NW Natural®

*We grew up here.*



# Investor Presentation
# Brean Murray, Carret & Co.

## September 2010

NW Natural

# Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company's future operating results will be affected by various uncertainties and risk factors, many of which are beyond the Company's control, including governmental policy and regulatory action, the competitive environment and economic factors, as well as weather conditions. The company's expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis. Any forward-looking statement speaks only as of the date on which our statement is made, and the company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. For a more complete description of these uncertainties and risk factors, see the Company's most recent reports with the Securities and Exchange Commission on Forms 10-K, 10-Q and 8K, that could cause the actual results of the company to differ materially from those projected.

# NW Natural at a Glance

- Approximately 669,000 customers in OR & WA
  - 90% Oregon, 10% Washington
- A distribution and transmission system totaling 13,800 miles
- 16 billion cubic feet gas storage capacity in NW Oregon with growth potential (Mist)
- Constructive regulatory environment
- Strong balance sheet & financial condition
- Record earnings of $2.83 per share in 2009
- Q2 results of 26 cents per share on net income of $6.9 million vs. 12 cents per share on $3.1 million last year
- YTD results on par with last year at $1.90 per share on ~$50.5m of net income both years
- Financial & operational discipline to control costs
  - Reduced FTEs by 20% since 2005
- JD Power Customer Satisfaction – consistently top 3-rating in U.S.
- Non-utility growth projects – Gill Ranch Gas Storage (CA) & Palomar Pipeline (OR)
- Indicative dividend rate of $1.66 per share annually
  - Among top dividend records in nation for increasing dividends paid (54 consecutive years)



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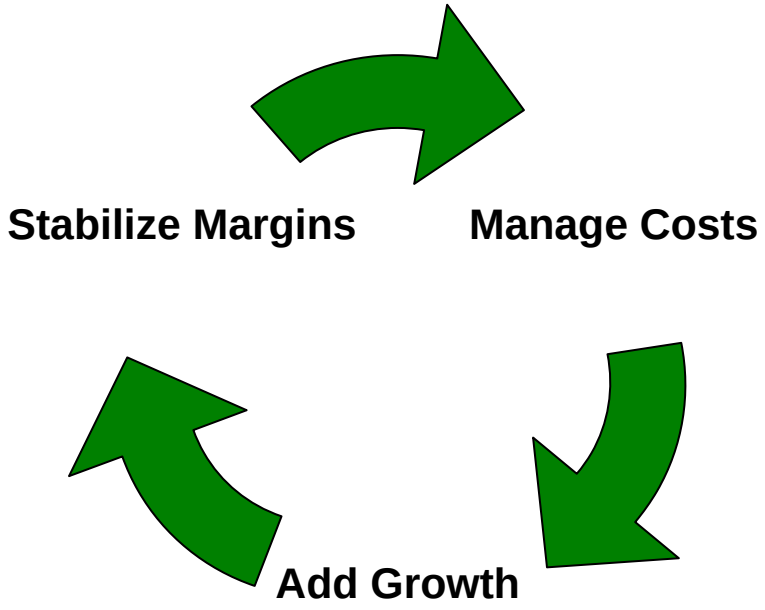
# Q2 & YTD Highlights

- Q2 2010 results were 26 cents per share on net income of $6.9 million vs. 12 cents per share on net income of $3.1 million in Q2 09
- YTD financial results essentially the same in the 2010 and 2009 periods at $1.90 per share and net income of approximately $50.5 million
- Company selects 90%-10% Purchased Gas Adjustment incentive sharing component for Oregon customers for current year's heating season that runs from Nov. 1 to Oct. 31
- Focused on managing costs & long-term growth projects
  - Made changes four years ago to operations and implemented further process improvements to reduce operating and capital costs to align with growth levels
  - O&M costs decreased 6% in Q2 and 8% YTD
- Gill Ranch Storage on target for October 2010 in-service date
- Bad debt expense kept to 0.16% of revenues at June 30, 2010 – among the lowest in the country – and continuing to watch it carefully
- Outlook for 2010 EPS guidance of $2.60 to $2.75 per share reaffirmed on 8/4/10 at Q2
- 54 consecutive years of increasing dividends paid and continue to target a dividend payout ratio of 60 to 70 percent of earnings
- Have an indicated annual dividend rate of $1.66 per share

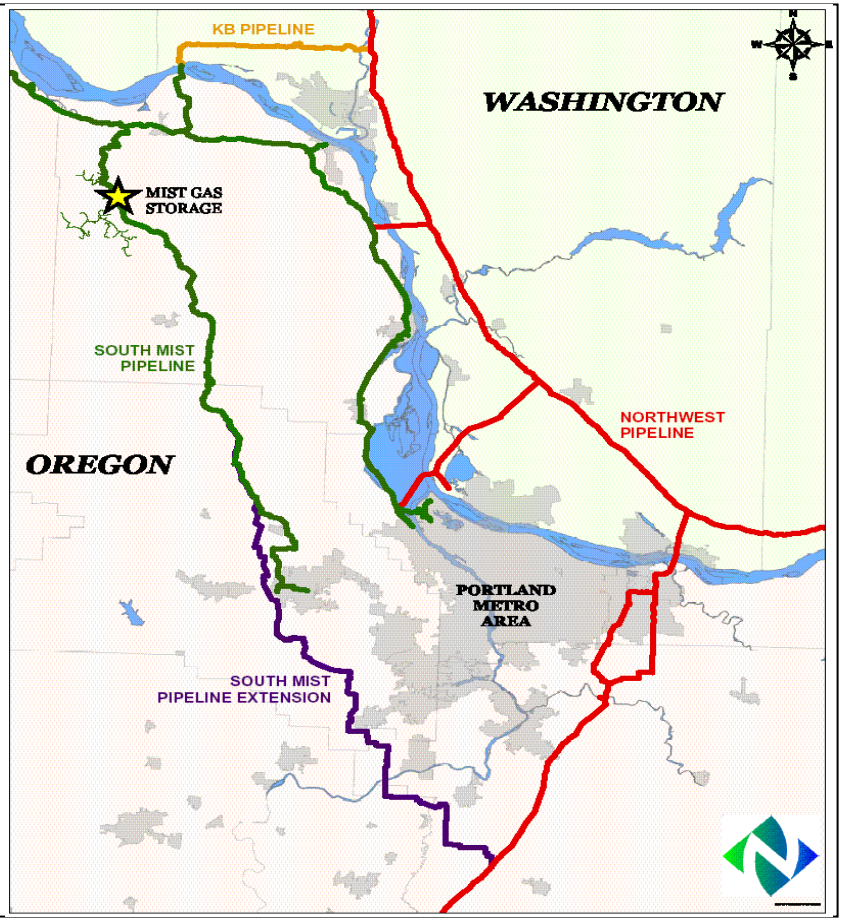
# NWN Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
- Managing cost structure
  - Continuing to make improvements
  - Increased use of technology to improve reliability & safety, etc.
  - Five-year union agreement reached in 2009 and 20% workforce reduction achieved over past several years
- Adding longer-term infrastructure growth opportunities that fit NWN's "DNA" of what we do best
  - Gill Ranch, Palomar pipeline and Mist storage expansion



# Natural Gas Storage

- Key utility resource at Mist (OR) – 16 Bcf
  - Least-cost seasonal peaking supply
  - Low incremental development costs
  - Investment rolled into rates as needed for core customers
- Separate business segment – Interstate storage services
- Additional storage capacity in advance of core customer needs can be developed for the interstate market
- Non-utility opportunities for interstate storage and optimization services
- Favorable optimization sharing mechanisms
  - Third party management of optimization
- High deliverability, multi-turn capability – several turns per year capability
- Gill Ranch gas storage project nearing completion in central California, near Fresno, with PG&E – similar to Mist formation



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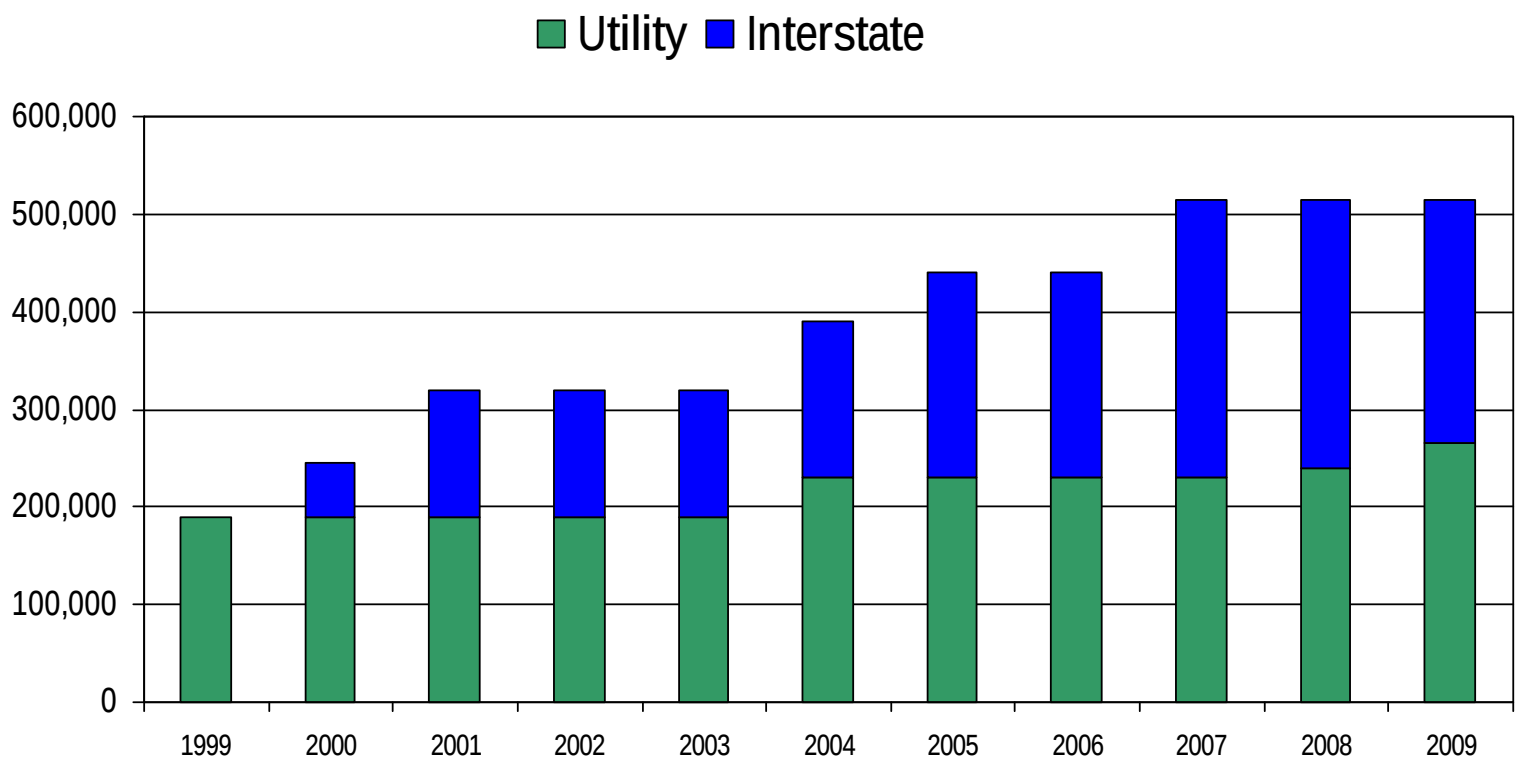
# Historic Mist Integrated Development

(Deliverability/Dtherms)



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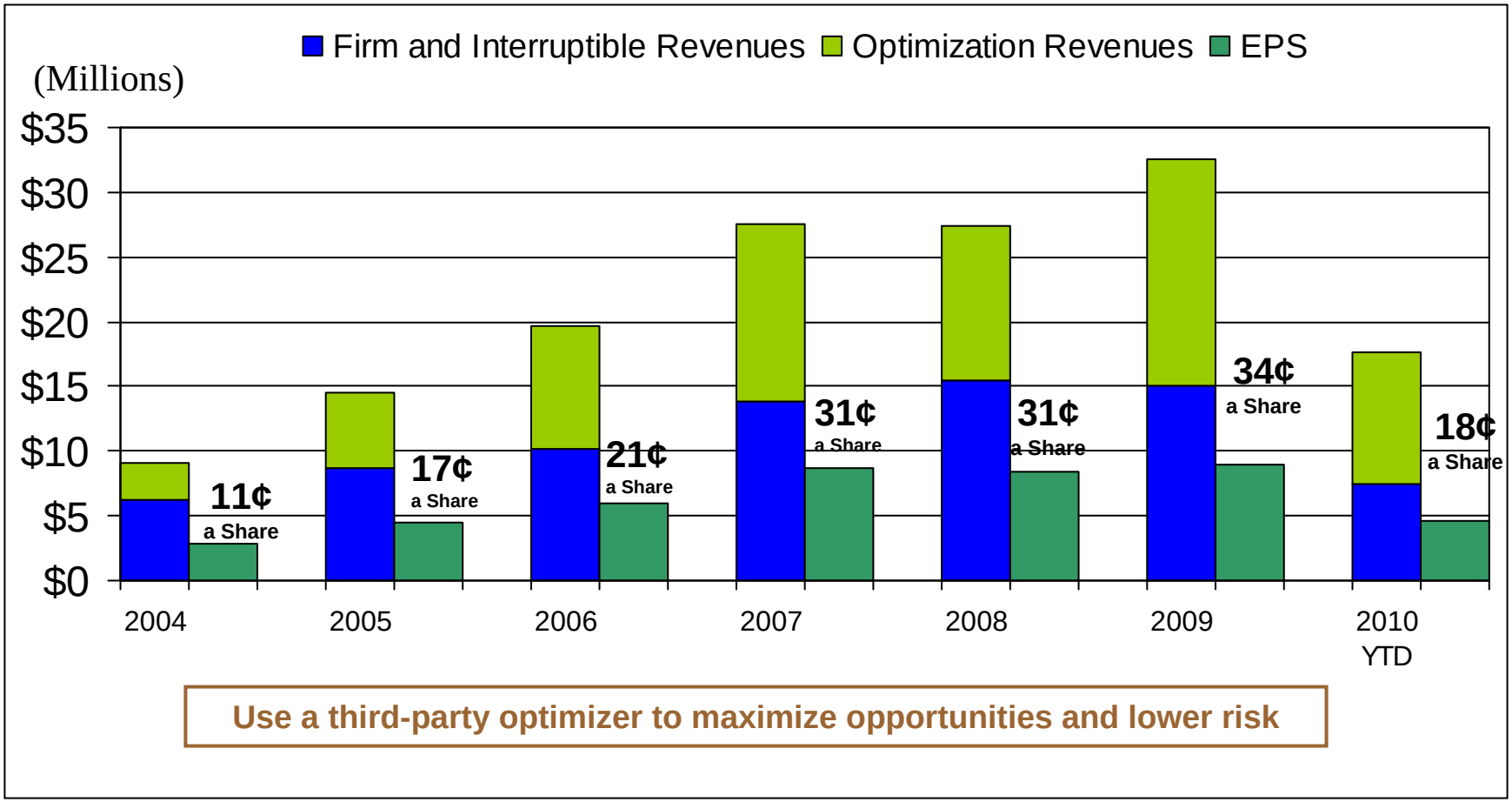
# Gas Storage Revenues & EPS

(through June 30, 2010)




**Use a third-party optimizer to maximize opportunities and lower risk**

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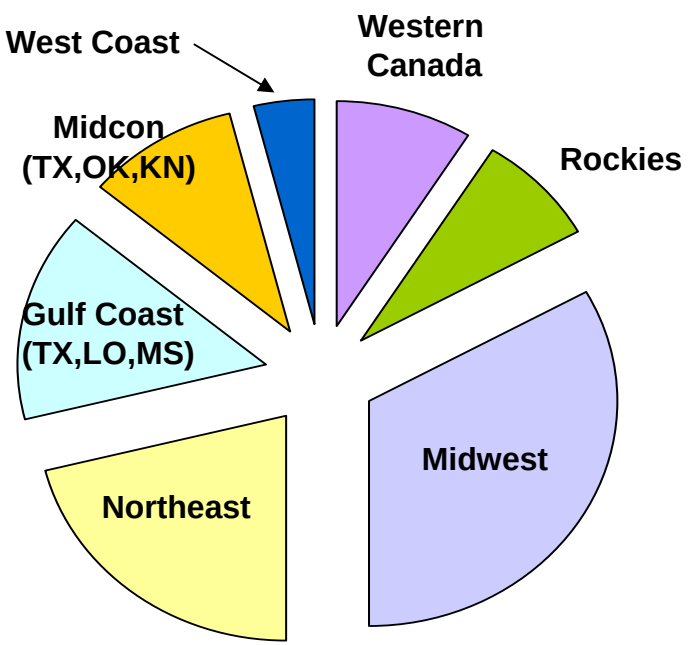
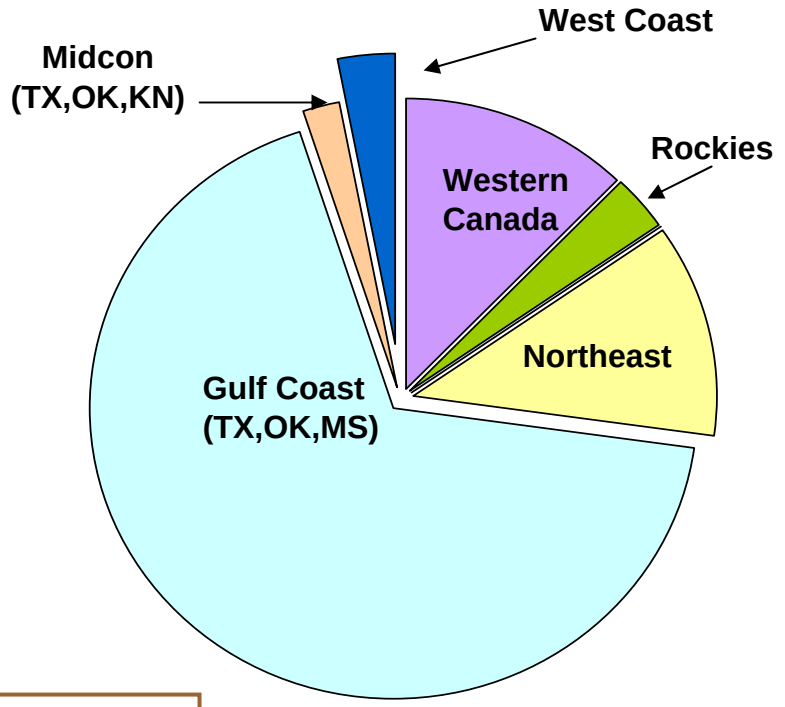
# Need for Additional Storage in West

**Existing Storage (4,395 Bcf)**




**Proposed Storage (403 Bcf)**




**Lack of storage in the West**

Source: EIA

# Gill Ranch Project Overview

- Market area storage at prime location on PG&E system
- Under CPUC jurisdiction
  - CPCN permit approved & construction underway
- Depleted gas reservoirs
- Phased development
  - 20 Bcf to start
- Planned 2010 in-service date
- Successful “open season” results – now actively marketing
- 75/25 venture with PG&E
- ~$185m-205m development costs (NWN portion)




**Strategic location for customers…**

# Gill Ranch Storage Nearing Completion

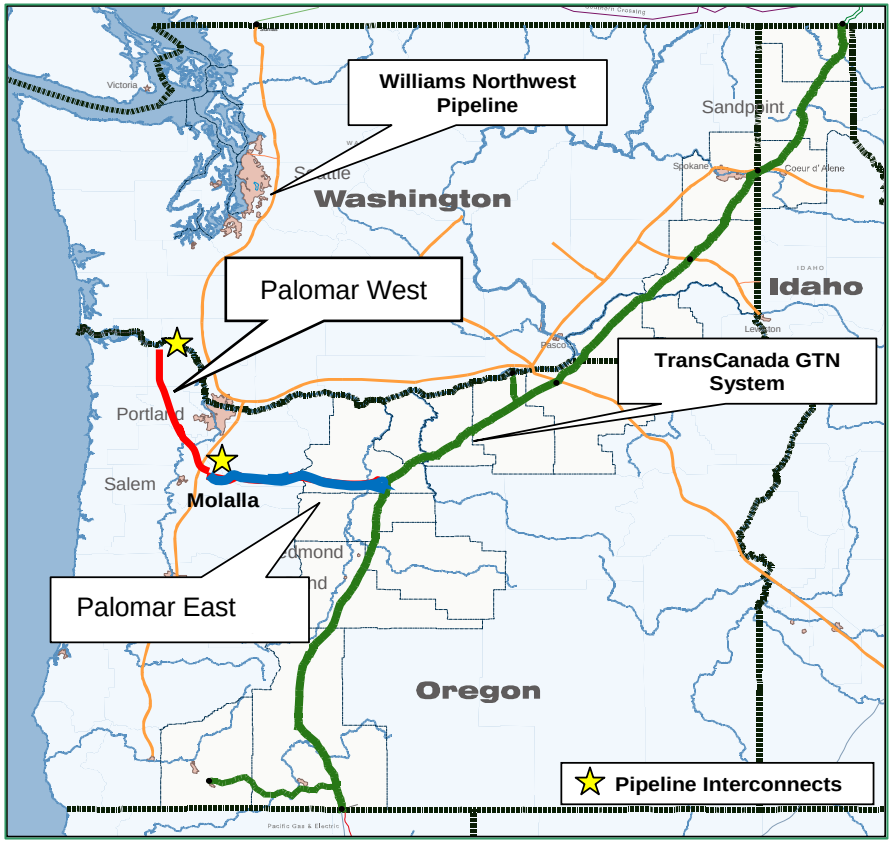
GILL RANCH STORAGE®





- 20 Bcf facility to start – expandable as market warrants
- 27 miles of gas transmission line
- Targeted to be in-service by the end of Q3 2010

# Palomar E&W Pipeline Project Overview




Project Purposes

- Palomar East
  - – Access domestic supplies for regional growth
  - – Provide a second pipeline delivery path to NW Natural for reliability
- Palomar West
  - – Primary shipper halts LNG project
  - – Adds greater strategic reasons for Palomar East

Project Review

- 50/50 JV with TransCanada
- 36” pipe; 220 miles
- Up to 1.3 Bcf/d of capacity
- $750-800 million total project cost
- FERC filing made in December 2008
- Draft EIS expected in 2010

**Two projects: East & West Zones**

# Conclusion

- Earnings of $50.5 million and EPS of $1.90 for first six months of 2010, vs. similar results of $1.90 per share on net income of $50.4 million in same period of 2009
- Reaffirmed 2010 EPS guidance of $2.60 to $2.75 with second quarter announcement on 8/4/10
- Dividends currently at 41.5 cents per common share quarterly, with an indicative annual rate of $1.66 per year
- Sound regulatory relationships continuing – extension of margin stabilization mechanisms in Oregon through late 2012, Washington IRP approved, AMR deferral request approved
- Purchased Gas Adjustment (PGA) mechanism set in OR with 90%-10% sharing with customers and shareholders for 2010-11 season (Nov. 1 to Oct. 31)
- Pipeline system integrity program (SIP) agreement in place with OPUC to recover a net $9 million per year
- Company operating with approximately 1,000 employees vs. 1,300 in 2005
- Non-utility opportunities from Gill Ranch Storage facility in CA & Palomar pipeline project in OR
- Mist underground gas storage being evaluated for expansion potential
- Strong credit ratings and low refinancing risk –
  - Secured LT Debt: S&P (AA-) and Moody's (A1)
  - Commercial paper: S&P (A-1) and Moody's (P1)
- 54-year history of increasing dividends paid to shareholders

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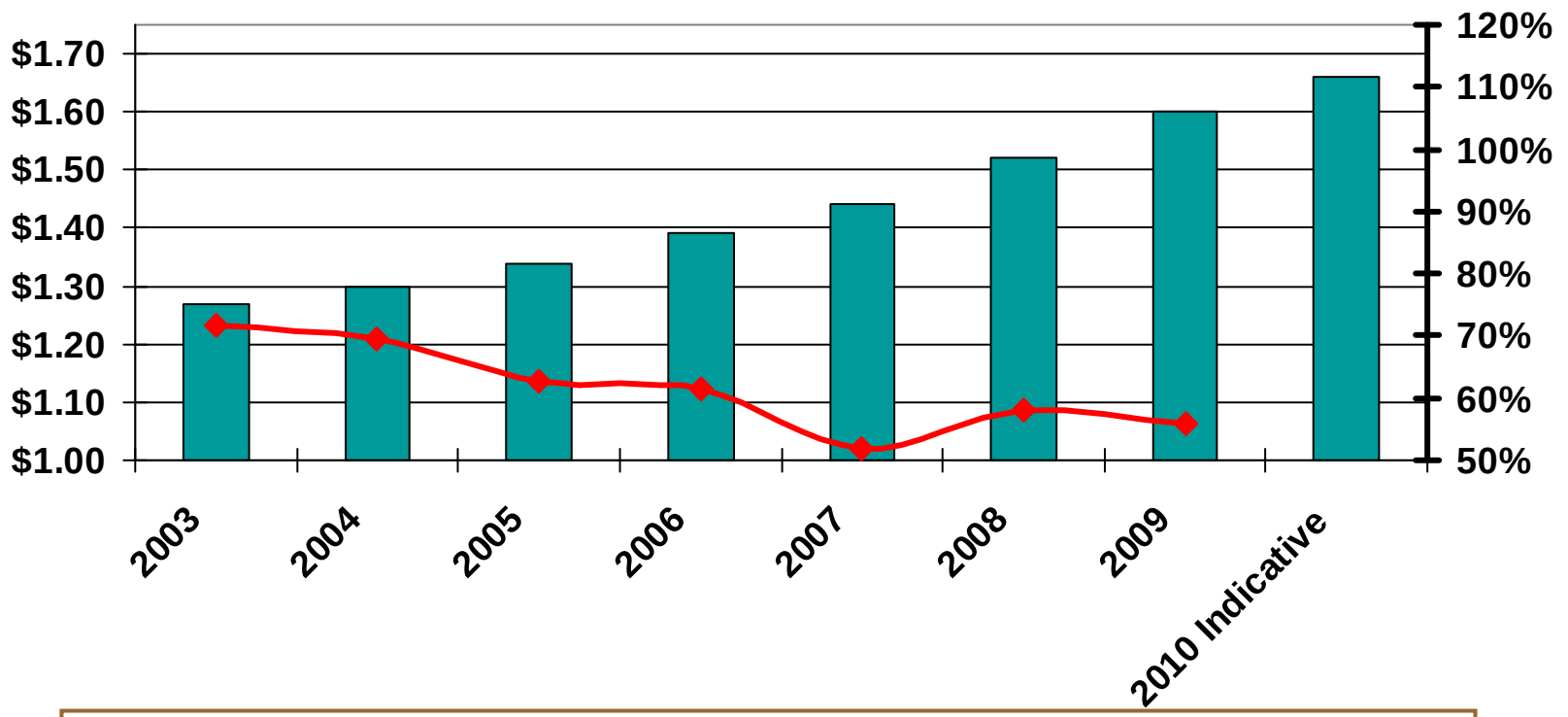
# Dividend Payout History

(54-year history of increasing dividends paid)




**Dividend raised 5% on Oct. 1, 2009 to $1.66 per share annually on an indicative basis**

# Addendum



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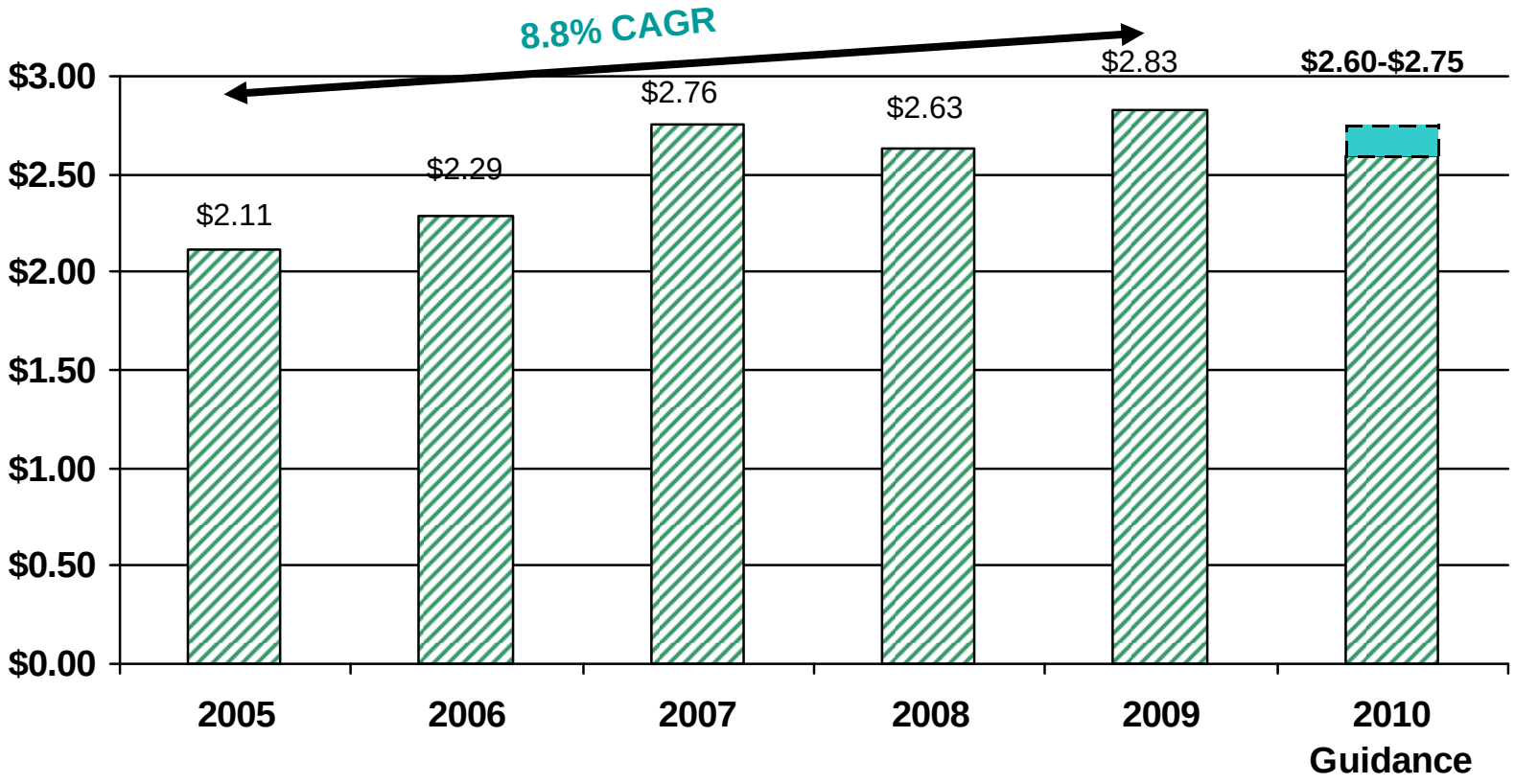
# Earnings Per Share Growth



# Constructive Regulation

- Purchased Gas Adjustment (PGA) mechanism
  - Continues ongoing risk-reward balance with customers – “skin in the game”
  - 90-10 customer-shareholder sharing mechanism elected for 2010-11 heating season
  - Rates expected to be flat or slightly lower for customers for 2010-11; updated in October with final filing with commissions
- Oregon Conservation Tariff
  - A decoupling mechanism, breaking the link between profitability and customer consumption
    - Price elasticity and conservation adjustments
    - Renewed through 10/31/12
- Weather normalization (WARM) in Oregon renewed through 10/31/12
- No rate case in Oregon before September 2011, with exclusions for capital investments such as AMR Phase II, pipeline integrity management and extraordinary events
- Smart Energy program approved in Oregon – first for an LDC
- System Integrity Program in Oregon approved – consolidated into one program
- Received CPCN for Gill Ranch from CPUC and construction nearly completed
- Continuing to work on permitting and regulatory activities related to Palomar Pipeline in 2010

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# Conversion Opportunities

| Estimated Market Potential | Single-Family | Multi-Family | Non-Residential | Total |
|---|---|---|---|---|
| **On-main and Near-main prospects (0–150ft from main)** | 169,841 | 8,060 | 16,087 | **193,988** |
| **Near-main prospects (150-600ft from main)** | 112,290 | 25,945 | 19,166 | **157,401** |
| **Off-main prospects (>600ft from main)** | 109,385 | 8,770 | 22,124 | **140,279** |
| **TOTAL** | **391,516** | **42,775** | **57,377** | **491,668** |

Updated: March 1, 2010 - Source: Tax Assessor database (Sites) June 2009

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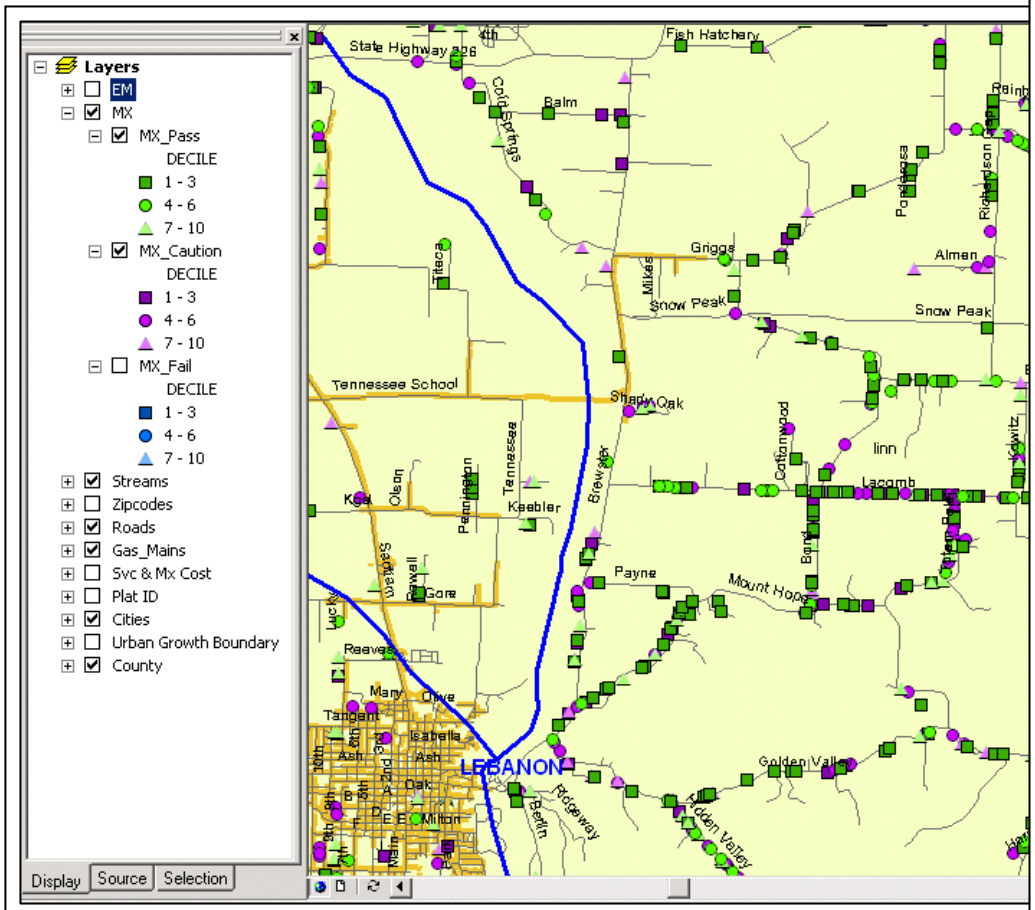
# AROE – Main Mapping




- Using mix of technology, targeting and segmentation to help determine profitability and propensity to convert
- Implement targeted marketing and advertising, and manage sales channels with partners
- Use financial analysis tools to support investments
- Coordinate marketing with construction planning

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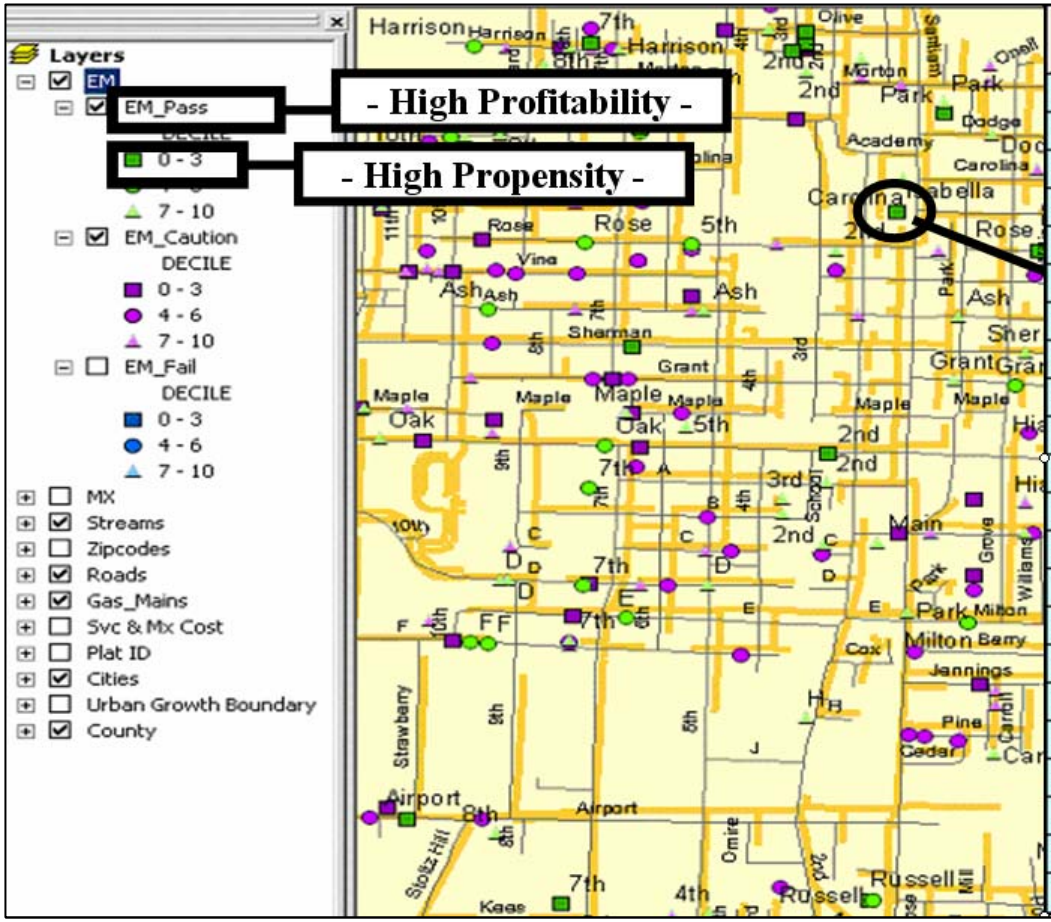
# Example of a “Pass” Conversion




| Field | Value |
|---|---|
| NWN Customer: | NO |
| Address: | 101 Isabella Ct |
| City: | Lebanon, OR |
| Segment: | Residential |
| EM (Existing Main): | YES |
| Decile: | 3 |
| **Propensity to Convert:** | **HIGH** |
| Year Built: | 1958 |
| Bedrooms: | 4 |
| Footage (Sq. Ft): | 2,396 |
| Fireplace: | YES |
| Swimming Pool: | NO |
| Heating Fuel Source: | OIL |
| Ducted Home: | YES |
| Good Neighbor Opportunity: | YES |
| **Estimated Usage (therms):** | **888** |
| **Estimated Construction Cost:** | **$ 1,419** |
| **STATUS:** | **PASS** |
| **ROE (3 years):** | **14%** |
| IRR: | 22% |
| NPV: | $ 802 |
| Customer Contribution Required: | $ 0 |

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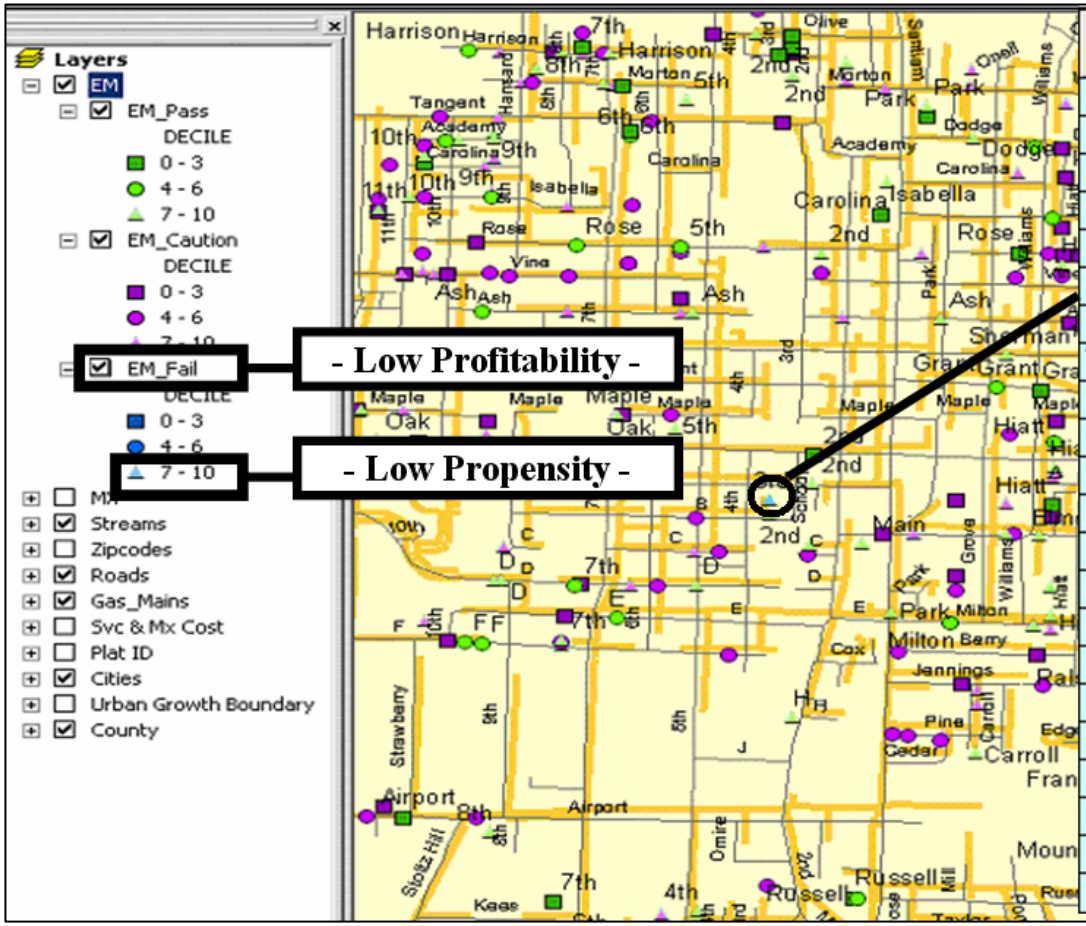
# Example of a “Fail” Conversion




| Field | Value |
|---|---|
| NWN Customer: | NO |
| Address: | 256 3rd St |
| City: | Lebanon, OR |
| Segment: | Residential |
| EM (Existing Main): | YES |
| Decile: | 9 |
| **Propensity to Convert:** | **LOW** |
| Year Built: | 1986 |
| Bedrooms: | 2 |
| Footage (Sq. Ft): | 1,310 |
| Fireplace: | YES |
| Swimming Pool: | NO |
| Heating Fuel Source: | Electric |
| Ducted Home: | NO |
| Good Neighbor Opportunity: | NO |
| **Estimated Usage (therms):** | **387** |
| **Estimated Construction Cost:** | **$ 1,419** |
| **STATUS:** | **FAIL** |
| **ROE (3 years):** | **3%** |
| IRR: | 10% |
| NPV: | $ (20) |
| Customer Contribution Required: | $ 110 |

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# NW Natural

NW Natural (NYSE: NWN) is a 151-year-old natural gas local distribution and storage company headquartered in Portland, Oregon, with a customer growth rate consistently above the national average. NW Natural serves customers in Oregon and Southwest Washington. In keeping with its steady growth, the company has increased dividends paid to shareholders for 54 consecutive years, a feat matched by few publicly traded companies. NW Natural operates gas storage facilities in its service territory and provides gas storage services to other energy companies in the Northwest. NW Natural is developing a new gas storage facility at Gill Ranch near Fresno, California, is looking to expand the Mist storage facility, and plans to develop a new gas transmission pipeline called Palomar in Oregon to provide enhanced gas deliverability and reliability for the region.

| KEY INDICATORS: | JUNE 2010 YTD | 2009 Y/E |
|---|---|---|
| Total customers | 669,405 | 667,794 |
| Total common equity | $690,795 | $660,105 |
| Avg. diluted common shares outstanding (000) | 26,569 | 26,553 |
| Number of registered common shareholders | 7,202 | 7,418 |
| Institutional ownership | 59% | 58% |
| Annual Dividends (ttm) | $1.64 | $1.60 |
| Diluted earnings per share | $1.90 | $2.83 |
| Book value per share | $25.99 | $24.88 |

| COMPOSITION OF UTILITY REVENUE: | | |
|---|---|---|
| Residential | 58% | 56% |
| Commercial | 28 | 30 |
| Industrial & Transportation | 9 | 11 |
| Other | 5 | 3 |

| CURRENT BOND RATINGS: | MOODY'S | S&P |
|---|---|---|
| Secured long-term debt | A1 | AA- |
| Commercial paper | P-1 | A-1 |
| Outlook | Stable | Stable |

For more information on NW Natural, contact:
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