NORTHWEST NATURAL GAS CO
Form 10-Q
August 07, 2018

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

Form 10-Q

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

For the quarterly period ended June 30, 2018

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

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

Oregon	93-0256722
(State or other jurisdiction of incorporation or organization)	(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", "smaller reporting company" and "emerging growth 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)	Emerging Growth Company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

At July 27, 2018, 28,800,482 shares of the registrant's Common Stock (the only class of Common Stock) were outstanding.

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

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PART I. FINANCIAL INFORMATION
FORWARD-LOOKING STATEMENTS

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

- plans, projections and predictions;
- objectives, goals or strategies;
- assumptions, generalizations and estimates;
- ongoing continuation of past practices or patterns;
- future events or performance;
- trends;
- risks;
- timing and cyclicality;
- earnings and dividends;
- capital expenditures and allocation;
- capital or organizational structure, including restructuring as a holding company;
- climate change and our role in a low-carbon future;
- growth;
- customer rates;
- labor relations and workforce succession;
- commodity costs;
- gas reserves;
- operational and financial performance and costs;
- energy policy, infrastructure and preferences;
- public policy approach and involvement;
- efficacy of derivatives and hedges;
- liquidity, financial positions, and planned securities issuances;
- valuations;
- project and program development, expansion, or investment;
- business development efforts, including acquisitions and integration thereof;
- asset dispositions and outcomes thereof;
- pipeline capacity, demand, location, and reliability;
- adequacy of property rights and headquarter development;
- technology implementation and cybersecurity practices;
- competition;
- procurement and development of gas supplies;
- estimated expenditures;
- costs of compliance;
- credit exposures;
- rate or regulatory outcomes, recovery or refunds;
- impacts or changes of laws, rules and regulations;
- tax liabilities or refunds, including effects of tax reform;
- levels and pricing of gas storage contracts and gas storage markets;
- outcomes, timing and effects of potential claims, litigation, regulatory actions, and other administrative matters;
- projected obligations, expectations and treatment with respect to retirement plans;
- availability, adequacy, and shift in mix, of gas supplies;
- effects of new or anticipated changes in critical accounting policies or estimates;

- approval and adequacy of regulatory deferrals;
- effects and efficacy of regulatory mechanisms; and
- environmental, regulatory, litigation and insurance costs and recoveries, and timing thereof.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future operational or financial performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our 2017 Annual Report on Form 10-K, Part I, Item 1A "Risk Factors" and Part II, Item 7 and Item 7A, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk," and in Part I, Items 2 and 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk", respectively of Part II of this report.

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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.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

In thousands, except per share data	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Operating revenues	$124,567	$134,476	$388,202	$430,200
Operating expenses:				
Cost of gas	42,053	53,005	150,159	196,616
Operations and maintenance	38,028	34,997	77,551	72,443
Environmental remediation	1,882	2,611	6,506	9,565
General taxes	7,729	7,204	17,203	15,883
Revenue taxes	4,780	—	17,209	—
Depreciation and amortization	21,147	20,224	42,022	40,177
Other operating expenses	679	—	1,532	—
Total operating expenses	116,298	118,041	312,182	334,684
Income from operations	8,269	16,435	76,020	95,516
Other income (expense), net	7	(340)	(827)	(763)
Interest expense, net	8,771	9,473	18,045	19,103
Income (loss) before income taxes	(495)	6,622	57,148	75,650
Income tax (benefit) expense	(156)	2,547	15,476	30,178
Net income (loss) from continuing operations	(339)	4,075	41,672	45,472
Loss from discontinued operations, net of tax	(659)	(1,346)	(1,133)	(2,433)
Net income (loss)	(998)	2,729	40,539	43,039
Other comprehensive income:				
Amortization of non-qualified employee benefit plan liability, net of taxes of $56 and $88 for the three months ended and $111 and $177 for the six months ended June 30, 2018 and 2017, respectively	153	137	307	273
Comprehensive income (loss)	$(845)	$2,866	$40,846	$43,312
Average common shares outstanding:				
Basic	28,791	28,648	28,772	28,641
Diluted	28,791	28,717	28,825	28,722
Earnings (loss) from continuing operations per share of common stock:				
Basic	$(0.01)	$0.14	$1.45	$1.58
Diluted	(0.01)	0.14	1.45	1.58
Loss from discontinued operations per share of common stock:				
Basic	$(0.02)	$(0.04)	$(0.04)	$(0.08)
Diluted	(0.02)	(0.04)	(0.04)	(0.08)
Earnings (loss) per share of common stock:				
Basic	$(0.03)	$0.10	$1.41	$1.50
Diluted	(0.03)	0.10	1.41	1.50
Dividends declared per share of common stock	0.4725	0.4700	0.9450	0.9400

See Notes to Unaudited Consolidated Financial Statements

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NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	June 30, 2018	June 30, 2017	December 31, 2017
Assets:			
Current assets:			
Cash and cash equivalents	$8,755	$20,854	$3,472
Accounts receivable	31,512	30,778	66,236
Accrued unbilled revenue	13,995	13,896	62,381
Allowance for uncollectible accounts	(657)	(845)	(956)
Regulatory assets	41,092	37,504	45,781
Derivative instruments	2,044	1,530	1,735
Inventories	43,109	57,264	47,577
Gas reserves	16,579	16,072	15,704
Other current assets	11,672	13,028	24,949
Discontinued operations current assets (Note 15)	12,743	1,923	3,057
Total current assets	180,844	192,004	269,936
Non-current assets:			
Property, plant, and equipment	3,298,856	3,098,112	3,204,635
Less: Accumulated depreciation	984,998	942,558	960,477
Total property, plant, and equipment, net	2,313,858	2,155,554	2,244,158
Gas reserves	75,362	92,020	84,053
Regulatory assets	339,177	348,284	356,608
Derivative instruments	1,077	162	1,306
Other investments	64,854	68,885	66,363
Other non-current assets	11,588	3,164	6,505
Discontinued operations non-current assets (Note 15)	—	205,081	10,817
Total non-current assets	2,805,916	2,873,150	2,769,810
Total assets	$2,986,760	$3,065,154	$3,039,746

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NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In thousands	June 30, 2018	June 30, 2017	December 31, 2017
Liabilities and equity:			
Current liabilities:			
Short-term debt	$47,100	$—	$54,200
Current maturities of long-term debt	74,785	61,991	96,703
Accounts payable	70,551	95,126	111,021
Taxes accrued	6,916	6,906	18,883
Interest accrued	6,652	5,966	6,773
Regulatory liabilities	34,275	28,041	34,013
Derivative instruments	11,744	4,734	18,722
Other current liabilities	32,935	31,015	39,942
Discontinued operations current liabilities (Note 15)	12,922	1,303	1,593
Total current liabilities	297,880	235,082	381,850
Long-term debt	683,895	658,118	683,184
Deferred credits and other non-current liabilities:			
Deferred tax liabilities	281,028	577,176	270,526
Regulatory liabilities	602,294	359,205	586,093
Pension and other postretirement benefit liabilities	218,061	219,718	223,333
Derivative instruments	3,913	3,466	4,649
Other non-current liabilities	140,163	134,793	135,292
Discontinued operations - non-current liabilities (Note 15)	—	12,167	12,043
Total deferred credits and other non-current liabilities	1,245,459	1,306,525	1,231,936
Commitments and contingencies (Note 14)			
Equity:			
Common stock - no par value; authorized 100,000 shares; issued and outstanding 28,800, 28,662, and 28,736 at June 30, 2018 and 2017, and December 31, 2017, respectively	452,195	444,058	448,865
Retained earnings	315,462	428,049	302,349
Accumulated other comprehensive loss	(8,131)	(6,678)	(8,438)
Total equity	759,526	865,429	742,776
Total liabilities and equity	$2,986,760	$3,065,154	$3,039,746

See Notes to Unaudited Consolidated Financial Statements

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

	Six Months Ended June 30,	
In thousands	2018	2017
Operating activities:		
Net Income	$40,539	$43,039
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	42,022	40,177
Regulatory amortization of gas reserves	7,816	8,031
Deferred income taxes	11,227	22,170
Qualified defined benefit pension plan expense	2,876	2,615
Contributions to qualified defined benefit pension plans	(5,570)	(7,250)
Deferred environmental expenditures, net	(7,330)	(6,817)
Amortization of environmental remediation	6,506	9,565
Regulatory revenue deferral from the TCJA	9,212	—
Other	810	1,128
Changes in assets and liabilities:		
Receivables, net	79,332	85,250
Inventories	4,803	(3,501)
Income taxes	(11,967)	(5,243)
Accounts payable	(26,613)	(21,849)
Interest accrued	(121)	—
Deferred gas costs	4,787	15,325
Other, net	3,623	8,243
Discontinued operations	700	3,348
Cash provided by operating activities	162,652	194,231
Investing activities:		
Capital expenditures	(102,370)	(94,333)
Other	195	(404)
Discontinued operations	(283)	15
Cash used in investing activities	(102,458)	(94,722)
Financing activities:		
Repurchases related to stock-based compensation	—	(2,034)
Proceeds from stock options exercised	45	1,309
Long-term debt retired	(22,000)	—
Change in short-term debt	(7,100)	(53,300)
Cash dividend payments on common stock	(25,577)	(26,919)
Other	(279)	(1,232)
Cash used in financing activities	(54,911)	(82,176)
Increase in cash and cash equivalents	5,283	17,333
Cash and cash equivalents, beginning of period	3,472	3,521
Cash and cash equivalents, end of period	$8,755	$20,854

Supplemental disclosure of cash flow information:

Interest paid, net of capitalization	$17,117	$18,011
Income taxes paid	13,347	9,081

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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. Our regulated local gas distribution business, referred to as the utility segment, is our core operating business and serves residential, commercial, and industrial customers in Oregon and southwest Washington. The other category primarily includes the non-utility portion of our Mist gas storage facility that provides storage services for utilities, gas marketers, electric generators, and large industrial users from facilities located in Oregon. In addition, we have investments and other non-utility activities reported 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), which is presented as a discontinued operation;
- Northwest Energy Corporation (Energy Corp);
  NWN Gas Reserves LLC (NWN Gas Reserves);
- NNG Financial Corporation (NNG Financial);

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

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

Information presented in these interim consolidated financial statements is unaudited, but includes all material adjustments management considers necessary for a fair statement of the results for each period reported including normal recurring accruals. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2017 Annual Report on Form 10-K (2017 Form 10-K), taking into consideration the changes mentioned below in this Note 1 and in Notes 4 and 15. 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.

During the second quarter of 2018, we moved forward with our long-term strategic plans, which include a shift away from our merchant gas storage business. In June 2018, NWN Gas Storage, our wholly-owned subsidiary, entered into a Purchase and Sale Agreement that provides for the sale of all of the membership interests in its wholly-owned subsidiary, Gill Ranch, subject to various regulatory approvals and closing conditions. We have concluded that the pending sale of Gill Ranch qualifies as assets and liabilities held for sale and discontinued operations. As such, for all periods presented, the results of Gill Ranch have been presented as a discontinued operation on the consolidated statements of comprehensive income and cash flows, and the assets and liabilities associated with Gill Ranch have been classified as discontinued operations assets and liabilities on the consolidated balance sheets. See Note 15 for additional information. Additionally, we reevaluated our reportable segments and concluded that the remaining gas storage activities no longer meet the requirements to be separately reported as a segment. The non-utility portion of our Mist gas storage facility is now reported as other, and all prior periods reflect this change. See Note 4, which provides segment information. These reclassifications had no effect on our prior year's consolidated results of operations, financial condition, or cash flows.

Our notes to the consolidated financial statements reflect the activity of our continuing operations for all periods presented, unless otherwise noted. Note 15 provides information regarding our discontinued operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are described in Note 2 of the 2017 Form 10-K. There were no material changes to those accounting policies during the six months ended June 30, 2018 other than those incorporated in Note 5 and Note 15 relating to revenue and discontinued operations, respectively. The following are current updates to certain critical accounting policy estimates and new accounting standards.

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Industry Regulation

In applying regulatory accounting principles, we capitalize or defer certain costs and revenues as regulatory assets and liabilities pursuant to orders of the Oregon Public Utilities Commission (OPUC) or Washington Utilities and Transportation Commission (WUTC), 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 deferred as regulatory assets and liabilities were as follows:

	Regulatory Assets		
	June 30,		December 31,
In thousands	2018	2017	2017
Current:			
Unrealized loss on derivatives[1]	$11,744	$4,625	$18,712
Gas costs	273	859	154
Environmental costs[2]	5,594	6,724	6,198
Decoupling[3]	10,232	12,136	11,227
Income taxes	2,217	4,378	2,218
Other[4]	11,032	8,782	7,272
Total current	$41,092	$37,504	$45,781
Non-current:			
Unrealized loss on derivatives[1]	$3,913	$3,466	$4,649
Pension balancing[5]	67,527	55,358	60,383
Income taxes	19,267	36,591	19,991
Pension and other postretirement benefit liabilities	171,186	176,136	179,824
Environmental costs[2]	65,156	64,008	72,128
Gas costs	28	87	84
Decoupling[3]	1,636	1,993	3,970
Other[4]	10,464	10,645	15,579
Total non-current	$339,177	$348,284	$356,608

	Regulatory Liabilities		
	June 30,		December 31,
In thousands	2018	2017	2017
Current:			
Gas costs	$20,906	$15,708	$14,886
Unrealized gain on derivatives[1]	1,938	1,459	1,674
Decoupling[3]	2,153	134	322
Other[4]	9,278	10,740	17,131
Total current	$34,275	$28,041	$34,013
Non-current:			
Gas costs	$3,460	$2,719	$4,630
Unrealized gain on derivatives[1]	1,077	162	1,306
Decoupling[3]	410	—	957
Income taxes[6]	222,734	—	213,306
Accrued asset removal costs[7]	370,245	350,828	360,929
Other[4]	4,368	5,496	4,965
Total non-current	$602,294	$359,205	$586,093

(1) Unrealized gains or losses on derivatives are non-cash items and therefore, do not earn a rate of return or a carrying charge. These amounts are recoverable through utility rates as part of the annual Purchased Gas Adjustment (PGA) mechanism when realized at settlement.
(2) Refer to footnote (3) per the Deferred Regulatory Asset table in Note 14 for a description of environmental costs.
(3) This deferral represents the margin adjustment resulting from differences between actual and expected volumes.
(4) Balances consist of deferrals and amortizations under approved regulatory mechanisms and typically earn a rate of return or carrying charge.
(5) Refer to footnote (1) of the Net Periodic Benefit Cost table in Note 8 for information regarding the deferral of pension expenses.
(6) This balance represents estimated amounts associated with the Tax Cuts and Jobs Act. See Note 9.
(7) Estimated costs of removal on certain regulated properties are collected through rates.

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We believe all costs incurred and deferred at June 30, 2018 are prudent. We annually review all regulatory assets and liabilities for recoverability and 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 we would be required to write-off the net unrecoverable balances in the period such determination is made.

New Accounting Standards

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

Recently Adopted Accounting Pronouncements

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

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

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

The retrospective presentation requirement related to the other components of net periodic benefit cost affected the operations and maintenance expense and other income (expense), net lines on our consolidated statement of comprehensive income. For the three months and six months ended June 30, 2017, $1.3 million and $2.6 million of expense was reclassified from operations and maintenance expense and included in other income (expense), net, respectively.

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

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

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

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

As previously discussed, the adoption of the new revenue standard did not impact our consolidated balance sheet or statement of cash flows but did result in changes to the presentation of our consolidated statements of comprehensive income. Had the adoption of the new revenue standard not occurred, our operating revenues for the three and six months ended June 30, 2018 would have been $119.8 million and $371.0 million, compared to the reported amounts of $124.6 million and $388.2 million under the new revenue standard, respectively. Similarly, absent the impact of the new revenue standard, our operating expenses would have been $111.5 million and $295.0 million, compared to the reported amounts of $116.3 million and $312.2 million under the new revenue standard for the three and six months ended June 30, 2018, respectively. The effect of the change was an increase in both operating revenues and operating expenses of $4.8 million and $17.2 million for the three and six months ended June 30, 2018, respectively, due to the change in presentation of revenue taxes. As part of the adoption of the new revenue standard, we evaluated the presentation of revenue taxes under the new guidance and across our peer group and concluded that the gross presentation of revenue taxes provides the greatest level of consistency and transparency. Prior to the adoption of the new revenue standard, a portion of revenue taxes was presented net in operating revenues and a portion was recorded directly on the balance sheet. During the three and six months ended June 30, 2018, we recognized $4.8 million and $17.2 million in revenue taxes in operating revenues and operating expenses, respectively. In comparison, for the three and six months ended June 30, 2017, we recognized $5.6 million and $19.3 million in revenue taxes, of which $3.2 million and $11.0 million were recorded in operating revenues and $2.4 million and $8.3 million were recorded on the balance sheet, respectively. The change in presentation of revenue taxes had no impact on utility margin, net income or earnings per share.

Recently Issued Accounting Pronouncements

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

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

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

3. EARNINGS PER SHARE

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands, except per share data	2018	2017	2018	2017
Net income (loss) from continuing operations	$(339)	$4,075	$41,672	$45,472
Average common shares outstanding - basic	28,791	28,648		