December 31, 2014, the net fair value was a liability of $23.6 million, an asset of $15.6 million, and a liability of $33.2 million, respectively, using significant other observable, or Level 2, inputs. No Level 3 inputs were used in our derivative valuations, and there were no transfers between Level 1 or Level 2 during the three months ended March 31, 2015 and 2014.

13. ENVIRONMENTAL MATTERS

We own, or previously owned, properties that may require environmental remediation or action. We estimate the range of loss for environmental liabilities based on current remediation technology, enacted laws and regulations, industry experience gained at similar sites and an assessment of the probable level of involvement and financial condition of other potentially responsible parties. Due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several site investigations, in some cases, we may not be able to reasonably estimate the high end of the range of possible loss. In those cases, we have disclosed the nature of the possible loss and the fact that the high end of the range cannot be reasonably estimated. Unless there is an estimate within a range of possible losses that is more likely than other cost estimates within that range, we record the liability at the low end of this range. It is likely that changes in these estimates and ranges will occur throughout the remediation process for each of these sites due to our continued evaluation and clarification concerning our responsibility, the complexity of environmental laws and regulations, and the determination by regulators of remediation alternatives.

The Company has a SRRM through which NW Natural tracks and has the ability to recover past deferred and future environmental remediation costs. An Order from the OPUC in February 2015 deemed certain environmental remediation expenses and associated carrying costs deferred through March 31, 2014 prudent. The Company’s settlement with insurance carriers resulting in insurance proceeds received was also deemed prudent in the Order. Under the Order, NW Natural was required to forego the collection of $15 million out of approximately $95 million of environmental remediation expenses and associated carrying costs it had deferred through 2012 under the Order. The OPUC disallowed this amount from rate recovery based on its determination of how an earnings test should apply to amounts deferred from 2003 to 2012. See Note 2 for information regarding the regulatory disallowance of past deferred costs under the Order received from the OPUC in February 2015.

To date, the Company has received total environmental insurance proceeds of approximately $150 million as a result of settlements from our litigation that was dismissed in July 2014. Under the Order, one-third of the proceeds recognized in regulatory accounts are applied to costs deferred through 2012 and the remaining two-thirds is applied ratably to costs over the next 20 years.

Under the mechanism, the Company will recover the first $5 million of annual expense through an amount that will be collected from Oregon customers through a tariff rider. The Company will apply $5 million of insurance (plus interest) to the next portion of environmental expenses each year. Any expenses in excess of the annual $10 million (plus interest from insurance) are fully recoverable through the SRRM, to the extent the utility earns at or below its authorized Return On Equity (ROE). To the extent the Company earns more than its authorized ROE in a year, the Company is required to cover environmental expenses greater than the $10 million (plus interest from insurance proceeds) with those earnings that exceed its authorized ROE. The Company filed its required compliance report demonstrating the proposed implementation of this mechanism on March 31, 2015. The report is subject to review and approval by the OPUC and as such, may require additional or different implementation procedures, which could, among other things, result in additional impacts on earnings.

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In Washington, cost recovery and carrying charges on amounts deferred for costs associated with services provided to Washington customers will be determined in a future proceeding. Annually, we review all regulatory assets for recoverability or more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets no longer meet the criteria for continued application of regulatory accounting, then we would be required to write off the net unrecoverable balances against earnings in the period such a determination is made.

Environmental Sites

The following table summarizes information regarding liabilities related to environmental sites, which are recorded in other current liabilities and other non-current liabilities on the balance sheet:

	Current Liabilities			Non-Current Liabilities		
	March 31,		December 31,	March 31,		December 31,
In thousands	2015	2014	2014	2015	2014	2014
Portland Harbor site:						
Gasco/Siltronic Sediments	$1,572	$776	$1,767	$38,379	$38,584	$38,019
Other Portland Harbor	1,308	1,408	1,934	5,186	3,283	4,338
Gasco site	8,205	8,766	9,535	36,833	39,482	37,117
Siltronic Uplands site	750	872	957	405	394	348
Central Service Center site	170	70	171	—	224	—
Front Street site	755	1,176	1,020	115	115	122
Oregon Steel Mills	—	—	—	179	179	179
Total	$12,760	$13,068	$15,384	$81,097	$82,261	$80,123

The following table presents information regarding the total amount of cash paid for environmental sites and the total regulatory asset deferred:

	March 31,		December 31,
In thousands	2015	2014	2014
Cumulative cash paid	$117,005	$106,105	$113,740
Total regulatory asset deferral(1)	50,175	63,517	58,859

(1) Includes cash paid, remaining liability, and interest, net of insurance reimbursement and amounts reclassified to utility plant for the water treatment station.

PORTLAND HARBOR SITE. The Portland Harbor is an Environmental Protection Agency (EPA) listed Superfund site that is approximately 11 miles long on the Willamette River and is adjacent to NW Natural's Gasco uplands and Siltronic uplands sites. We have been notified that we are a potentially responsible party to the Superfund site and we have joined with some of the other potentially responsible parties (the Lower Willamette Group or LWG) to develop a Portland Harbor Remedial Investigation/Feasibility Study (RI/FS). The LWG submitted a draft Feasibility Study (FS) to the EPA in March 2012 that provides a range of remedial costs for the entire Portland Harbor Superfund Site, which includes the Gasco/Siltronic Sediment site, discussed below. The range of costs estimated for various remedial alternatives for the entire Portland Harbor, as provided in the draft FS, is $169 million to $1.8 billion. NW Natural's potential liability is a portion of the costs of the remedy the EPA will select for the entire Portland Harbor Superfund site. The cost of that remedy is expected to be allocated among more than 100 potentially responsible parties. NW Natural is participating in a non-binding allocation process in an effort to settle this potential liability. We manage our liability related to the Superfund site as two distinct remediation projects, the Gasco/Siltronic Sediments and Other Portland Harbor projects.

GASCO/SILTRONIC SEDIMENTS. In 2009, NW Natural and Siltronic Corporation entered into a separate Administrative Order on Consent with the EPA to evaluate and design specific remedies for sediments adjacent to the Gasco uplands and Siltronic uplands sites. NW Natural submitted a draft Engineering Evaluation/Cost Analysis (EE/CA) to the EPA in May 2012 to provide the estimated cost of potential remedial alternatives for this site. At this time, the estimated costs for the various sediment remedy alternatives in the draft EE/CA as well as costs for the

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additional studies and design work needed before the clean-up can occur, and for regulatory oversight throughout the clean-up range from $40 million to $350 million. We have recorded a liability of $40 million for the sediment clean-up, which reflects the low end of the range. At this time, we believe sediments at this site represent the largest portion of our liability related to the Portland Harbor site, discussed above.

OTHER PORTLAND HARBOR. NW Natural incurs costs related to its membership in the LWG, which is performing the RI/FS for the EPA. NW Natural also incurs costs related to natural resource damages from these sites. The Company and other parties have signed a cooperative agreement with the Portland Harbor Natural Resource Trustee council to participate in a phased natural resource damage assessment to estimate liabilities to support an early restoration-based settlement of natural resource damage claims. Natural resource damage claims may arise only after a remedy for clean-up has been settled. We have accrued a liability for these claims which is at the low end of the range of the potential liability; the high end of the range cannot be reasonably estimated at this time. This liability is not included in the range of costs provided in the draft FS for the Portland Harbor noted above.

GASCO SITE. NW Natural owns a former gas manufacturing plant that was closed in 1958 (Gasco site) and is adjacent to the Portland Harbor site described above. The Gasco site has been under investigation by us for environmental contamination under the Oregon Department of Environmental Quality (ODEQ) Voluntary Clean-Up Program. It is not included in the range of remedial costs for the Portland Harbor site noted above. We manage the Gasco site in two parts, the uplands portion and the groundwater source control action.

Uplands. In May 2007, we completed a revised Remedial Investigation Report for the uplands portion and submitted it to ODEQ for review. We have recognized a liability for the remediation of the uplands portion of the site which is at the low end of the range of potential liability; the high end of the range cannot be reasonably estimated at this time.

Groundwater Source Control. In September 2013, we completed construction of a groundwater source control system, including a water treatment station, at the Gasco site. We are working with ODEQ on monitoring the effectiveness of the system and at this time it is unclear what, if any, additional actions ODEQ may require subsequent to the initial testing of the system or as part of the final remedy for the uplands portion of the Gasco site. We have estimated the cost associated with the ongoing operation of the system and have recognized a liability which is at the low end of the range of potential cost. We cannot estimate the high end of the range at this time due to the uncertainty associated with the duration of running the water treatment station, which will be highly dependent upon the remedy determined for both the upland portion as well as the final remedy for our Gasco sediment exposure.

Beginning November 1, 2013, capital asset costs of $19 million for the Gasco water treatment station were placed into rates with OPUC approval. The OPUC deemed these costs prudent. Beginning November 1, 2014, the OPUC approved the application of $2.5 million from insurance proceeds plus interest to reduce the total amount of Gasco capital costs to be recovered through rate base.

OTHER SITES. In addition to those sites above, we have environmental exposures at four other sites: Siltronic, Central Service Center, Front Street, and Oregon Steel Mills. Due to the uncertainty of the design of remediation, regulation, timing of the liabilities, and in the case of the Oregon Steel Mills site, pending litigation, liabilities for each of these sites have been recognized at their respective low end of the range of potential liability; the high end of the range could not be reasonably estimated as of March 31, 2015.

Siltronic Upland site. Siltronic is the location of a manufactured gas plant formerly owned by NW Natural. We are currently conducting an investigation of manufactured gas plant wastes on the uplands portion of this site for the ODEQ.

Central Service Center site. We are currently performing an environmental investigation of the property under the ODEQ's Independent Cleanup Pathway. This site is on ODEQ's list of sites with confirmed releases of hazardous substances, and cleanup is necessary.

Front Street site. The Front Street site was the former location of a gas manufacturing plant we operated. Studies for source control investigation have been presented to ODEQ and a final sampling plan required by ODEQ is currently being developed.

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Oregon Steel Mills site. See “Legal Proceedings,” below.

Legal Proceedings

NW Natural is subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings cannot be predicted with certainty, including the matter described below, NW Natural does not expect the ultimate disposition of any of these matters will have a material effect on our financial condition, results of operations or cash flows. See also Part II, Item 1, “Legal Proceedings.”

OREGON STEEL MILLS SITE. In 2004, NW Natural was served with a third-party complaint by the Port of Portland (the Port) in a Multnomah County Circuit Court case, Oregon Steel Mills, Inc. v. The Port of Portland. The Port alleges that in the 1940s and 1950s petroleum wastes generated by our predecessor, Portland Gas & Coke Company, and 10 other third-party defendants, were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. No date has been set for trial. Although the final outcome of this proceeding cannot be predicted with certainty, we do not expect that the ultimate disposition of this matter will have a material effect on our financial condition, results of operations or cash flows.

For additional information regarding other commitment and contingencies, see Note 14 in our 2014 Form 10-K.

14. SUBSEQUENT EVENTS

On April 28, 2015, Gill Ranch entered into a second amendment to the loan agreement under which the EBITDA covenant requirement is suspended through maturity of the loan. As part of the second amendment Gill Ranch will increase the debt reserve account by $4.5 million with contributions of $1.5 million by each of May 30, 2015, January 30, 2016, and August 30, 2016. Additionally, Gill Ranch must receive common equity contributions from its parent NWN Gas Storage of at least $2 million by August 31, 2015 and of at least $4 million by August 31, 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management’s assessment of Northwest Natural Gas Company’s (NW Natural or the Company) financial condition, including the principal factors that affect results of operations. The disclosures contained in this report refer to our consolidated activities for the three months ended March 31, 2015 and 2014. References to “Notes” are to the Notes to Unaudited Consolidated Financial Statements in this report. A significant portion of our business results are seasonal in nature, and, as such, the results of operations for the three month periods are not necessarily indicative of expected fiscal year results. Therefore, this discussion should be read in conjunction with our 2014 Annual Report on Form 10-K (2014 Form 10-K).

The consolidated financial statements include NW Natural, the parent company, and its direct and indirect wholly-owned subsidiaries. Selected subsidiaries are depicted and organized as follows:

We operate in two primary reportable business segments: local gas distribution and gas storage. We also have other investments and business activities not specifically related to one of these two reporting segments, which we aggregate and report as other. We refer to our local gas distribution business as the utility, and our gas storage segment and other as non-utility. Our utility segment includes our NW Natural local gas distribution business, NWN Gas Reserves, which is a wholly-owned subsidiary of Energy Corp, and the utility portion of our Mist underground storage facility in Oregon (Mist). Our gas storage segment includes NWN Gas Storage, which is a wholly-owned subsidiary of NWN Energy, Gill Ranch, which is a wholly-owned subsidiary of NWN Gas Storage, the non-utility portion of Mist, and asset management services. Other includes NWN Energy's equity investment in Trail West Holdings, LLC (TWH), which is pursuing the development of a proposed natural gas pipeline through its wholly-owned subsidiary, Trail West Pipeline, LLC (TWP), and NNG Financial's equity investment in Kelso-Beaver Pipeline (KB Pipeline). TWH and our equity investments, TWP and KB Pipeline, are not depicted in the chart above. For a further discussion of our business segments and other, see Note 4.