

NORTHWEST NATURAL GAS CO  
Form 10-Q  
November 02, 2016

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

Form 10-Q

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

For the quarterly period ended September 30, 2016

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 93-0256722  
(State or other jurisdiction of (I.R.S. Employer incorporation or organization) 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  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  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.

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Large Accelerated Filer  ]

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  ]

At October 21, 2016, 27,557,756 shares of the registrant's Common Stock (the only class of Common Stock) were outstanding.

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NORTHWEST NATURAL GAS COMPANY  
For the Quarterly Period Ended September 30, 2016

TABLE OF CONTENTS

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	Page
PART 1. FINANCIAL INFORMATION	
<u>Forward-Looking Statements</u>	<u>3</u>
<u>Item 1. Unaudited Consolidated Financial Statements:</u>	
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Consolidated Balance Sheets at September 30, 2016 and 2015 and December 31, 2015</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>Signature</u>	<u>47</u>

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Table of Contents

FORWARD-LOOKING STATEMENTS

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

- plans, projections, forecasts and predictions;
- objectives, goals and strategies;
- assumptions and estimates;
- future events or performance;
- trends, uncertainties, timing and cyclicalities;
- risks;
- earnings and dividends;
- capital and other expenditures and allocation;
- capital structure;
- growth and profitability;
- customer rates;
- commodity costs and volumes;
- gas reserves, volumes, investment and recovery;
- operational and maintenance performance and costs;
- energy policy and preferences;
- efficacy of and exposure under derivatives and hedges;
- liquidity, funding sources, and financial positions;
- project and program development, expansion, or investment;
- competition;
- costs of compliance;
- credit exposures;
- regulatory outcomes, prudence or recovery;
- impacts of laws, rules and regulations;
- tax positions, liabilities or refunds;
- levels and pricing of gas storage contracts and gas storage markets;
- outcomes and effects of potential claims, litigation, regulatory actions, and other administrative matters;
- projected obligations and contributions under retirement plans;
- availability, adequacy, and shift in mix, of gas supplies;
- effects of new or anticipated changes in accounting standards or pronouncements;
- approval and adequacy of regulatory deferrals;
- effects and efficacy of regulatory mechanisms;
- local or national disasters, pandemic illness, terrorist activities, including cyber-attacks, explosions, or other extreme events; and
- environmental, regulatory, litigation and insurance costs, allocations and recoveries, and timing thereof.

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

those in the forward-looking statements are discussed in our 2015 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.

Table of Contents

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

In thousands, except per share data	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Operating revenues	\$87,727	\$93,128	\$442,439	\$493,073
Operating expenses:				
Cost of gas	28,264	35,856	157,546	223,737
Operations and maintenance	34,870	32,031	109,771	121,458
Environmental remediation	1,191	—	8,113	—
General taxes	7,211	6,772	23,333	23,153
Depreciation and amortization	20,628	20,342	61,435	60,683
Total operating expenses	92,164	95,001	360,198	429,031
Income (loss) from operations	(4,437 )	(1,873 )	82,241	64,042
Other income (expense), net	652	746	(1,144 )	6,930
Interest expense, net	9,729	10,111	29,183	31,030
Income (loss) before income taxes	(13,514 )	(11,238 )	51,914	39,942
Income tax expense (benefit)	(5,474 )	(4,553 )	21,294	15,944
Net income (loss)	(8,040 )	(6,685 )	30,620	23,998
Other comprehensive income (loss):				
Change in employee benefit plan liability, net of taxes of \$709 for the three and nine months ended September 30, 2016	(1,086 )	—	(1,086 )	—
Amortization of non-qualified employee benefit plan liability, net of taxes of \$223 and \$217 for the three months ended and \$477 and \$650 for the nine months ended September 30, 2016 and 2015, respectively	341	332	678	995
Comprehensive income (loss)	\$(8,785 )	\$(6,353 )	\$30,212	\$24,993
Average common shares outstanding:				
Basic	27,554	27,363	27,504	27,336
Diluted	27,554	27,363	27,629	27,399
Earnings (loss) per share of common stock:				
Basic	\$(0.29 )	\$(0.24 )	\$1.11	\$0.88
Diluted	(0.29 )	(0.24 )	1.11	0.88
Dividends declared per share of common stock	0.470	0.465	1.403	1.395

See Notes to Unaudited Consolidated Financial Statements

Table of ContentsNORTHWEST NATURAL GAS COMPANY  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2016	September 30, 2015	December 31, 2015
In thousands			
Assets:			
Current assets:			
Cash and cash equivalents	\$6,230	\$5,227	\$4,211
Accounts receivable	25,506	29,800	68,228
Accrued unbilled revenue	15,537	15,752	57,987
Allowance for uncollectible accounts	(289	) (308	) (870
Regulatory assets	55,280	82,712	69,178
Derivative instruments	4,857	2,956	2,719
Inventories	67,470	80,974	70,868
Gas reserves	16,257	17,822	17,094
Income taxes receivable	2,257	—	7,900
Deferred tax assets	—	15,663	—
Other current assets	17,480	25,972	33,460
Total current assets	210,585	276,570	330,775
Non-current assets:			
Property, plant, and equipment	3,177,196	3,072,998	3,089,380
Less: Accumulated depreciation	943,334	905,137	906,717
Total property, plant, and equipment, net	2,233,862	2,167,861	2,182,663
Gas reserves	103,976	117,784	114,552
Regulatory assets	341,188	333,953	370,711
Derivative instruments	1,151	299	27
Other investments	67,853	68,503	68,066
Restricted cash	—	4,500	—
Other non-current assets	1,269	1,248	2,616
Total non-current assets	2,749,299	2,694,148	2,738,635
Total assets	\$2,959,884	\$2,970,718	\$3,069,410

See Notes to Unaudited Consolidated Financial Statements

Table of ContentsNORTHWEST NATURAL GAS COMPANY  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	September 30, 2016	September 30, 2015	December 31, 2015
Liabilities and equity:			
Current liabilities:			
Short-term debt	\$ 194,900	\$ 225,200	\$ 270,035
Current maturities of long-term debt	64,994	—	24,973
Accounts payable	55,933	54,425	73,219
Taxes accrued	11,954	11,854	10,420
Interest accrued	9,671	9,800	5,873
Regulatory liabilities	27,921	34,127	29,927
Derivative instruments	5,334	21,949	22,092
Other current liabilities	31,997	27,924	41,148
Total current liabilities	402,704	385,279	477,687
Long-term debt	530,219	614,053	569,445
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	544,575	527,336	530,021
Regulatory liabilities	342,143	334,490	339,287
Pension and other postretirement benefit liabilities	216,909	228,861	223,105
Derivative instruments	1,682	3,540	3,447
Other non-current liabilities	142,450	117,950	145,446
Total deferred credits and other non-current liabilities	1,247,759	1,212,177	1,241,306
Commitments and contingencies (See Note 13)	—		