NW NATURAL

MIDWEST INVESTOR MEETINGS

SEPTEMBER 2018

NW Natural®

INVESTOR INFORMATION

COMPANY INFORMATION

NW Natural
220 NW Second Avenue
Portland, OR 97209
nwnatural.com

Nikki Sparley
Director, Investor Relations
(503) 721-2530
nikki.sparley@nwnatural.com

FORWARD LOOKING STATEMENTS

This and other presentations made by NW Natural from time to time, may contain 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,” “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, strategies, future events, acquisitions and integration thereof, corporate organization including conversion to a holding company structure, storage, pipeline and other infrastructure investments, commodity costs and sourcing, competitive advantage, marketing success, service territory, customer service, customer and business growth, weather, customer preference, conversion potential, multifamily development, business risk, efficiency of business operations, regulatory recovery, business development and new business initiatives, water industry and investments, environmental remediation recoveries, gas storage markets and business opportunities, gas storage development, costs, timing or returns related thereto, financial positions and performance, economic and housing market trends and performance shareholder return and value, capital expenditures, liquidity, strategic goals, carbon emissions and savings, workforce trends, hedge efficacy, cash flows and adequacy thereof, return on equity, capital structure, return on invested capital, revenues and earnings and timing thereof, margins, net income, operations and maintenance expense, dividends, credit ratings and profile, debt and equity issuances, the regulatory environment, effects of regulatory disallowance, timing or effects of future regulatory proceedings or future regulatory approvals, regulatory prudence reviews or deferrals, effects of regulatory dockets or mechanisms, including, but not limited to, the Company’s rate case, tax reform, SRRM and the Company’s infrastructure investments, effects of legislation, including but not limited to tax reform, PHMSA regulations and carbon regulations, and other statements that are other than statements of historical facts.

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, so we 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 by reference to the factors described in 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 Disclosure about Market Risk” in the Company’s most recent Annual Report on Form 10-K, 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”, in the Company’s quarterly reports filed thereafter.

All forward-looking statements made in this presentation and all subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by these cautionary statements. Any forward-looking statement speaks only as of the date on which such statement is made, and 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.

INTRODUCTION



NW NATURAL LEADERSHIP



DAVID H. ANDERSON • President and Chief Executive Officer

Mr. Anderson is currently NW Natural's President and CEO effective August 2016. Since he joined the Company in 2004, Mr. Anderson has served in various executive positions over Operations, Regulation and Financial Matters, as COO and CFO. Previously, Mr. Anderson held executive positions within TXU Corporate including Senior Vice President and Chief Accounting Officer. Mr. Anderson holds a BBA in Accounting from Texas Tech University and held a CPA (retired) and CGMA.



FRANK BURKHARTSMEYER • SVP and Chief Financial Officer

Mr. Burkhartsmeyer is currently NW Natural's Senior Vice President and CFO effective May 2017. Previously, Mr. Burkhartsmeyer served as President and CEO of Avangrid Renewables and Senior Vice President of Finance at Iberdrola Renewables US and also held various positions at PPM Energy, ScottishPower and PacificCorp. Mr. Burkhartsmeyer has an MBA from the University of Oregon and a Bachelor of Arts in Liberal Arts from the University of Montana.

Q2 2018 KEY UPDATES

Q2 2018 Recap

- $1.41 earnings per share for YTD Q2 2018 vs. $1.50 per share for prior period
- North Mist Expansion continue targeting December 2018 in-service
- Oregon rate case: first settlement resolves key items

Updates Since Q2 2018

- Oregon rate case: second settlement resolves all but one item
- Holding company structure formation on track
- North Mist project progressing
- Water utility strategy progressing

Continuing to Execute on Strategy

INVESTMENT HIGHLIGHTS*

Growth projections and expectations over the next five years include:

Strong Utility Growth

- Customer growth 1.7%+ per year
- $750 - $850 million five-year capital plan, resulting in rate base growth of 4% - 5%

Financial Targets

- EPS growth of 3% - 5%
- Strong and growing dividend
- Solid credit ratings

Strategic Growth

- Additional regulated storage expansion – North Mist
- Regulated water strategy provides earnings diversity

*Customer growth, capital investment, and rate base are forecasted over five year plan period from 2018 – 2022, earnings per share growth rate uses 2018 as base year.

Stable and Growing Return Proposition

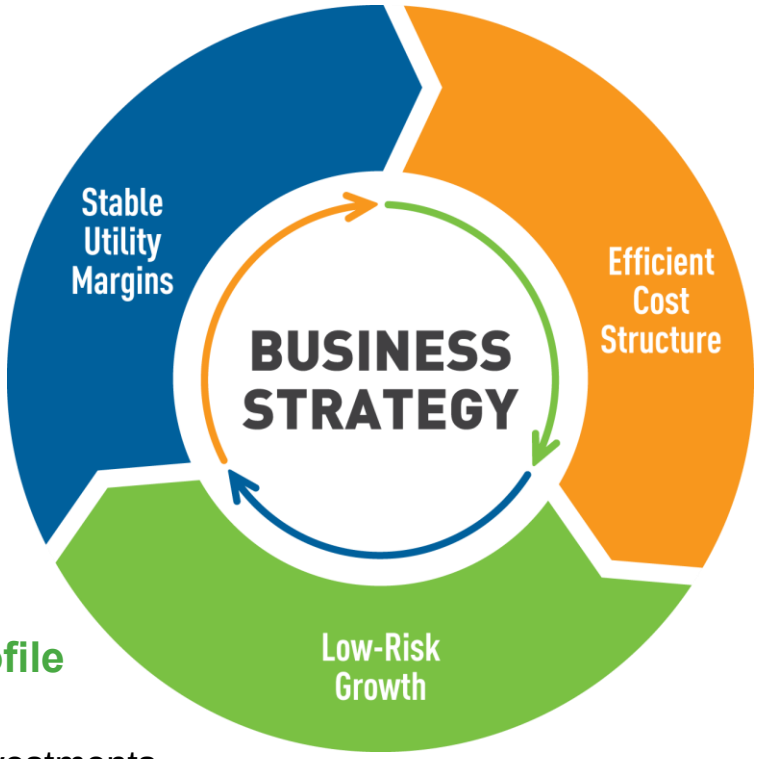
CONSERVATIVE CORPORATE STRATEGY

Stable utility margins through progressive regulation

- Weather & decoupling mechanisms in Oregon
- Environmental cost recovery mechanism in Oregon
- Constructive relationships with regulators and customer groups

Excellent operations and efficient cost structure

- Commitment to safety, reliability, and high-quality service
- Continued focus on efficient business operations



Long-term growth opportunities that fit NWN's profile

- **UTILITY**: attractive and growing service territory driving above-average customer growth compared to peers and investments
- **MIST FACILITY**: high-value long-term contracts, asset management revenues, North Mist expansion
- **REGULATED WATER**: announced long-term, disciplined strategy to acquire regulated water utilities in a highly fragmented industry with ample infrastructure investment opportunities

STRATEGIES TO DRIVE SUCCESS



Low-Carbon Pathway

Effectively position our Company for a low-carbon future.

- Target: 30% carbon emissions savings associated with current and new customers by 2035, from a 2015 baseline.
- Build public policy coalitions to support this goal.



Constructive Regulation

Further a successful regulatory agenda that serves the interests of customers, benefits the company, meets the duties of regulators and furthers stakeholders' missions.



Enable Growth

Channel our organizational energies around revenue growth so we can succeed in an increasingly competitive and complex marketplace.

- Simplify processes and leverage technology.
- Examine our tariffs to meet new market demands and a low-carbon business model.



Superior Customer Experience

Improve processes, deploy new technology and use metrics to continually improve and meet evolving customer expectations.

Continue to drive operational priorities that ensure we are delivering safe, reliable and superior service.



Workforce of the Future

Foster a culture of accountability, creativity and collaboration that is inclusive and supports opportunities for cross-functional effectiveness.


NATURAL GAS UTILITY

GAS UTILITY AT A GLANCE

- Nearly 160 years of service in our communities
- Largest stand-alone local distribution company in the Pacific Northwest
- 740,000 customers in Oregon and southwest Washington
- Consistently recognized for high-quality customer service by J.D. Power
- One of the safest, most modern distribution systems in the country
- $3 billion of assets at June 30, 2018



DIVERSE RESOURCE PORTFOLIO

Gas Supply

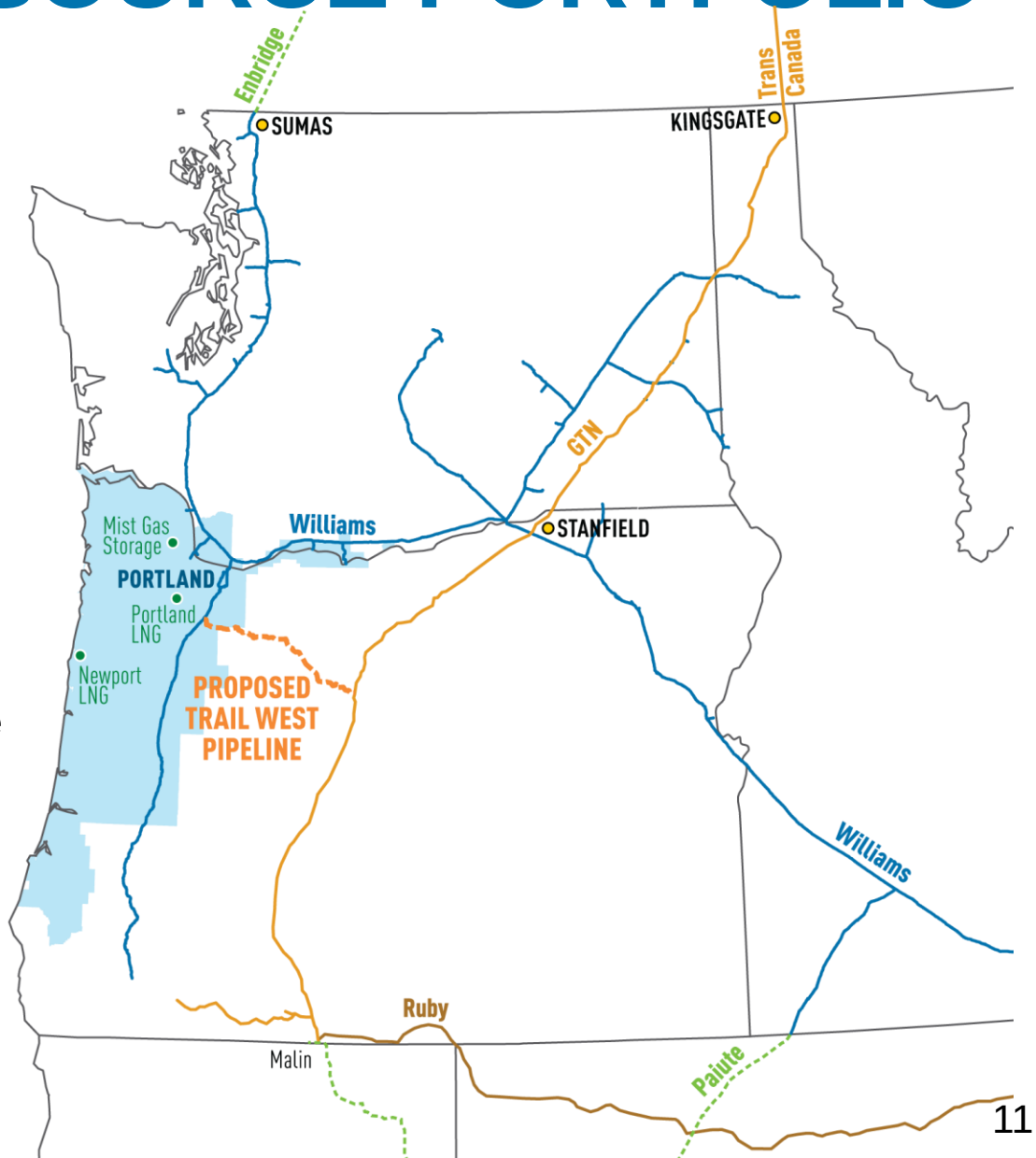
- 60% supply from Canada
- 40% supply from the Rockies
- Natural gas enters service territory through one bi-directional pipeline

LNG Peaking Facilities

- Portland LNG – 0.6 Bcf
- Newport LNG – 1.0 Bcf

Mist Gas Storage Facility

- Valuable asset – limited storage in the Pacific Northwest
- 16 Bcf facility with 11 Bcf serving utility customers and 5 Bcf under long-term contracts with other utilities
- Utility can recall 5 Bcf to support customer demand



ATTRACTIVE ECONOMY

LEADING THE NATION

#2 In-Bound State for Moves
#2 Nonfarm Payroll Growth Rate
#4 GDP Growth Rate

GROWING BUSINESSES

adidas
Columbia Sportswear Company
NIKE
intel
FLIR
UNDER ARMOUR

STRONG HOUSING MARKET

Housing Permits +0.7%
Housing Prices +7.1%



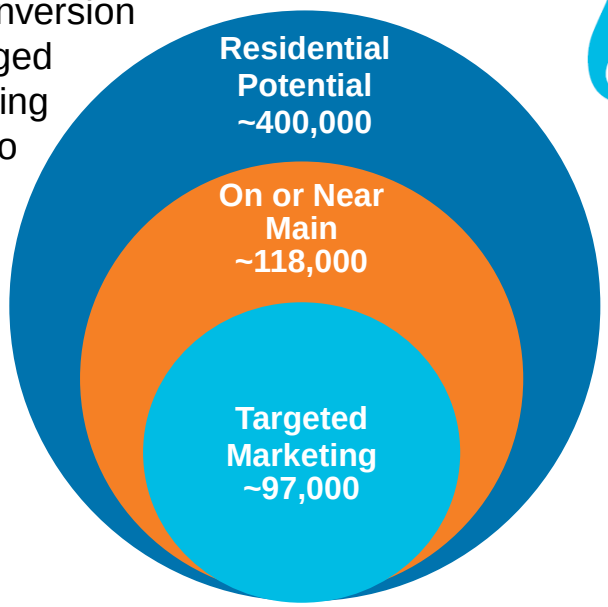
*Source: In-bound moves rate from 2017 United Movers Study, Nonfarm payroll growth from US BLS for 2017, and GDP from U.S. BEA for 12 months ending 9/30/17 vs prior period. Permits and prices for Portland Metro single-family homes for last 12 months ending June 2018 compared to prior 12 months from RMLS.

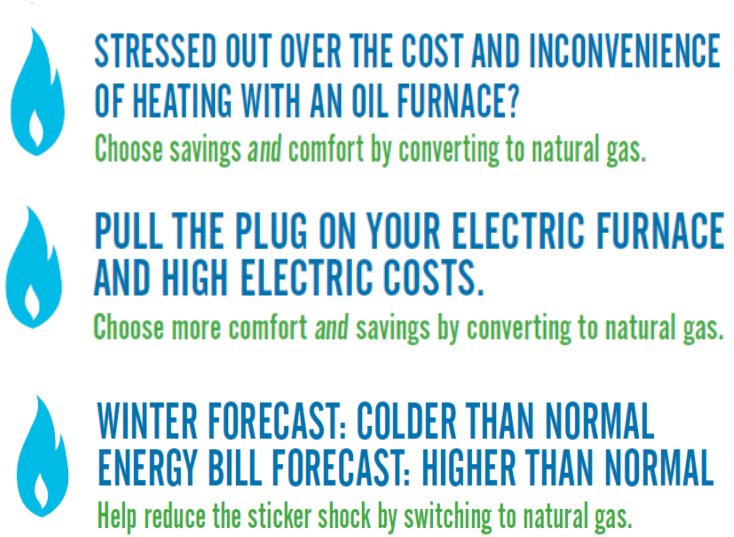
Serving Growing Communities

DATA-DRIVEN MARKETING

Segmentation Strategy

- NW Natural works with a consulting firm to develop a qualitative propensity modeling approach.
- Attributes from the past 10 years of converted customers are analyzed to determine premise and homeowner traits that correspond to the likelihood of conversion.
- A segmented database is created and non-customer conversion prospects are messaged through direct-marketing campaigns using up to 7 unique segments.







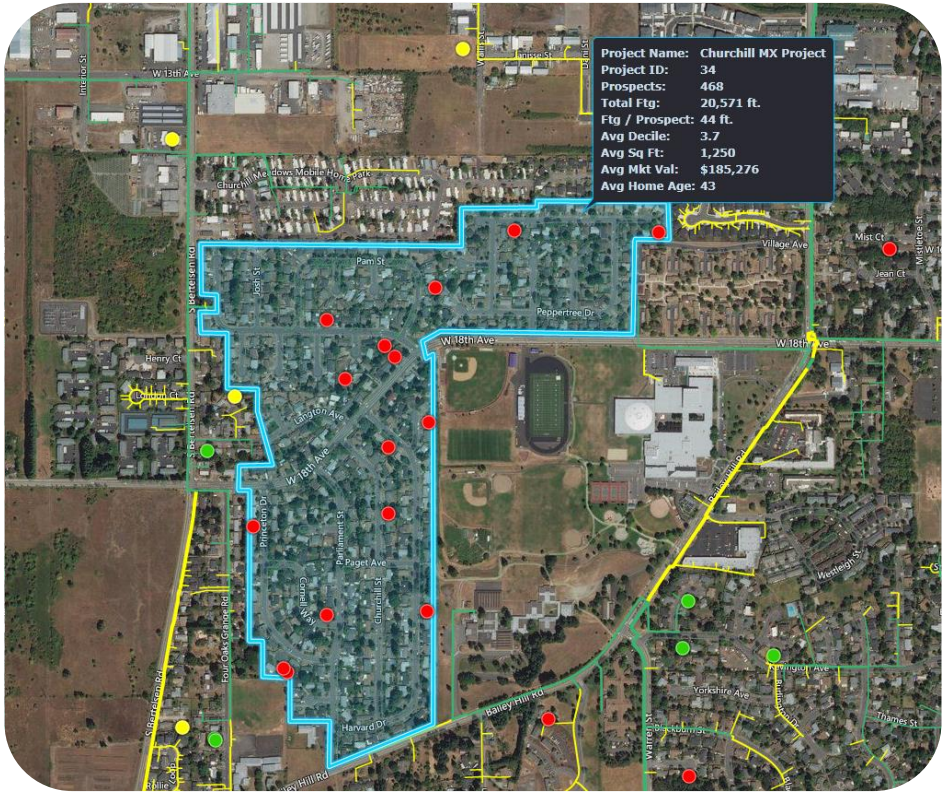
INNOVATIVE MARKETING TOOL

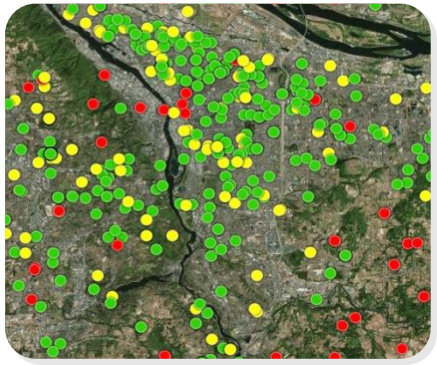
Competitive Advantage

- Low-cost, reliable, clean energy choice
  - Up to 70% cost advantage
- Preferred by 9 out of 10 homeowners
  - Comprehensive research quantifies preference and value of gas
- Strong trade alley network
  - Rate NWN 9 out of 10 for satisfaction
- Leverage preference and robust analytics
  - Data driven, proven methodology
- Serve approximately 63% of single-family homes

Technology Differentiation

- Cutting edge web-based tool for targeted conversions, validates customer interest
- Enhanced web services for trade allies
- Ability to proactively identify targets and analyze cost profiles
- Ability to identify potential main extensions





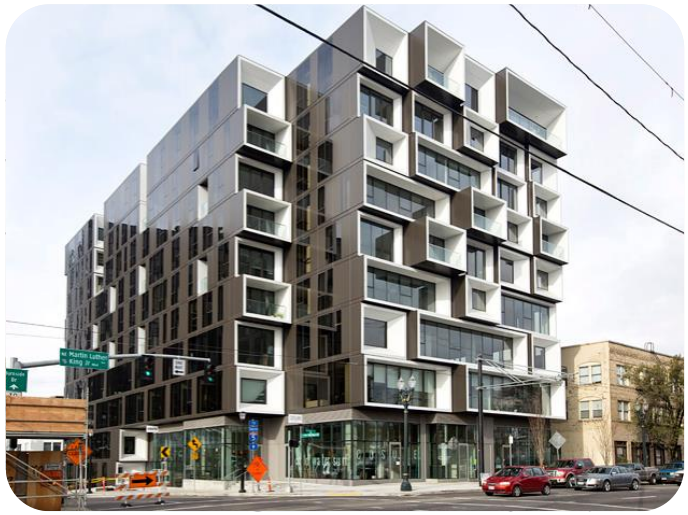
FOCUSING ON MULTIFAMILY

Market Activity

- Increase in multifamily construction, especially mixed-use developments in urban areas
- Tight rental market, in-migration, and positive economic trends have led to segment growth
- See apartments as a previously untapped growth opportunity and new priority segment

Executing on the Opportunity

- Utilized upstream intelligence to engage developers early about building design and equipment scenarios
- Analyzed renter preferences and natural gas availability - showing a competitive opportunity
- Created comprehensive marketing program (streamlined piping and meter room design, technical support and financial incentives)
- Gained approval of new multifamily tariff in July 2017 – provide developers more options



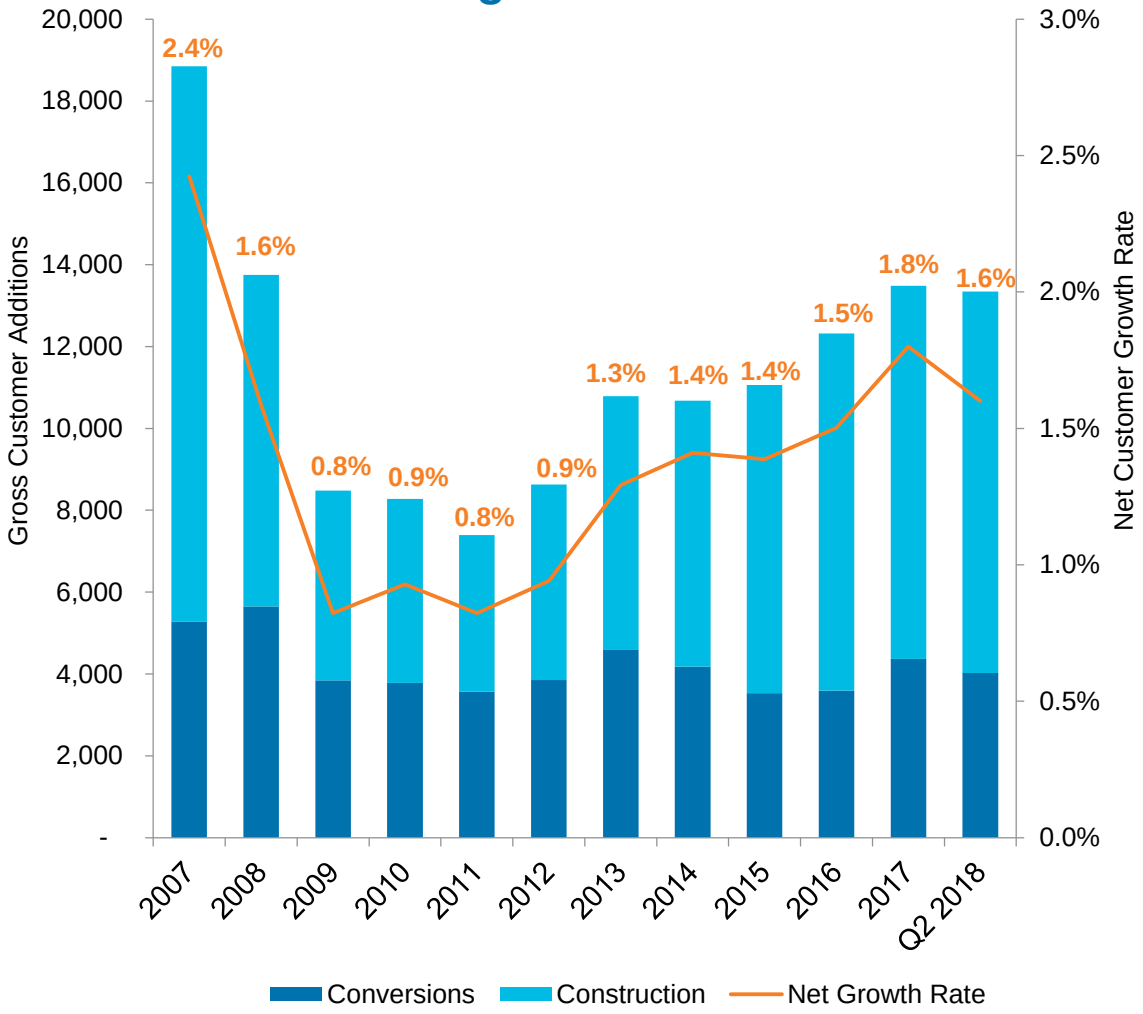
Slate at 3rd & Couch – completed in 2016 – 75 units



The Carson – expected in 2018 – 385 units

LEADING IN CUSTOMER GROWTH

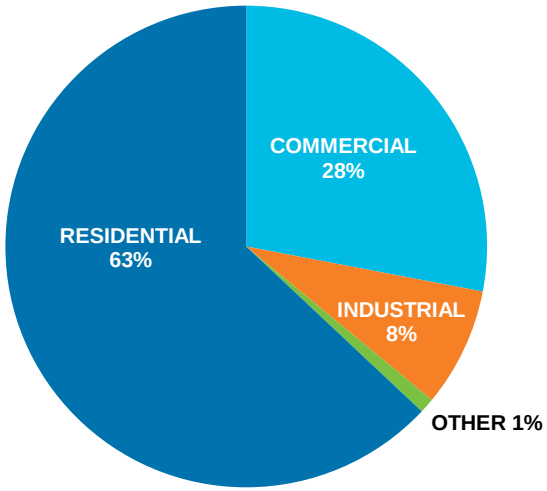
2017 Marked Highest Growth in Decade



Growth by Sector (Q2 2018)

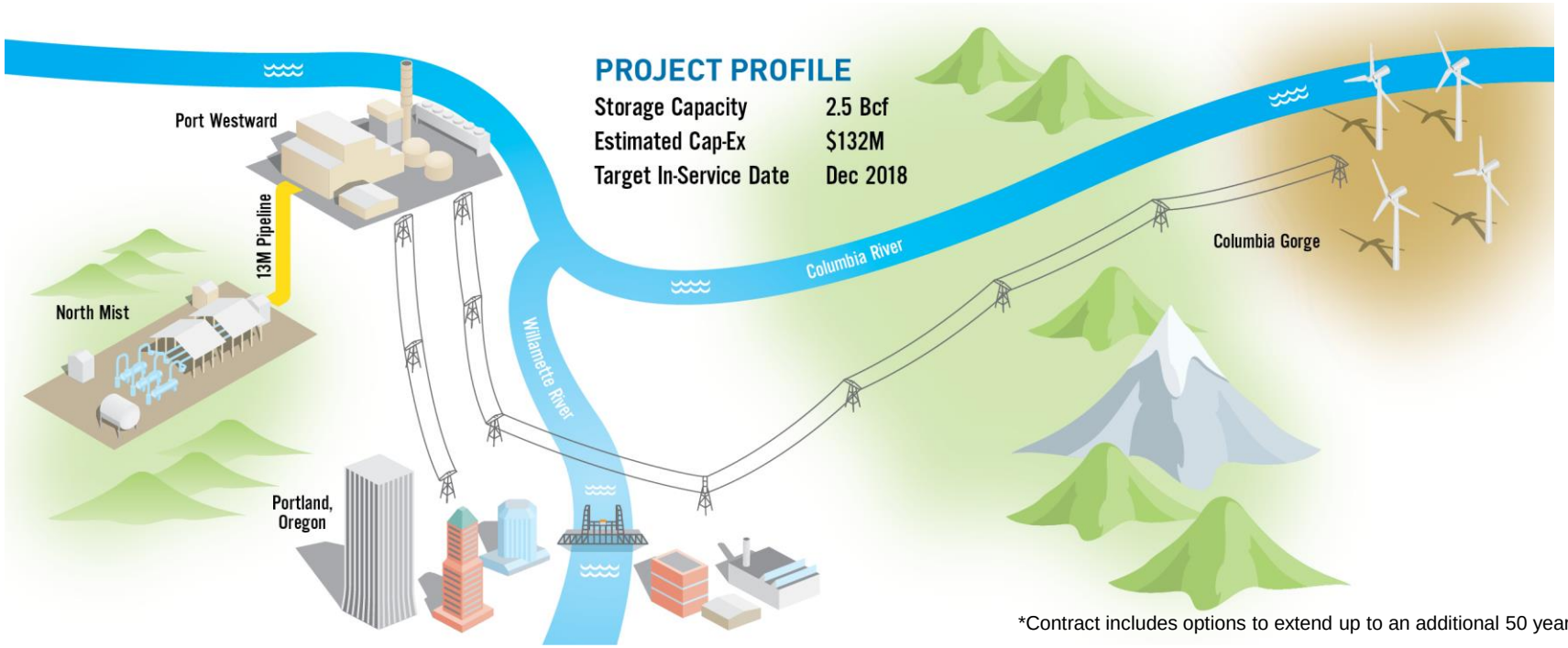
Residential	1.7%
Commercial	0.9%
Industrial	1.6%
TOTAL	**1.6%**

Utility Margin 2017



INVESTING IN INNOVATION

- Unique no-notice 24/7 storage service supporting gas-fired electric generating facilities that are integrating wind into energy generation mix
- $132M investment with ~$25 million of cap-ex in 2018
- Contracted under 30-year agreement with single-customer (PGE)*
- Included in rate base under established tariff schedule when placed into service



*Contract includes options to extend up to an additional 50 years

North Mist Expansion Supports Renewables Integration

INVESTING IN OUR SYSTEM

Customer growth

- New construction & conversions
- Main extensions

Safety & Reliability

- Recurring replacements
- Enhanced system reliability to support customer growth

Technology & Facilities

- Efficiencies & cybersecurity
- Resource center renovations

Potential Future Opportunities

- PHMSA & seismic projects, not included in current 5-year range

System Capital Expenditures*

(In millions)

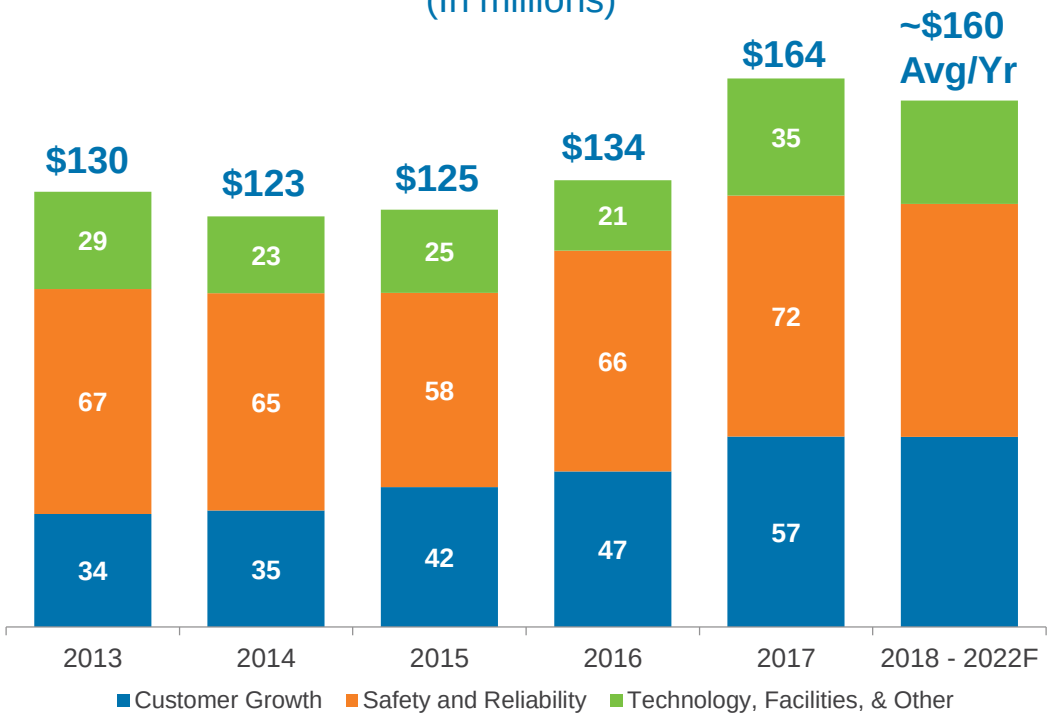


*Chart is based on accrual cap-ex figures. Forecasted cap-ex in chart excludes North Mist. Estimate $20 - $30 million of cap-ex in 2018 to complete North Mist Expansion.

Five-Year Cap-Ex Range $750 - $850 Million

PROGRESSIVE REGULATION

	OREGON	WASHINGTON
KEY MECHANISMS:		
Decoupling/WARM	✓	
Purchased Gas Adjustment	✓	✓
Environmental Cost	Recovery	Deferral(1)
Pension Balancing(3)	✓	
Incentive Sharing(2)	✓	✓
RATE CASE TEST YEAR	Forward	Historic
RATE STRUCTURES:		
ROE(3)	9.5%	10.1%
ROR(3)	7.78%	8.4%
Equity Ratio(3)	50%	51%
2017 Rate Base(4)	$1.2B	$0.1B

(1) Washington allows deferral of environmental costs, but a cost recovery mechanism or methodology has not yet been established by the Washington Commission. A carrying charge related to deferred amounts will be determined in a future proceeding.

(2) In Oregon, NW Natural shares PGA gains and losses. In both Oregon and Washington, NW Natural shares with customers revenues it achieves through interstate storage and optimization activities.

(3) Oregon general rate case settlements, if approved by OPUC, would revise ROE, ROR, and Equity Ratio and change Pension expense recovery and the pension balancing mechanism. See Oregon Rate Case Update and Supportive Mechanisms for more information.

(4) Oregon rate base includes gas reserves.

OREGON RATE CASE UPDATE

- **First Settlement –** Resolved majority of items in rate case with all-party settlement in August 2018
- **Second Settlement –** Resolved items related to tax reform and pension balancing mechanism (primarily cash flow related items) with staff and Citizen's Utility Board in September 2018
- **One Open Item –** One remaining open item related to sharing allocations with customers for asset management activities
- **Subject to OPUC Review & Approval –** Settlements and remaining open item subject to OPUC review and approval, expect new rates effective Nov. 1, 2018

	2012 Rate Case	2018 Rate Case	
		First Settlement	Second Settlement
ROE	9.5%	9.4%	
ROR	7.78%	7.317%	
Equity/Debt Ratio	50 / 50	50 / 50	
Rev. Requirement*		+$16M	+$7M
Net Benefit to Company*		+$15M	+$2M
Rate Base*	$886M	+$306M	+$22M

*Revenue requirement, benefit to the Company, and rate base amounts for the 2018 rate case are dependent upon the Company's completion of certain capital projects prior to the rate effective date, and the amounts could be adjusted downward in the event that these projects are not completed. Rate base excludes gas reserves rate base as it is covered by a specific regulatory order and not part of general rate case proceedings.



WATER UTILITY

STRATEGY FOR WATER

Stable Earnings

- NWN strives to provide stable earnings streams that have a similar risk and cash flow profile as our regulated gas utility
- The regulated water sector fits our conservative business profile and provides an avenue to add value

Aligns with Core Competencies

- Aligns with our core competencies including:
  - customer service
  - developing and managing critical distribution infrastructure safely and reliably
  - environmental stewardship
  - constructive regulatory engagement

Disciplined Strategy

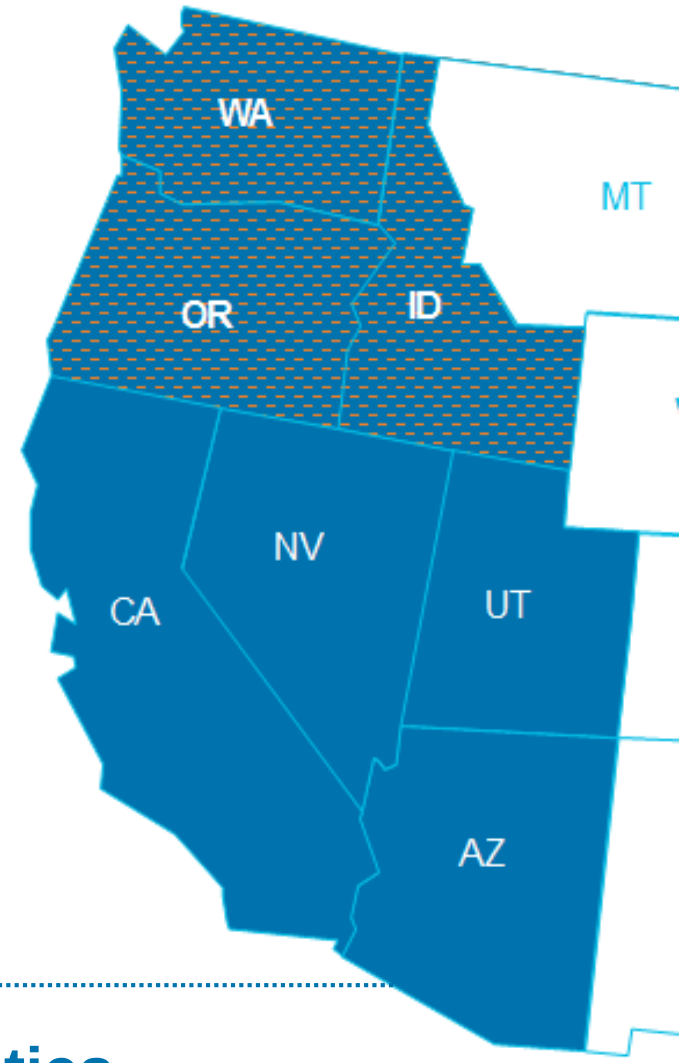
- Deliberate and disciplined roll-up strategy focused on Pacific Northwest
- Over long-term, growing water business to be an earnings driver and deploy capital to infrastructure needs

Provides Additional Stable Revenue Stream

WATER OPPORTUNITIES

	All Water Systems		Privately Owned Systems	
	Systems	Connections	Systems	Connections
Pacific Northwest	4,000	4.8M	**2,700**	**500,000**
Western Region	8,600	25.9M	5,500	3.9M
United States	49,500	120M	24,000	16.3M

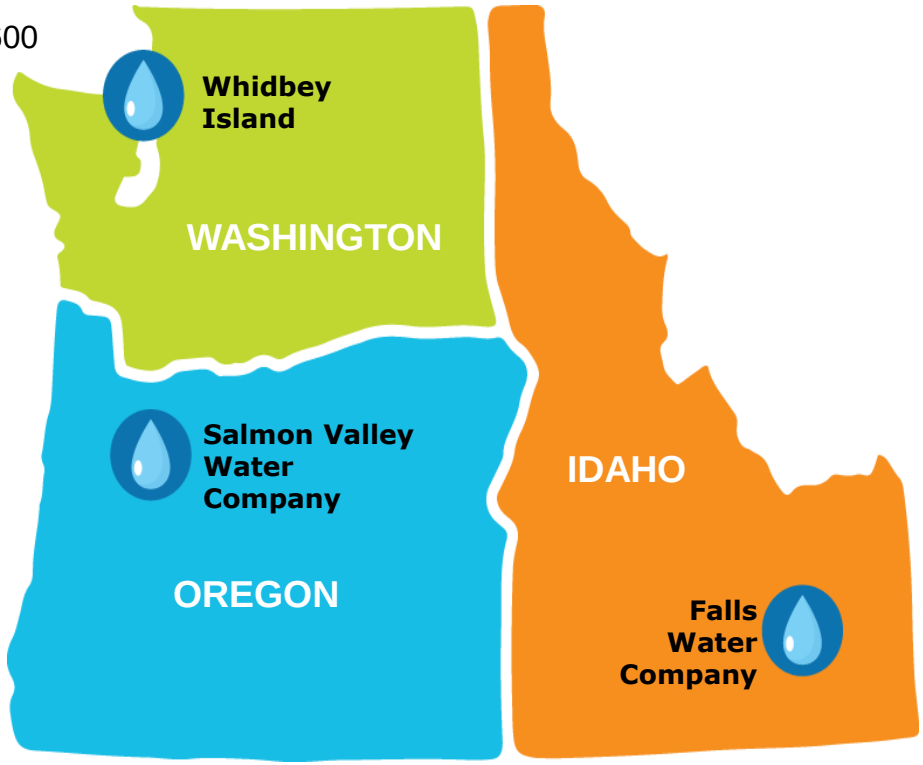
Water systems above represent permanent community water systems
Source: Bluefield



Acquisition Opportunities

ACQUISITIONS

	Closed	Pending		
	Falls Water	Salmon Valley	Whidbey Island	Total
Customers	5,500	975	1,100	~7,600
Commission	IPUC	OPUC	WUTC	
Signed PSA	Dec ‘17	Dec ‘17	May ’18	
Regulatory Approval	July ’18	Pending	Pending	
Close or Expected Close Date	Sept ‘18	2H ‘18	1H ‘19	



Growing Our Pacific Northwest Footprint

FINANCIAL PERFORMANCE

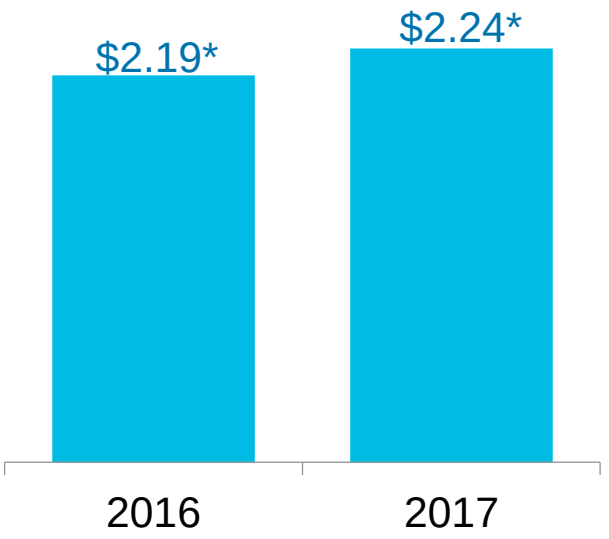


EARNINGS GROWTH

Regulated Earnings

- Strong customer growth
- Innovative North Mist expansion
- Oregon general rate case
- Investments in system resiliency
- Continued operational efficiency

Adjusted EPS*



*Adjusted 2017 EPS excludes Gill Ranch impairment of $192.5 million pre-tax ($141.5 million after-tax) and tax reform benefit of $21.4 million. Adjusted 2016 EPS excludes regulatory disallowance of $2.0 million after-tax. On a GAAP basis EPS was a loss of $1.94 for 2017 and earnings of $2.12 for 2016. See appendix for non-GAAP reconciliation.

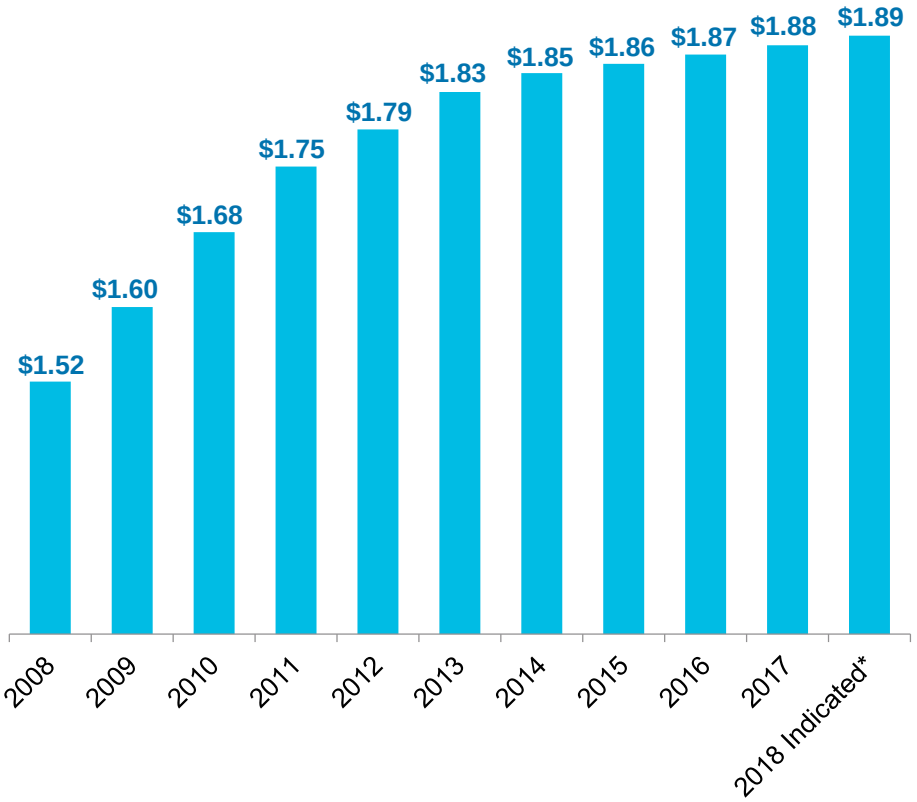
Continued Investment Fueling EPS Growth

LEGACY OF GROWING DIVIDENDS

1 of only 3 companies on NYSE with 62 year legacy of increasing annual dividends

Ticker	Company	Consecutive Increases
AWR	American States Water Company	63
NWN	**Northwest Natural Gas Company**	**62**
DOV	Dover Corporation	62
PH	Parker-Hannifin Corporation	61
GPC	Genuine Parts Company	61
PG	The Procter & Gamble Company	61
EMR	Emerson Electric Co.	60
MMM	3M Company	59
CINF	Cincinnati Financial Corporation	57
VVC	Vectren Corporation	57
CL	Colgate-Palmolive Company	55
KO	The Coca-Cola Company	55
JNJ	Johnson & Johnson	54

Increasing Dividends*



*Future dividends are subject to Board of Director discretion and approval.

62 Years of Increasing Dividends Paid

STRONG CASH FLOWS & LIQUIDITY

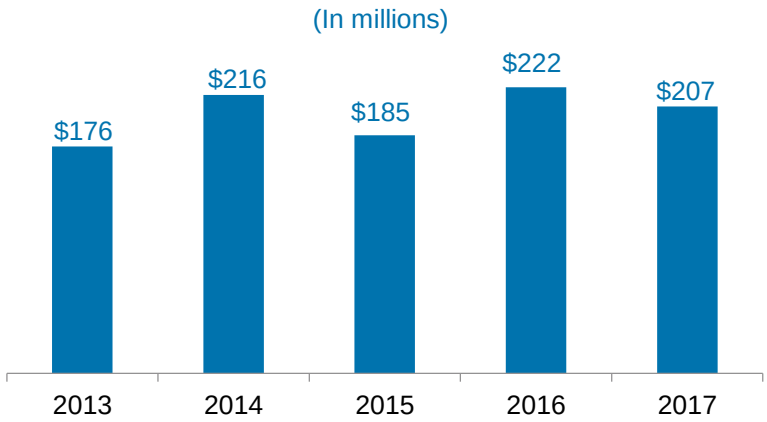
Cash Flows

- Operating cash flows support capital needs
- Environmental mechanism providing ongoing cash flow for environmental cost recovery

Liquidity

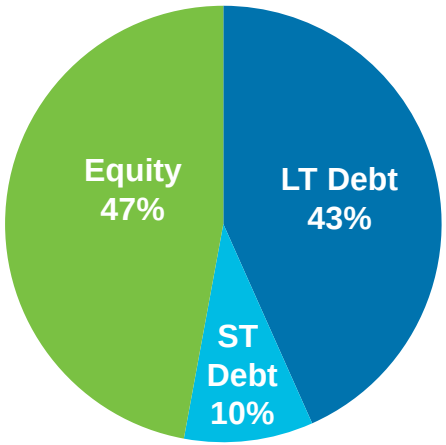
- $300 million credit facility through 2019
- Access to capital markets
- Solid credit ratings(1)

Cash Flow from Operations



Consolidated Debt to Cap Ratio

(as of Dec. 31, 2017)(2)



Credit Ratings(1)

	S&P	Moody's
Secured Debt	AA-	A1
Commercial Paper	A-1	P-2
Outlook	Stable	Negative

(1) The above credit ratings are dependent upon a number of factors, both qualitative and quantitative, and are subject to change at any time. The disclosure of these credit ratings is not a recommendation to buy, sell or hold NW Natural securities.

(2) Short-term debt includes current long-term debt maturities.

CONCLUSION



INVESTMENT THESIS

Stable and growing utility margins driven by expectations over the next five years including:

- EPS growth of 3% – 5%
- Customer growth 1.7%+
- $750 - $850 million five-year capital plan, resulting in rate base growth of 4% – 5%



Excellent operations and efficient cost structure

- Commitment to safety, reliability, and high-quality service
- Continued focus on efficient business operations

Low-Risk Growth

- North Mist provides additional regulated storage expansion
- Regulated water strategy provides earnings diversity

Stable and Growing Return Proposition

APPENDIX

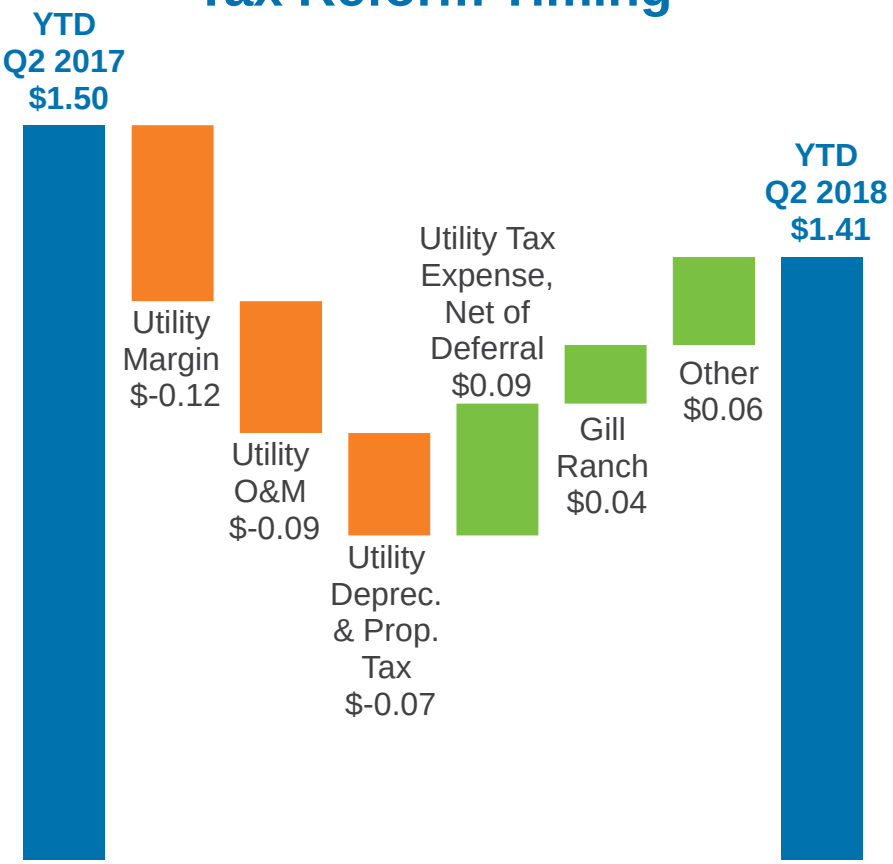


Q2 2018 RESULTS

Results on track

- Utility margin lower
  - Weather returning to relatively average temperatures in 2018 vs. very cold 2017
  - Strong customer growth of 1.6%
- Utility tax expense benefits from lower federal tax rate, offset by revenue deferral for tax savings to be returned to customers – primarily timing related
- Other results and Gill Ranch improve
  - Higher asset management revenues at non-utility Mist gas storage
  - Lower depreciation expense at Gill Ranch facility from Q4 ’17 noncash impairment

Results Driven by Weather, O&M, & Tax Reform Timing



Stable Utility Performance

2017 RESULTS

(In millions)	2017 Pre-Tax	2017 Tax	2017 After-Tax	2017 Per Share	2016 Pre-Tax	2016 Tax	2016 After-Tax	2016 Per Share	Change After-Tax	Change Per Share
GAAP net income (loss)			**$(55.6)**	**$(1.94)**			**$58.9**	**$2.12**	**$(114.5)**	**$(4.06)**
Gill Ranch impairment	$192.5	$(51.0)	141.5				-		141.5	
Regulatory disallowance					$3.3	$1.3	2.0		(2.0)	
Tax reform benefit	-	(21.4)	(21.4)				-		(21.4)	
Adjusted net income			**$64.5**	**$2.24**			**$60.9**	**$2.19**	**$3.6**	**$0.05**
Diluted Shares				**28.7**				**27.8**		**0.9**

- GAAP net loss $1.94 in 2017 driven by Gill Ranch impairment offset by benefits from tax reform
- Adjusted net income up 5 cents to $2.24 in 2017, compared to $2.19 in 2016 from strongest utility customer growth in a decade and colder weather partially offset by higher O&M expense

Adjusted net income excludes the non-cash impact of the Gill Ranch impairment and tax reform in 2017 and the regulatory environmental disallowance in 2016 to provide comparability with previous periods and transparency into underlying drivers of results. See Non-GAAP reconciliation.

Strong Utility Performance And Tax Reform Offset By Accounting Impairment Due To Gill Ranch

NON-GAAP RECONCILIATION

(In thousands)	2017 Amount	2017 Per Share	2016 Amount	2016 Per Share
CONSOLIDATED				
GAAP consolidated net income (loss)	$(55,623)	$(1.94)	$58,895	$2.12
Gill Ranch impairment[1]	192,478	6.71	-	-
Regulatory disallowance[2]	-	-	3,300	0.12
Income tax effect of pre-tax adjustments[1,2]	(50,956)	(1.78)	(1,304)	(0.05)
Tax reform benefit[3]	(21,429)	(0.75)	-	-
Consolidated adjusted net income	$64,470	$2.24	$60,891	$2.19
Diluted Shares		28,669		27,779
UTILITY				
GAAP utility net income	$60,509	$2.11	$54,567	$1.96
Regulatory disallowance[2]	-	-	3,300	0.12
Income tax effect of pre-tax adjustments[2]	-	-	(1,304)	(0.05)
Tax reform expense[3]	1,036	0.03	-	-
Utility adjusted net income	$61,545	$2.14	$56,563	$2.03

[1] Gill Ranch non-cash impairment recognized as of Dec. 31, 2017. Tax effect of adjustment is calculated using a combined federal and state statutory rate of 26.5%.

[2] Regulatory environmental non-cash disallowance taken in the first quarter of 2016 related to the Company's compliance filing under the environmental recovery mechanism with the total pre-tax charge of $3.3 million recorded in utility other income ($2.8 million) and utility operation and maintenance expense ($0.5 million). Tax effect of adjustment is calculated using a combined federal and state statutory rate of 39.5%.

[3] Tax reform non-cash (benefit) expense recognized in income tax expense as a result of federal tax rate changing from 35% to 21% effective Dec. 22, 2017.

NON-GAAP RECONCILIATION

(In thousands)	2017		2016	
	Amount	Per Share	Amount	Per Share
GAS STORAGE				
GAAP gas storage net income (loss)	$(116,209)	$(4.05)	$4,303	$0.16
Gill Ranch impairment[1]	192,478	6.71	-	-
Income tax effect of pre-tax adjustments[1,2]	(50,956)	(1.78)	-	-
Tax reform benefit[3]	(21,869)	(0.76)	-	-
Gas storage adjusted net income	$3,444	$0.12	$4,303	$0.16
OTHER				
GAAP other net income	$77	$ -	$25	$-
Tax reform expense[3]	(596)	(0.02)	-	-
Other adjusted net income	$(519)	$(0.02)	$25	$-

[1] Gill Ranch non-cash impairment recognized as of Dec. 31, 2017. Tax effect of adjustment is calculated using a combined federal and state statutory rate of 26.5%.

[2] Regulatory environmental non-cash disallowance taken in the first quarter of 2016 related to the Company's compliance filing under the environmental recovery mechanism with the total pre-tax charge of $3.3 million recorded in utility other income ($2.8 million) and utility operation and maintenance expense ($0.5 million). Tax effect of adjustment is calculated using a combined federal and state statutory rate of 39.5%.

[3] Tax reform non-cash (benefit) expense recognized in income tax expense as a result of federal tax rate changing from 35% to 21% effective Dec. 22, 2017.

TAX REFORM

HISTORICAL EDIT

(Pre Jan 1, 2018)

$213 Million

Oregon Settlement

- Settled with staff and Citizen's Utility Board Sept '18, subject to OPUC review and approval
- Majority EDIT related to plant (ARAM) and returned to customers at ~$3M per year(1).
- Gas reserves ~$15M and returned over 5 years in separate tariff rider
- Other non-plant portion ~$7M applied to pension balancing account

Washington Process

- To be determined in future regulatory proceeding
- EDIT offsetting rate base

INTERIM DEFERRAL

(2018)

Oregon Settlement

- Settled with staff and Citizen's Utility Board Sept '18, subject to OPUC review and approval
- Oregon interim deferral ~$6M applied to pension balancing account

Washington Process

- To be determined in future regulatory proceeding
- Accruing interest at FERC rate 4.25%

FUTURE RATES

(Nov. 1, 18 – forward)

Oregon Settlement

- Settled with all-parties Aug. '18, subject to OPUC review and approval

Washington Process

- To be determined in future regulatory proceeding
- Will accrue interest at FERC rate 4.25%

(1) Annual credit will be reviewed and adjusted as appropriate based on remaining EDIT balances on the earlier of the next rate case or five years from the date of the rate effective date.

Generally Favorable Results From Higher Rate Base Over Time
Some Near-Term Cash Flow Impacts in 2018-19

SUPPORTIVE MECHANISMS

OREGON **Decoupling**	• Breaks link between earnings and consumption by removing incentive to increase usage • Employs use-per-customer decoupling calculation, which adjusts margin revenues to account for the difference between actual and expected customer volumes
OREGON **Weather Normalization** (WARM)	• Stabilizes collection of fixed costs for residential and commercial customers • Adjusts billings based on temperature variances compared to average weather • Applied from December through May of each heating season
OREGON • WASHINGTON **Purchased Gas Adjustment** (PGA)	• Adjusts annual rates to reflect changes in expected cost of gas commodity purchases • Includes spot purchases, contract supplies, derivatives, storage inventories, in OR gas reserves • Includes temporary rate adjustments amortizing deferred regulatory account balances
OREGON • WASHINGTON **Environmental Cost Deferral**	• Allows for deferral of environmental costs and in OR the accrual of carrying costs • Recovers environmental costs allocated to OR through a site remediation recovery mechanism (SRRM), subject to an annual prudence review and earnings test(1) • Defer costs in WA, recovery & carrying charge to be determined in future proceeding
OREGON **Pension Balancing(2)**	• Defers annual pension expenses above the amount set in rates • Expect deferral account to come to zero after nearer-term years of higher pension costs are balanced with future years of lower pension costs

(1) To the extent the utility earns more than its authorized ROE in a year, the utility is required to cover environmental expenses and interest on expenses greater than $10 million (plus interest from insurance proceeds) with those earnings that exceed its authorized ROE.

(2) Oregon general rate case settlement, if approved by OPUC, would freeze pension balancing account and provide recovery of it over 10 years. The Company would recover test year FAS 87 pension expense in base rates. FAS 87 pension expense would be reviewed and reset through future general rate cases. See also Oregon Rate Case Update.

CURRENT COMMISSIONERS

OREGON COMMISSION (OPUC)



Megan Walseth Decker, Commissioner (D)

- Appointed April 2017
- Term ends March 2021
- Appointed Chair May 23, 2018



Stephen Bloom, Commissioner (R)

- Originally appointed December 2011
- Reappointed May 2016
- Current term ends November 2019



Letha Tawney, Commissioner (D)

- Appointed May 2018
- Term ends May 2020

WASHINGTON COMMISSION (WUTC)



David Danner, Chair (D)

- Appointed chair February 2013
- Current term ends January 2019



Ann Rendahl, Commissioner (D)

- Appointed December 2014
- Current term ends November 2020



Jay Balasbas, Commissioner (R)

- Appointed May 2017
- Term ends January 2023

MIST STORAGE FACILITY

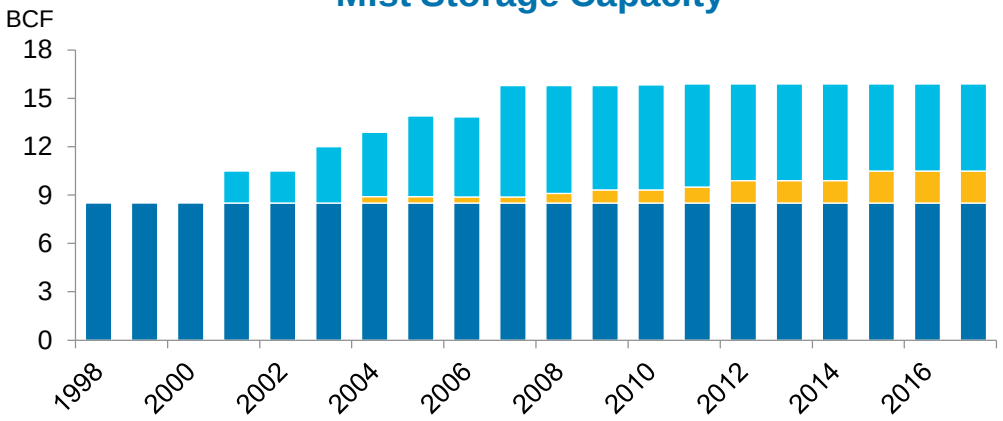
Overview

- In operation since 1989
- Storage capacity at Mist 16 Bcf
  - 11 Bcf Core Utility
  - 5 Bcf Interstate Storage Services (included in other activities beginning in Q2 2018; previously in gas storage segment)

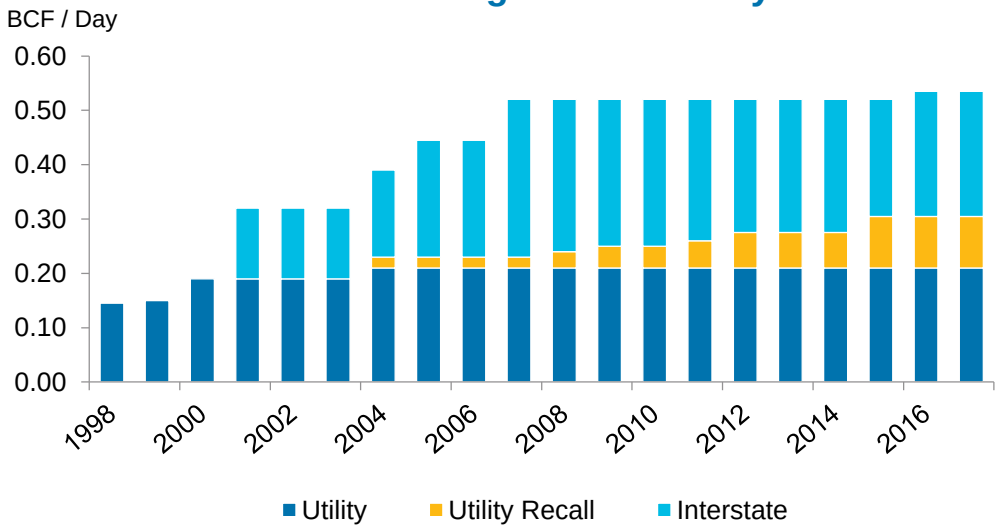
Unique, Valuable Asset

- Limited storage options in Pacific Northwest
- Part of utility's diverse, reliable gas supply strategy
- Utility can recall Interstate portion for Core Utility demand
- Optimize non-utility portion and share revenues with utility customers
- 5 Bcf under long-term high-value contracts

Mist Storage Capacity

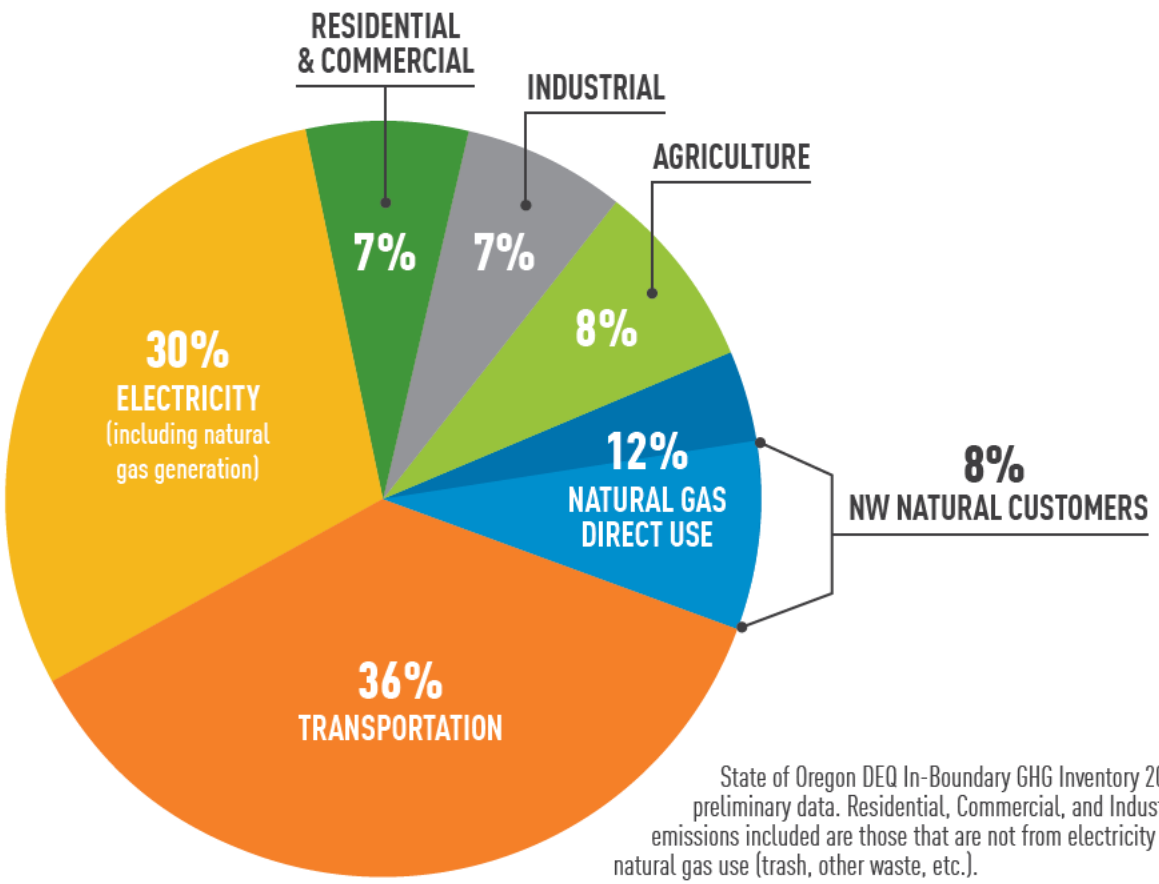


Mist Storage Deliverability



NWN SYSTEM HIGHLY EFFICIENT

Oregon's GHG Emissions



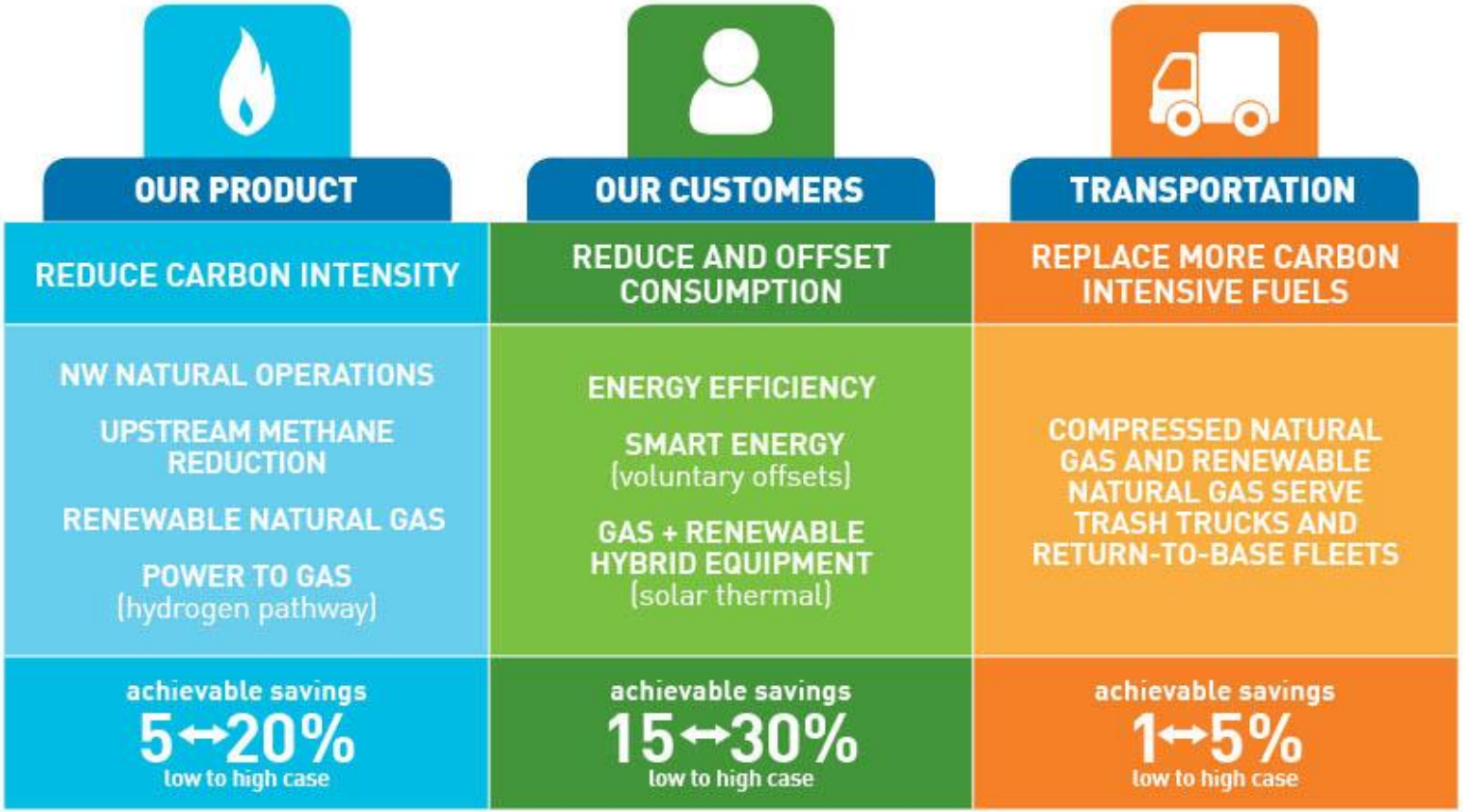
State of Oregon DEQ In-Boundary GHG Inventory 2015 preliminary data. Residential, Commercial, and Industrial emissions included are those that are not from electricity or natural gas use (trash, other waste, etc.).

NW Natural's System

- **Heats 74%** of residential square footage in the areas we serve
- **Provides 90%** of peak day energy needs for our residential space and water heat customers
- Our customers' emissions **account for just 8%** of Oregon's total carbon emissions

OUR LOW-CARBON PATHWAY

VOLUNTARY GOAL: 30% CARBON SAVINGS BY 2035

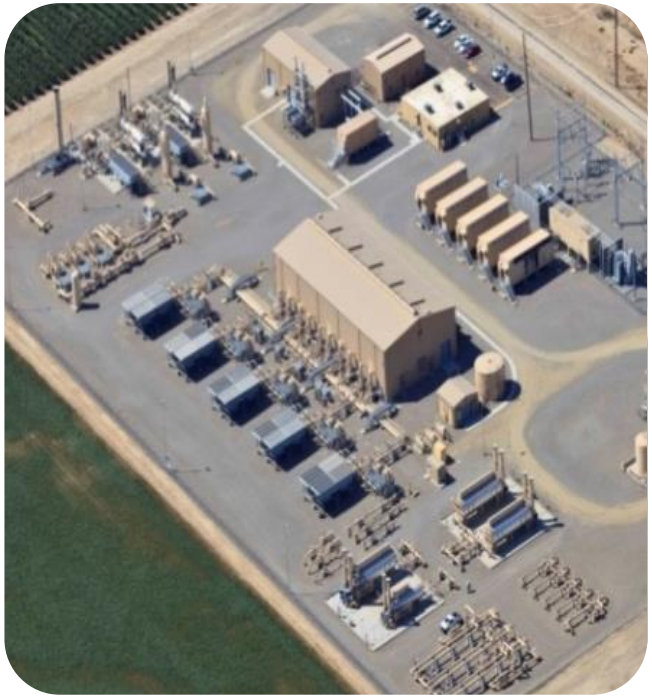


Baseline: 2015 emissions associated with customer use.

GILL RANCH STORAGE

Update

- Determined Gill Ranch is no longer central to our long-term regulated growth strategy and we will pursue all strategic options to maximize the value of the facility
- At Dec. 31, 2017 recognized non-cash impairment of $193 million pre-tax ($142 million after-tax)
- On June 20, 2018 signed a purchase and sale agreement to sell Gill Ranch
- Expect transaction to close within 12 months of signing and in 2019
- Gill Ranch presented in discontinued operations in financial statements beginning Q2 2018 and no longer have a gas storage segment

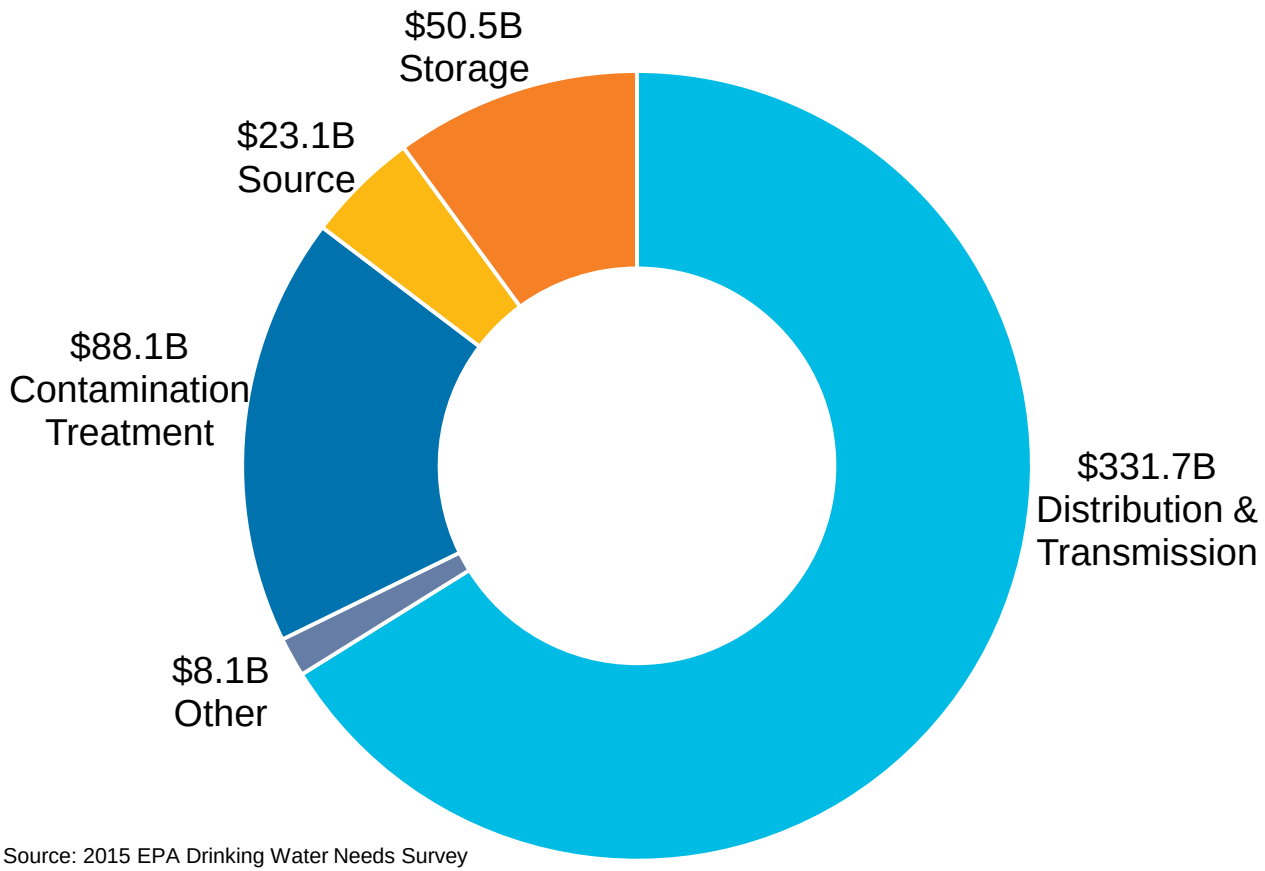


Background

- NW Natural owns 15 Bcf or 75% of the 20 Bcf Gill Ranch storage facility near Fresno, CA. PG&E owns the remaining 5 Bcf or 25% of the Gill Ranch facility
- California storage challenged by low market prices and low price volatility due to abundant supply of natural gas and storage facilities in region
- Gill Ranch remains in short-term contracts at lower prices relative to our original contracts for the facility

WATER SECTOR OPPORTUNITIES

US Water Infrastructure Needs

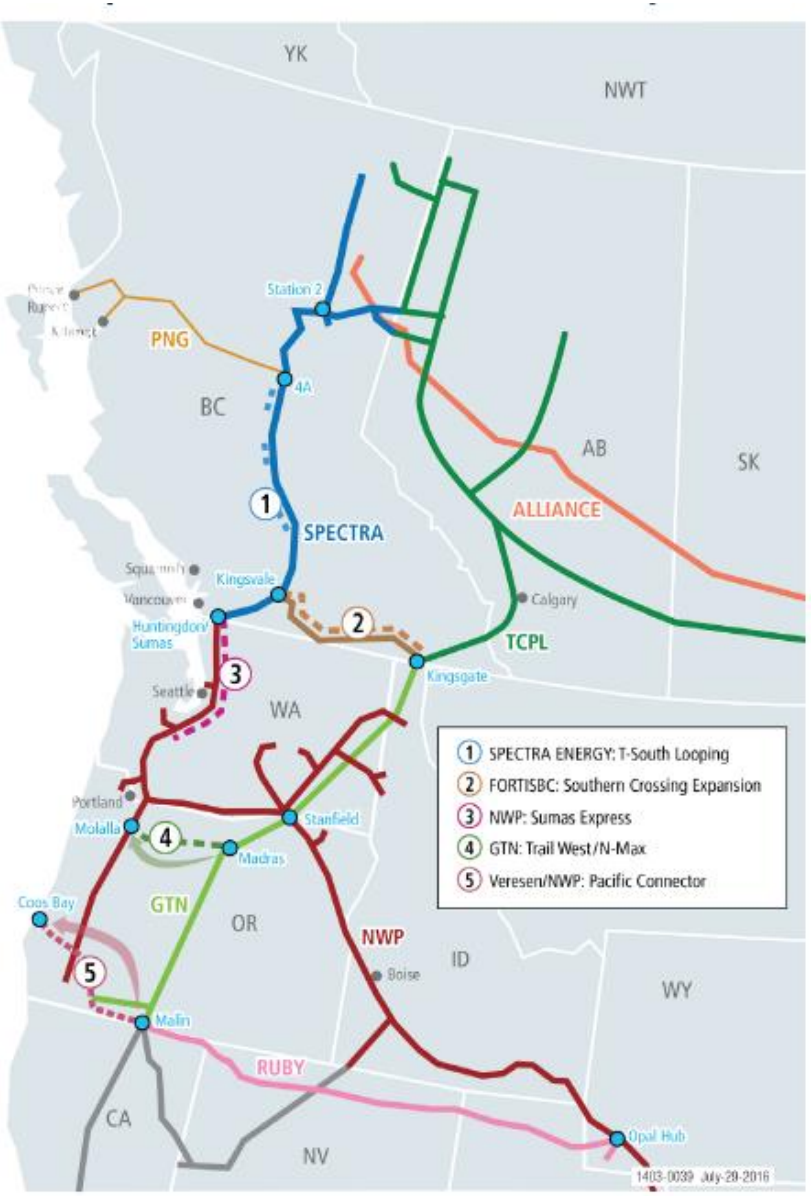


Source: 2015 EPA Drinking Water Needs Survey
Amounts in 2018 Dollars

Sector Has $500+ Billion Investment Over Next 20 Years

POTENTIAL REGIONAL PIPELINE EXPANSION

- Regional pipeline expansion opportunities
- NWN and TransCanada each own 50% of Trail West Holdings (TWH)
- TWH continues to evaluate the need for Trail West pipeline
- NWN's investment in TWH was $13.4 million at June 30, 2018



GROWTH
SUSTAINABILITY
INNOVATION

NW Natural®