NW Natural®

*We grew up here.*



# American Gas Association
# Investor Presentation
# May 2009

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 665,000 customers in OR & WA
  - 90% Oregon, 10% Washington
- A distribution and transmission system totaling 13,474 miles
- Customer growth above the national average
- 16 billion cubic feet gas storage capacity in NW Oregon with growth potential
- Constructive regulatory environment
  - Washington general rate case settlement delivers $2.7 revenue requirement increase
  - Filing made for gas storage project in California on accelerated schedule
- Strong balance financial condition
- Financial & operational discipline to control costs
- Experienced management team
- JD Power Customer Satisfaction – #1 in U.S.
- Non-utility growth projects underway – Gill Ranch Gas Storage & Palomar Pipeline



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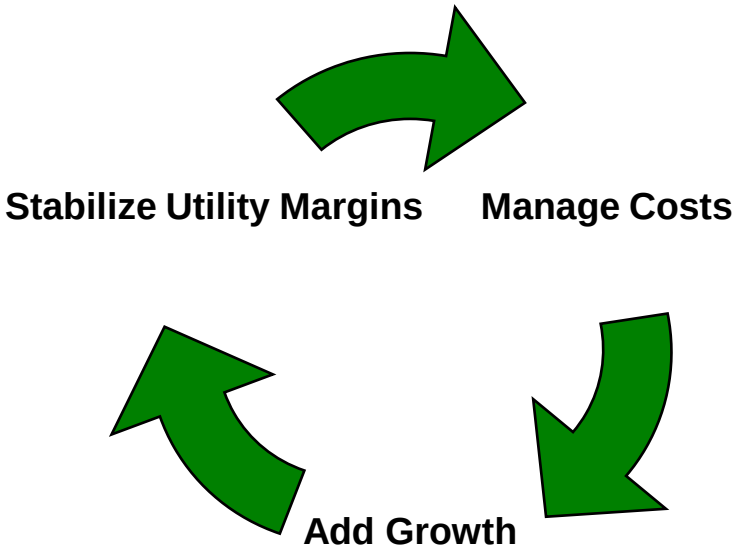
# 2009 Q1 Highlights

- Earned $1.78 per share on earnings of $47.4 million in 2009 Q1, up from $1.63 per share on earnings of $43.2 million in '08, due primarily to strong commodity cost benefit in the 2009 quarter
  - 10 percent increase in net income over 2008 Q1
  - 9 percent increase in EPS over 2008 Q1
- Raised 2009 guidance by 15 cents to $2.70-2.85 per share from $2.55-2.70 per share
- Filed a request with the Public Utility Commission of Oregon (OPUC) to provide a ~$32 million credit to Oregon customers in June
- Approval was granted in Oregon for a pipeline Safety Integrity Program (SIP) that consolidates older programs into one coordinated program
- Focus on managing costs & long-term growth projects
- Bad debt expense kept to 0.36% of revenues – among the lowest in the country – but watching it carefully
- Achieved 150 years as a company in January 2009

# NWN Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
  - WA rate case resolved
- Managing cost structure
  - Continuing to make improvements to keep costs under control
  - Technology to improve reliability & safety, etc.
- Adding longer-term growth opportunities that fit NWN's "DNA" of what we do best
  - Gill Ranch Gas Storage Project in California
  - Palomar Pipeline Project in Oregon



# 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 proposed in central California, near Fresno, with PG&E
- Well positioned for potential LNG terminal on Columbia River



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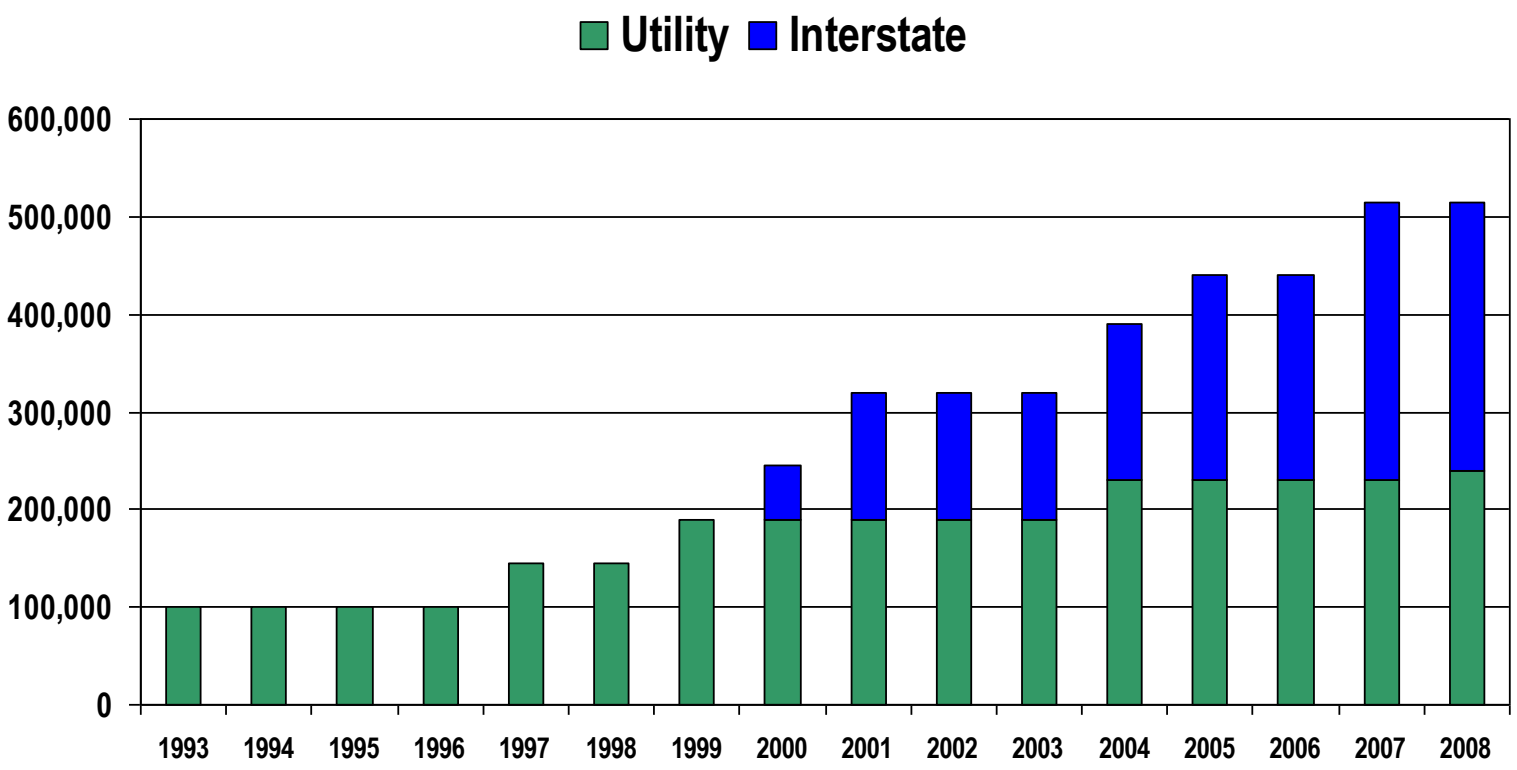
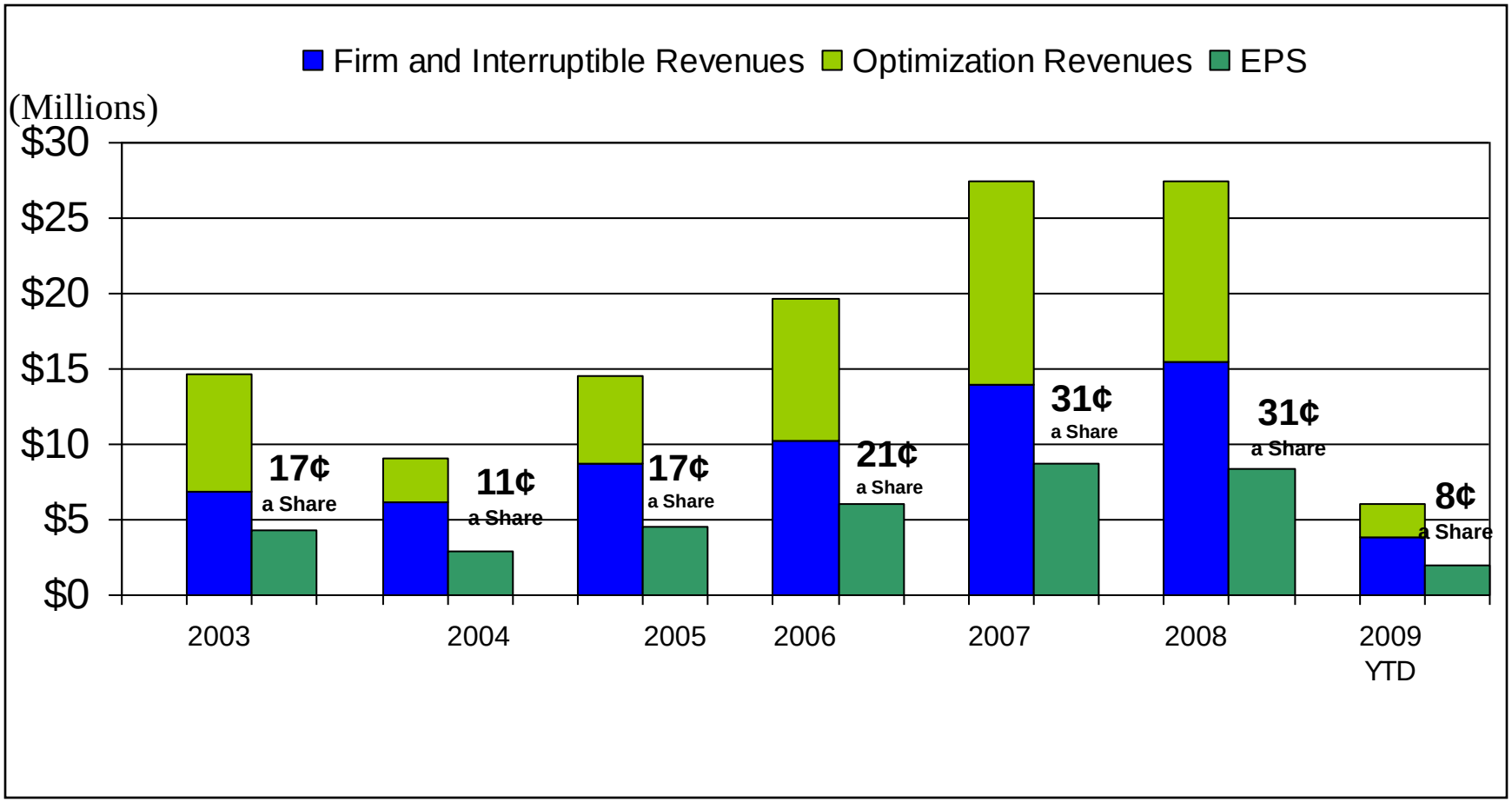
# Historic Mist Integrated Development

(Deliverability/Dtherms)



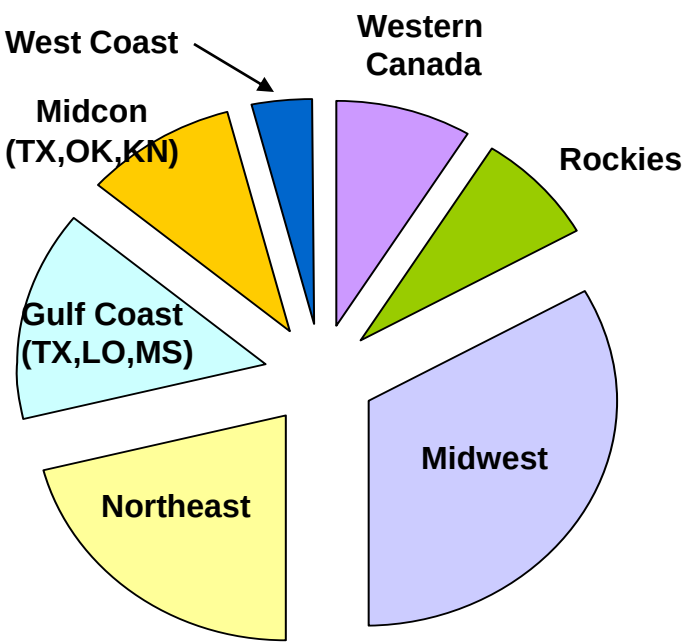
# Gas Storage Revenues & EPS

(through March 31, 2009)

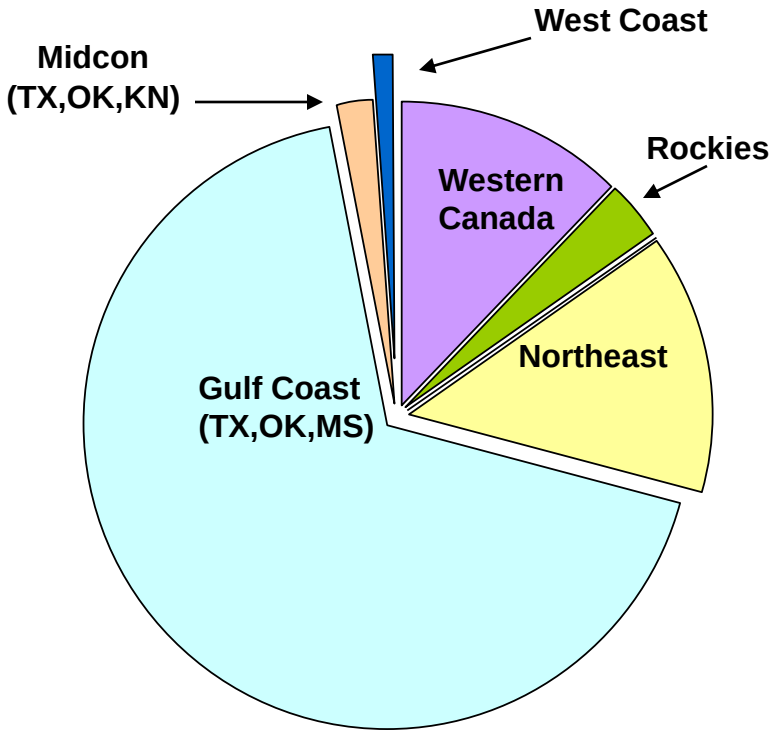


# Need for Additional Storage in West

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




**Proposed Storage (403 Bcf)**




Source: EIA

# Gill Ranch Project Overview

- Market area storage at prime location on PG&E system
- Under CPUC jurisdiction
  - Filed permit requests in July
- Depleted gas reservoirs
- Phased development
  - 20 Bcf to start
- Planned 2010 in-service
- Successful “open season” results – now actively marketing
- 75/25 venture with PG&E
- ~$160-180m development costs (NWN portion)



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# Palomar Pipeline Project Overview




## Project Review

- 50/50 JV with TransCanada
- Planned 2011 in-service date
- December 2008 FERC application filing made on schedule
- 36” pipe; 220 miles
- Up to 1.3 Bcf/d of capacity
- $700-800 million project cost
- East/West Zones

## Project Purpose

- To provide a second pipeline delivery option for NW Natural
- To provide a second pipeline take-away option for prospective Columbia River LNG

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# Conclusion

- Strong First Quarter 2009 results & above expectations – earnings of $47.4 million (+ 10%) and earnings per share of $1.76 (+9%) over 2008
- Guidance raised 15 cents to $2.70-2.85 per share, driven by higher gas commodity cost sharing due to lower prices since rates were set in November 2008
- Sound regulatory relationships continuing – extension of margin stabilization mechanisms in Oregon through late 2012
- Purchased Gas Adjustment (PGA) mechanism revised in OR with more appropriate risk-reward balance – 80-20% selected for '09
- Washington rate case resolved in December – 10% of customer base – and generated $2.7 million of revenue requirement annually
- Pipeline system integrity program (SIP) agreement approved with OPUC in Feb. '09
- Filed tariff request in Oregon to provide $32 million credit to customers earlier than scheduled in June, if approved by OPUC
- Non-utility opportunities from Gill Ranch underground gas storage & Palomar pipeline
- Strong credit ratings and low refinancing risk –
  - LT Debt: S&P (AA-) and Moody's (A2)
  - Commercial paper: S&P (A-1+) and Moody's (P1)
- 53-year history of increasing dividends paid to shareholders

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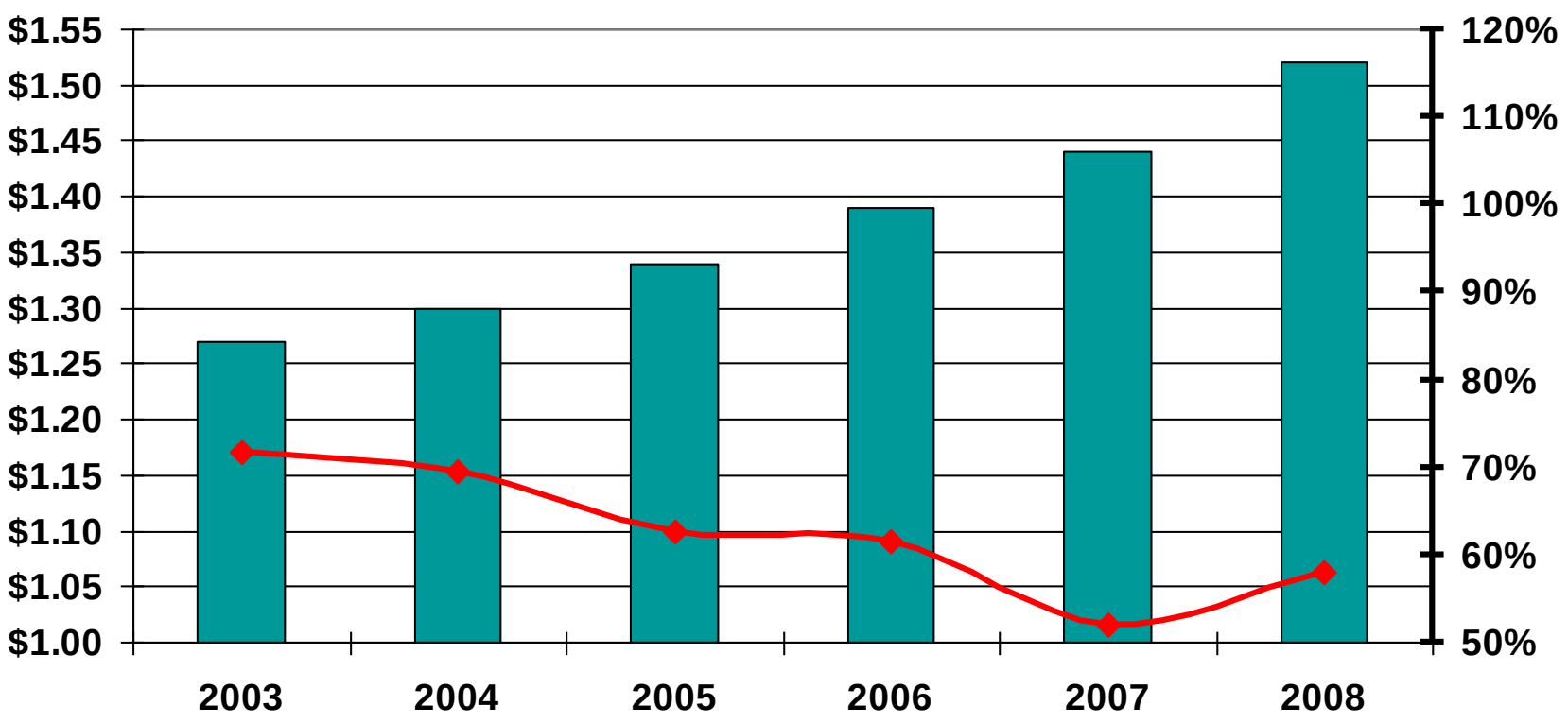
# Dividend History



# Addendum

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We grew up here.

150 YEARS
1859-2009

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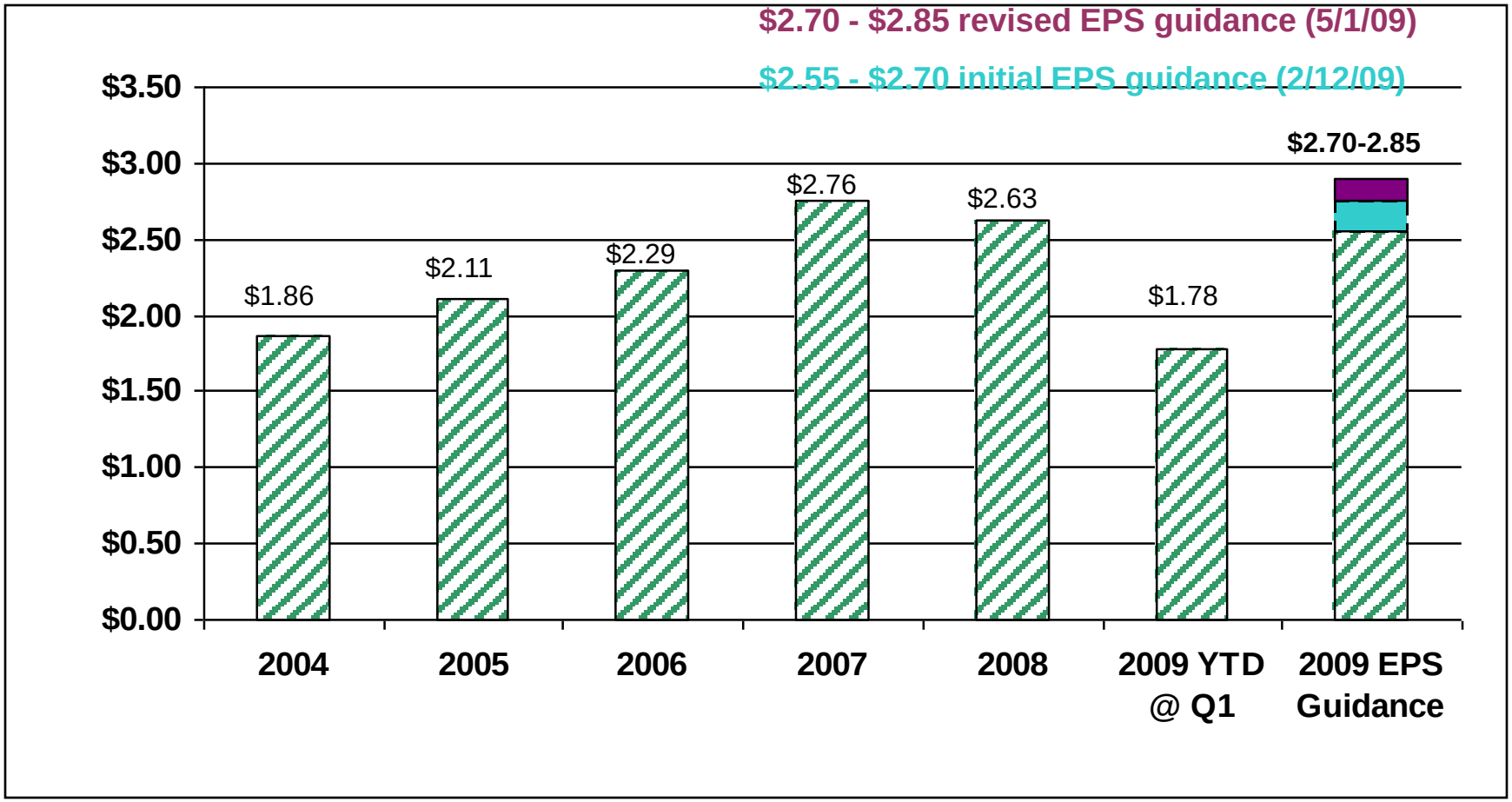
# Earnings Per Share Growth



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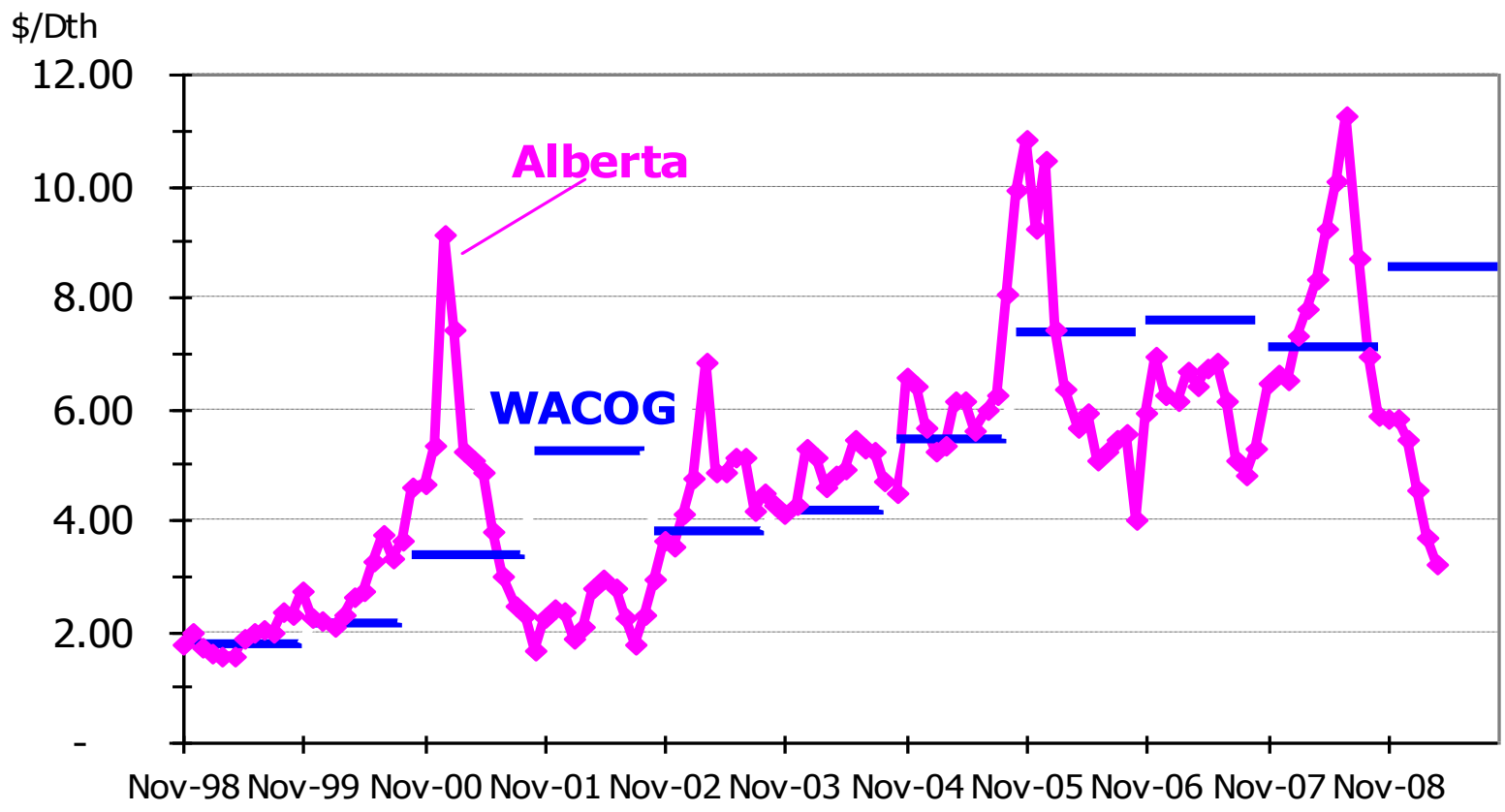
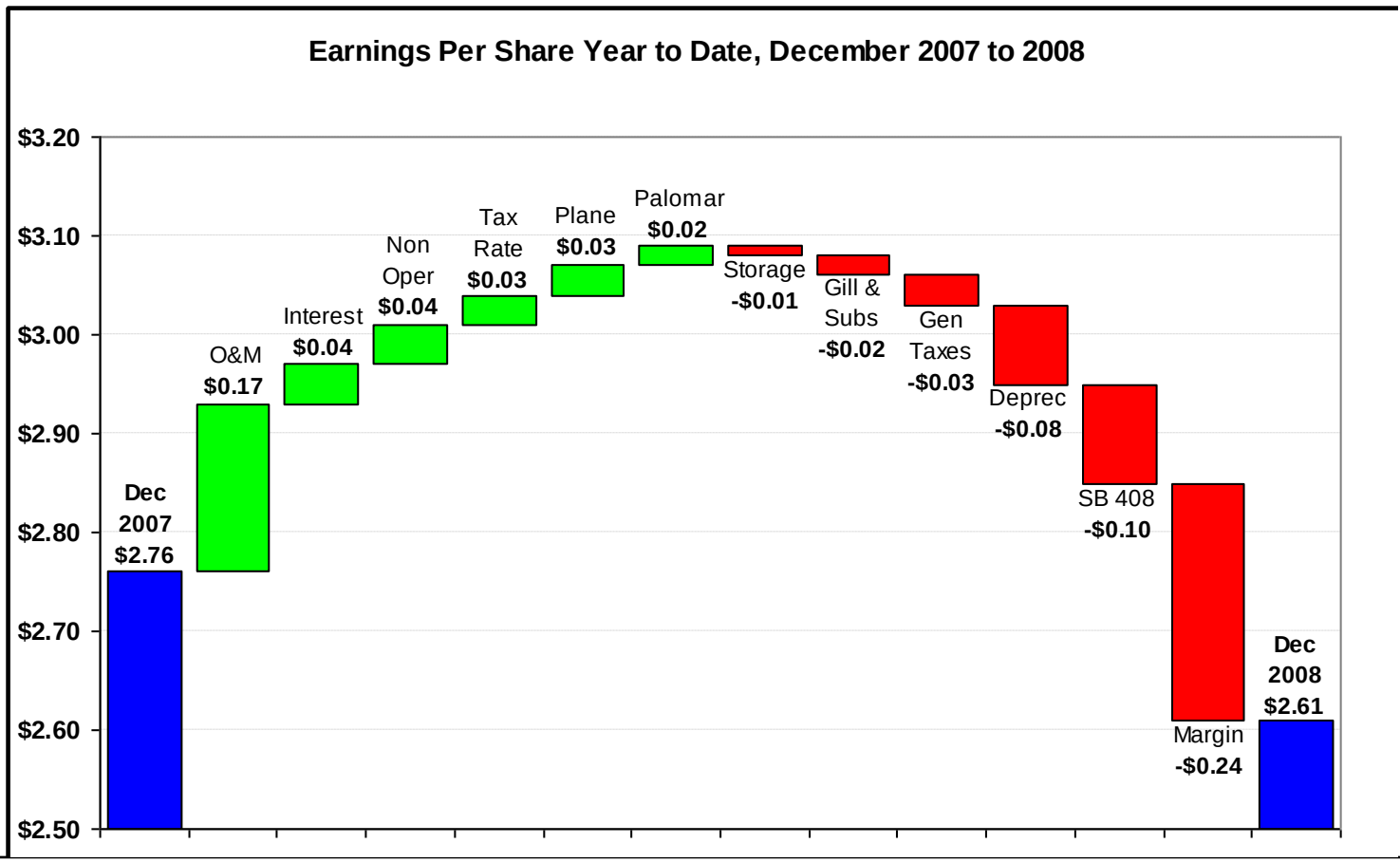
# Monthly Index Prices vs. WACOG




AECO/NIT Monthly Index from *Canadian Gas Price Reporter;* WACOG prices from NWN Annual PGA filings

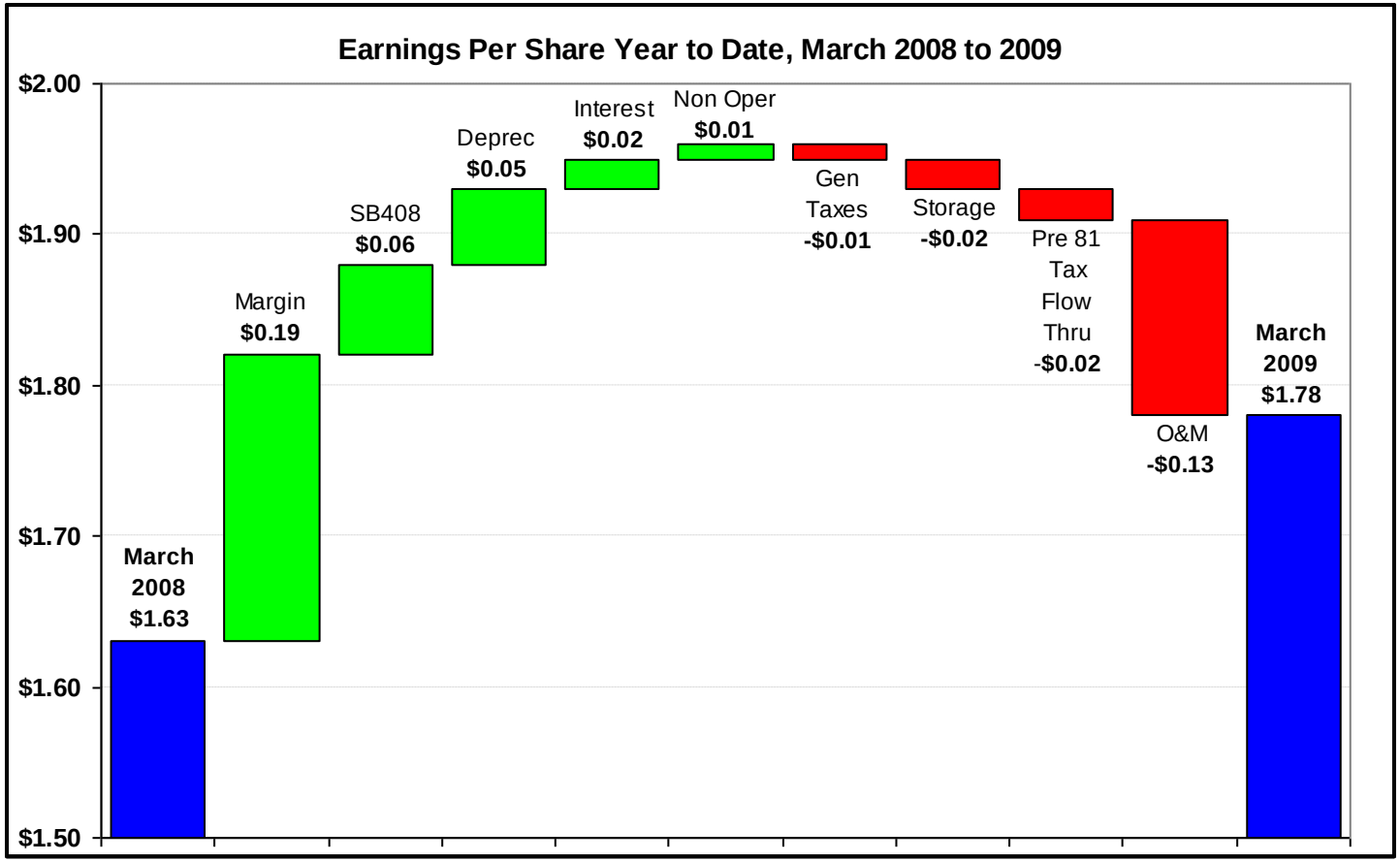
# 2008 YTD EPS Variance

(through December 31, 2008)



# 2009 EPS Variance

(through March 31, 2009)

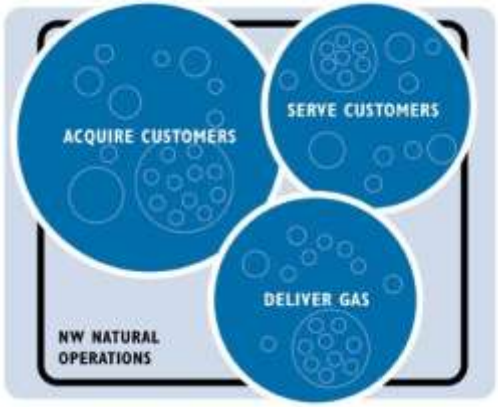


# Constructive Regulation

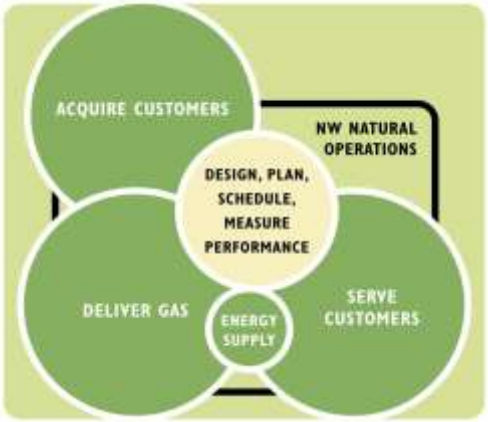
- Purchased Gas Adjustment (PGA) mechanism
  - Establishes better risk-reward balance with customers
  - 80/20 or 90/10 customer-shareholder sharing mechanism implemented
    - Selected 80/20 for 2008-2009 season
- Oregon Conservation Tariff
  - A decoupling mechanism, breaking the link between profitability 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
- Washington general rate case resolved -- $2.7 million revenue requirement increase
- System Integrity Program in Oregon approved – consolidated into one program
- Filed required permits related to Gill Ranch on July 29, 2008 w/CPUC
- December filing made related to Palomar Pipeline project w/FERC
- Requested ~$32 million credit be returned as credit on June bills to Oregon customers due to lower gas costs than set in rates – in advance of 2009-10 heating season

# Operations Business Model Review

Old Model




New Model




**What's new?**

- Simple / process orientation
- Move from "a construction company" to a "gas delivery company"
- Centralized decision-making
- Less customization and more standardization

# Portland's Urban Growth Boundary

- Coordinated by a regional governmental body (Metro)
- Boundary has been moved three dozen times since late 1970s
- Encourages efficient land use and higher density within the boundary
- Expansion on eastern side of Portland now underway
- Last major expansion in 2002 (19,000 acres)



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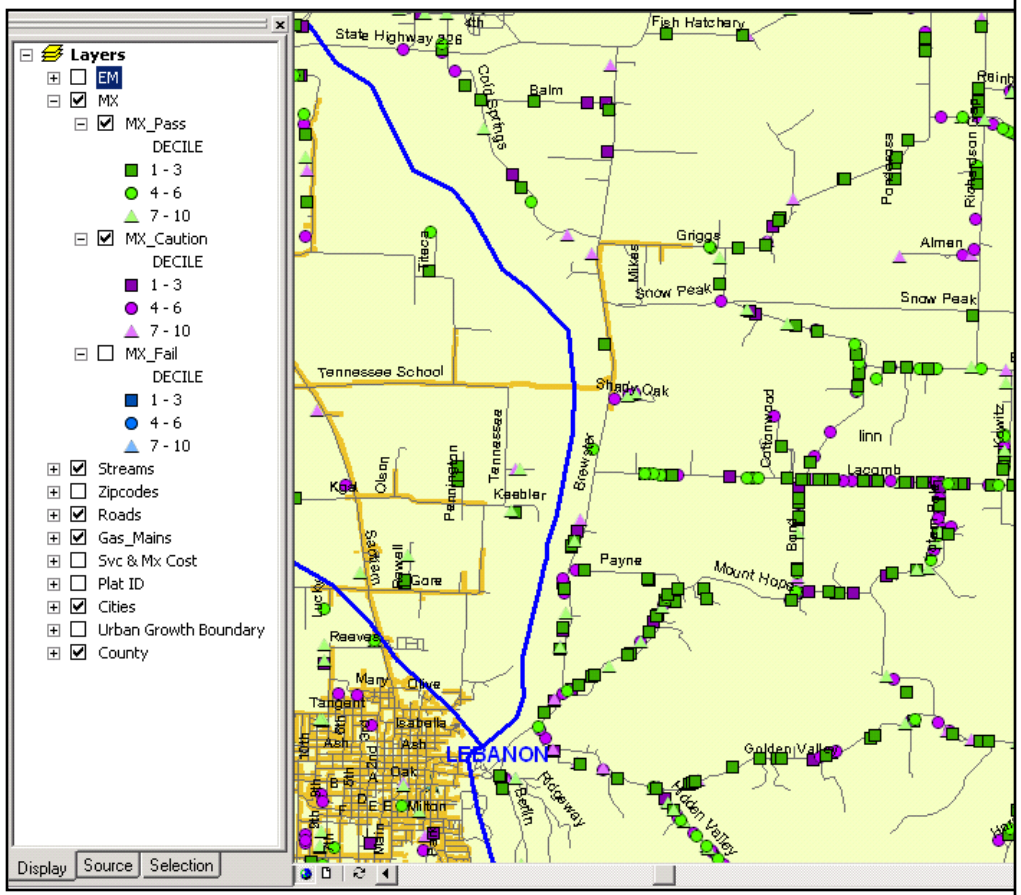
# Conversion Opportunities

| Estimated Market Potential | Single-Family | Multi-Family | Non-Residential | Total |
|---|---|---|---|---|
| **On-main and Near-main prospects (0–150ft from main)** | 158,868 | 16,201 | 15,560 | **190,629** |
| **Near-main prospects (150-600ft from main)** | 50,038 | 5,152 | 3,176 | **58,336** |
| **Off-main prospects (>600ft from main)** | 155,518 | 12,057 | 33,737 | **201,312** |
| **TOTAL** | **364,424** | **33,410** | **52,473** | **450,307** |

# 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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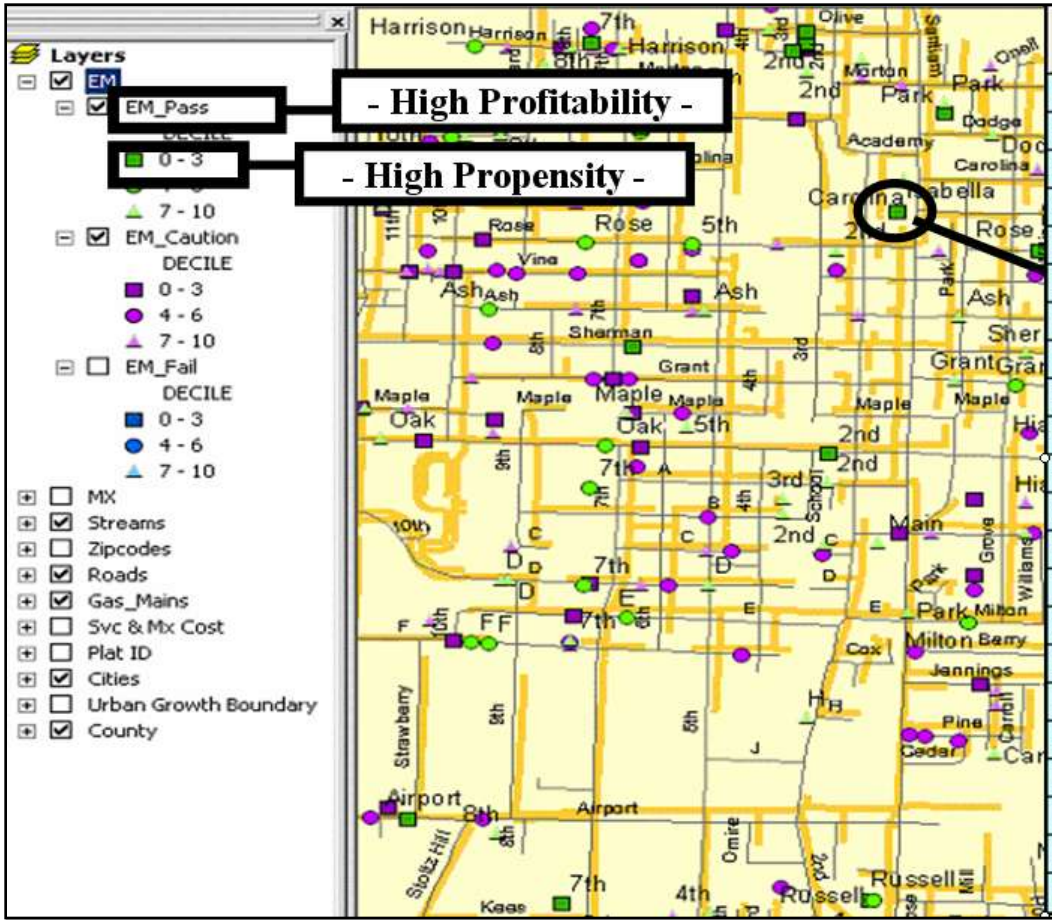
# Example of a “Pass” Conversion




| 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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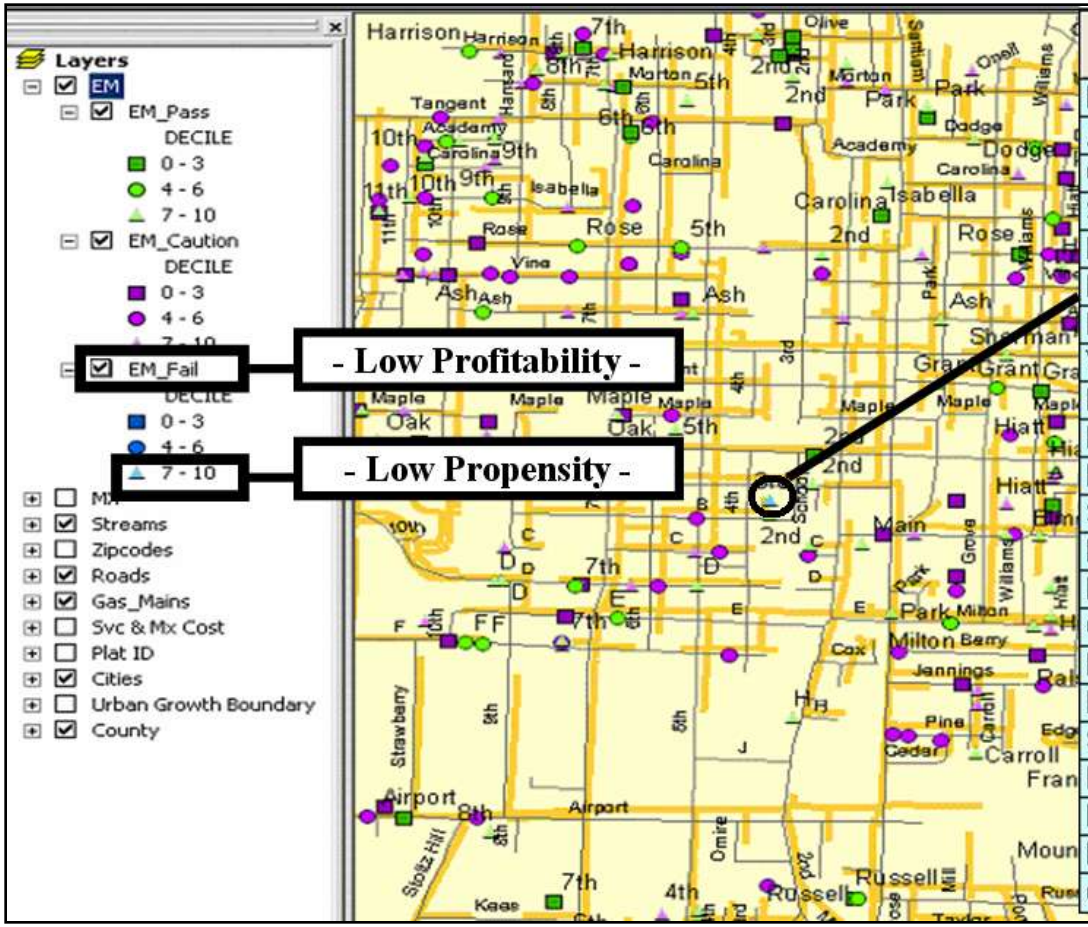
# Example of a “Fail” Conversion

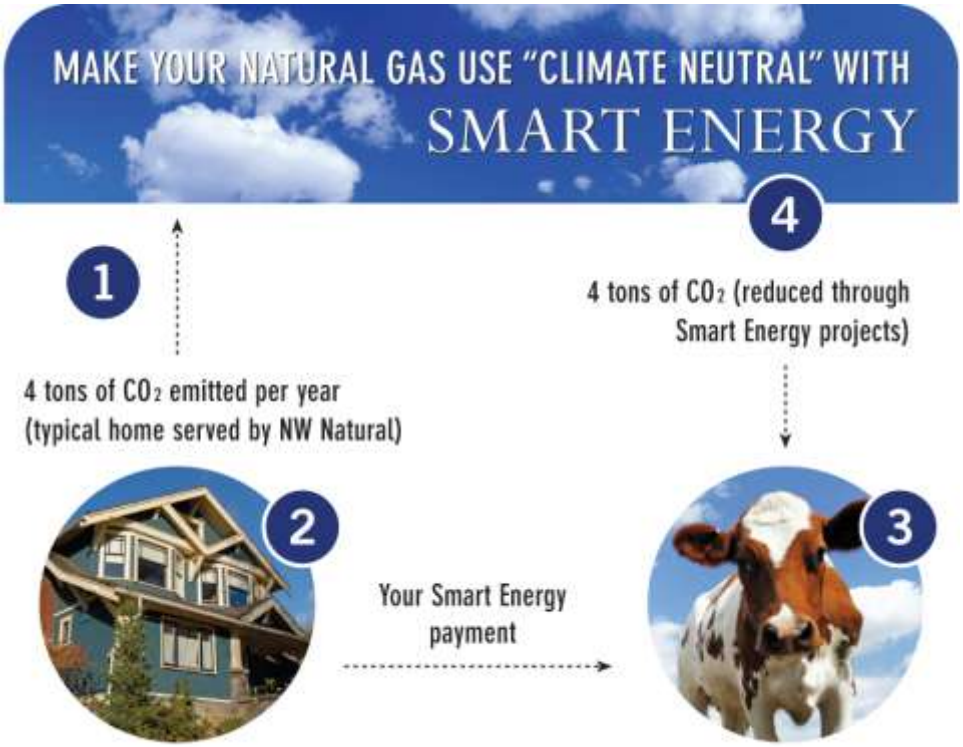



| Field | Value |
|---|---|
| NWN Customer: | NO |
| Address: | 256 3rd St |
| City: | Lebanon, OR |
| Segment: | Residential |
| EM (Existing Main): | YES |
| Decile: | 9 |
| **Propensity to Convert:** | **LOW** |
| Year Built: | 1986 |
| Bedrooms: | 2 |
| Footage (Sq. Ft): | 1,310 |
| Fireplace: | 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 |

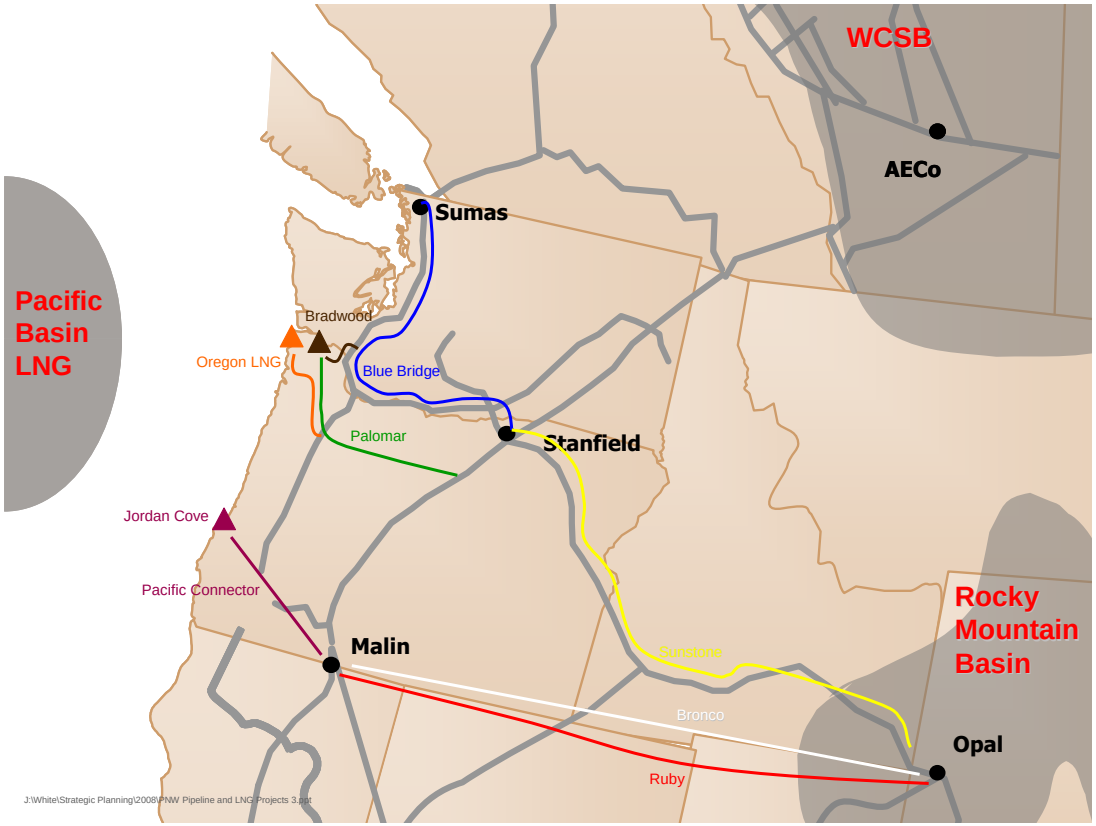
# Overview Of Smart Energy Program

- Customers voluntarily offset the greenhouse gas emissions associated with their use of natural gas
- First standalone gas company to offer offset opportunity
- Helps bring biogas—renewable gas—to the region
- Residential participants purchase "average" option ($6/mo and based on average house) or "carbon neutral" option (based on a per-therm rate)
- Commercial participants contribute any amount ($10/mo. min)
- Funds Climate Trust offsets – specific projects include:
  - Biogas in Oregon
  - Biogas in Region
  - Energy Portfolio

# How Does Smart Energy Work?



# Proposed Pipelines & LNG




**Three hard truths –**

1. Strained supply
2. Rising demand
3. Climate change

**Proposed LNG projects –**

*1. Bradwood Landing*
2. Oregon LNG
3. Jordan Cove

**Proposed pipelines –**

*1. Palomar (NWN, TransCanada-GTN)*
2. Pacific Connector (PG&E, Williams Pacific, Ft. Chicago LNG)
3. Ruby (El Paso)
4. Bronco (Spectra Energy) – halted
5. Sunstone (Williams, TransCanada)
6. Blue Bridge (Williams, Puget Energy)

# NW Natural

NW Natural (NYSE: NWN) is a 150-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 53 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, 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: | 2009 YTD | 2008 Y/E | 2007 Y/E |
|---|---|---|---|
| Total Customers | 665,387 | 657,415 | 652,012 |
| Total Common Equity | $663,838 | $629,265 | $594,751 |
| Avg Shares of Common Stock Outstanding | 26,504 | 26,501 | 26,407 |
| Number of Registered Common Shareholders | 7,579 | 7,673 | 7,863 |
| Institutional Ownership | 57% | 65% | 62% |
| Annual Dividends (ttm) | $1.54 | $1.46 | $1.44 |
| Diluted Earnings per Share | $1.78 | $2.61 | $2.76 |
| Book Value per Share | $25.05 | $23.82 | $22.52 |
| | | | |
| Composition of Utility Revenue: | 2009 YTD | 2008 Y/E | 2007 Y/E |
| | | | |
| Residential | 58% | 59% | 55% |
| Commercial | 30% | 30% | 29% |
| Industrial & Transportation | 9% | 10% | 14% |
| Other | 3% | 1% | 2% |
| | | | |
| Current Bond Ratings: | | Moody's | S&P |
| | | | |
| Long-Term Debt | | A-2 | AA- |
| Commercial Paper | | P-1 | A-1+ |

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