



Welcome to the 2007 NW Natural

ANNUAL MEETING OF SHAREHOLDERS

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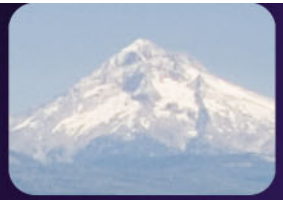



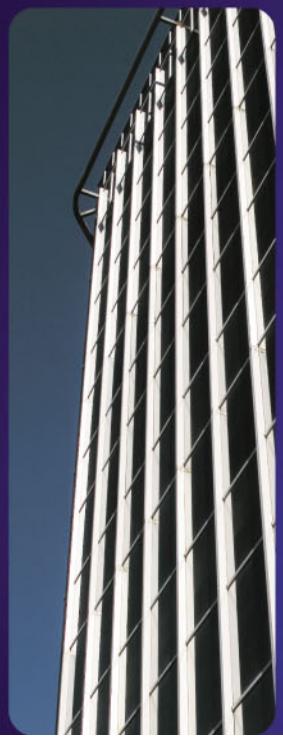

MARK DODSON
Chief Executive Officer

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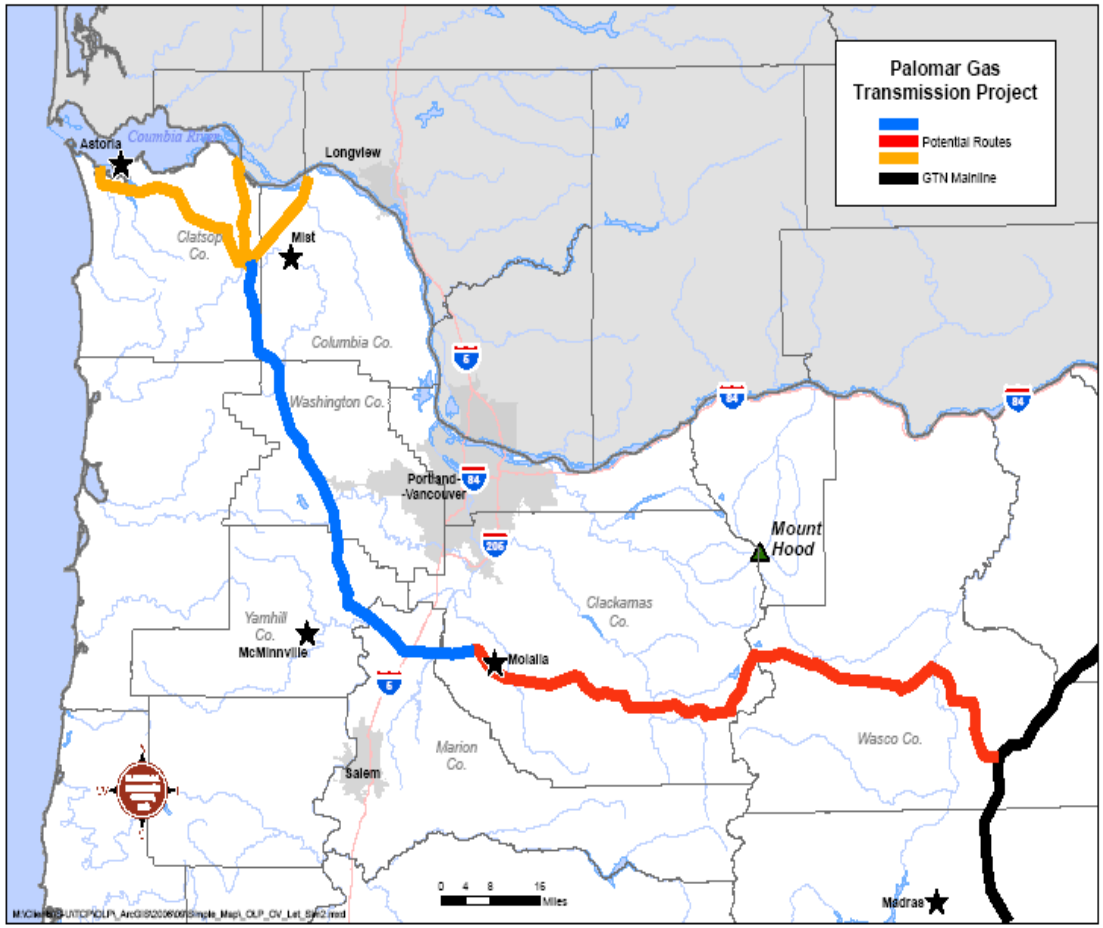
2006 HIGHLIGHTS

- Third nationally in customer service
- First nationally in billing and payment
- Continued to grow more than 3% for 20th year
- Continued Mist expansion
- Standard & Poors upgrades: AA- and A1+
- Named to top 100 corporate citizens list

2006 HIGHLIGHTS

- 29 percent shareholder return
- Began restructuring of operational model
- Benchmarked and reviewed peer best practices
- Early results: Held O&M costs to 1% increase
- Operating cash flows funded capital and dividend requirements

PROPOSED PALOMAR PIPELINE



Pacific Northwest Natural Gas Transmission System

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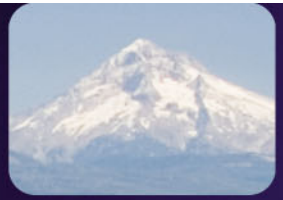



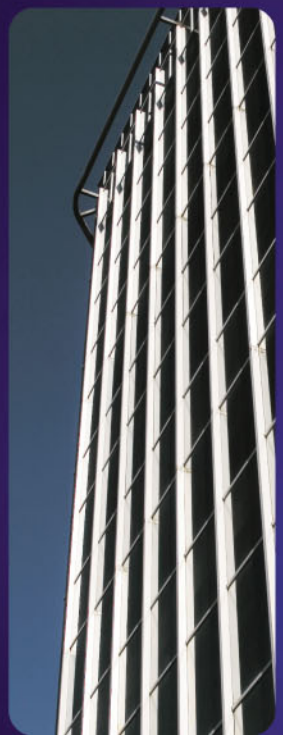

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CREATING VALUE




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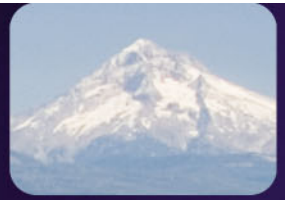



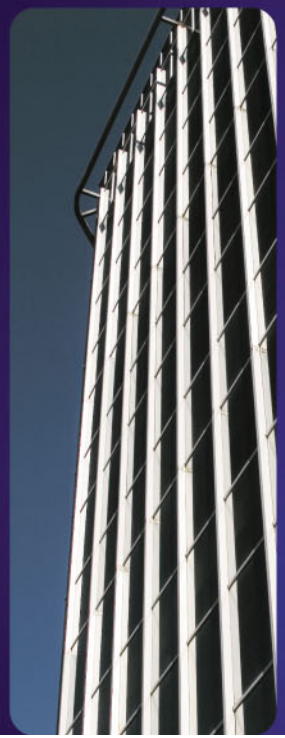

RICHARD REITEN
Chairman of the Board

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IN MEMORIAM

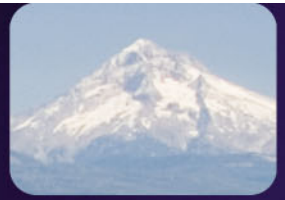


Richard L. Woolworth

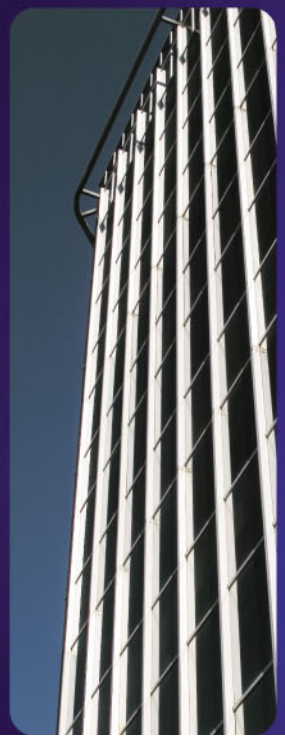
1941-2006

Director (2000-2005)

Chairman of the Board (2005-2006)







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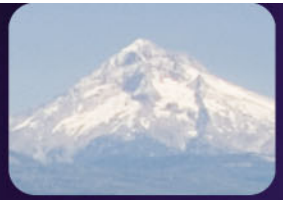



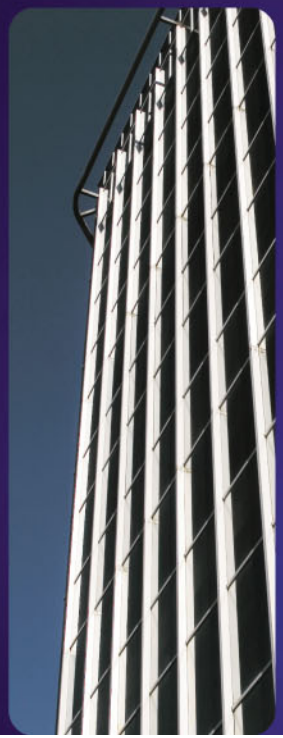

DAVID ANDERSON

Senior Vice President &
Chief Financial Officer

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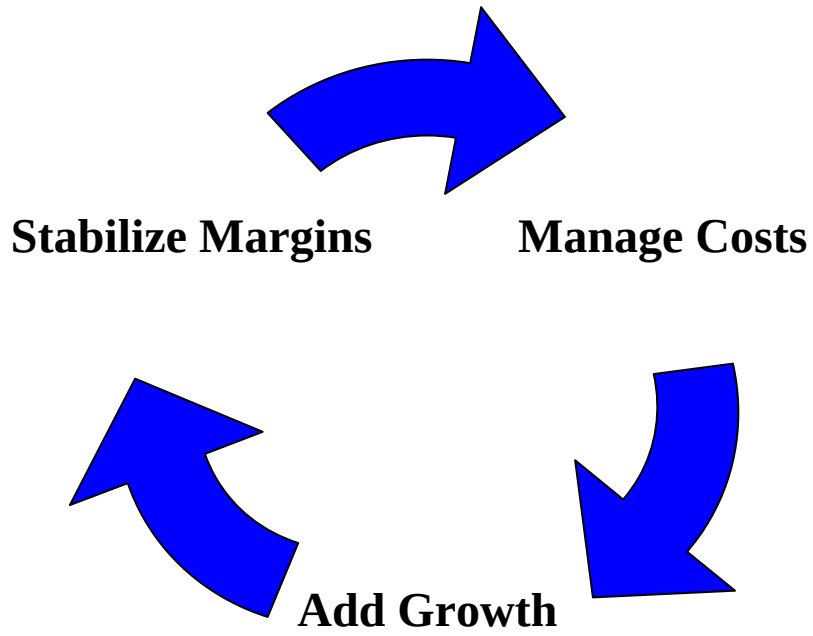
STRONGER RESULTS IN 2006

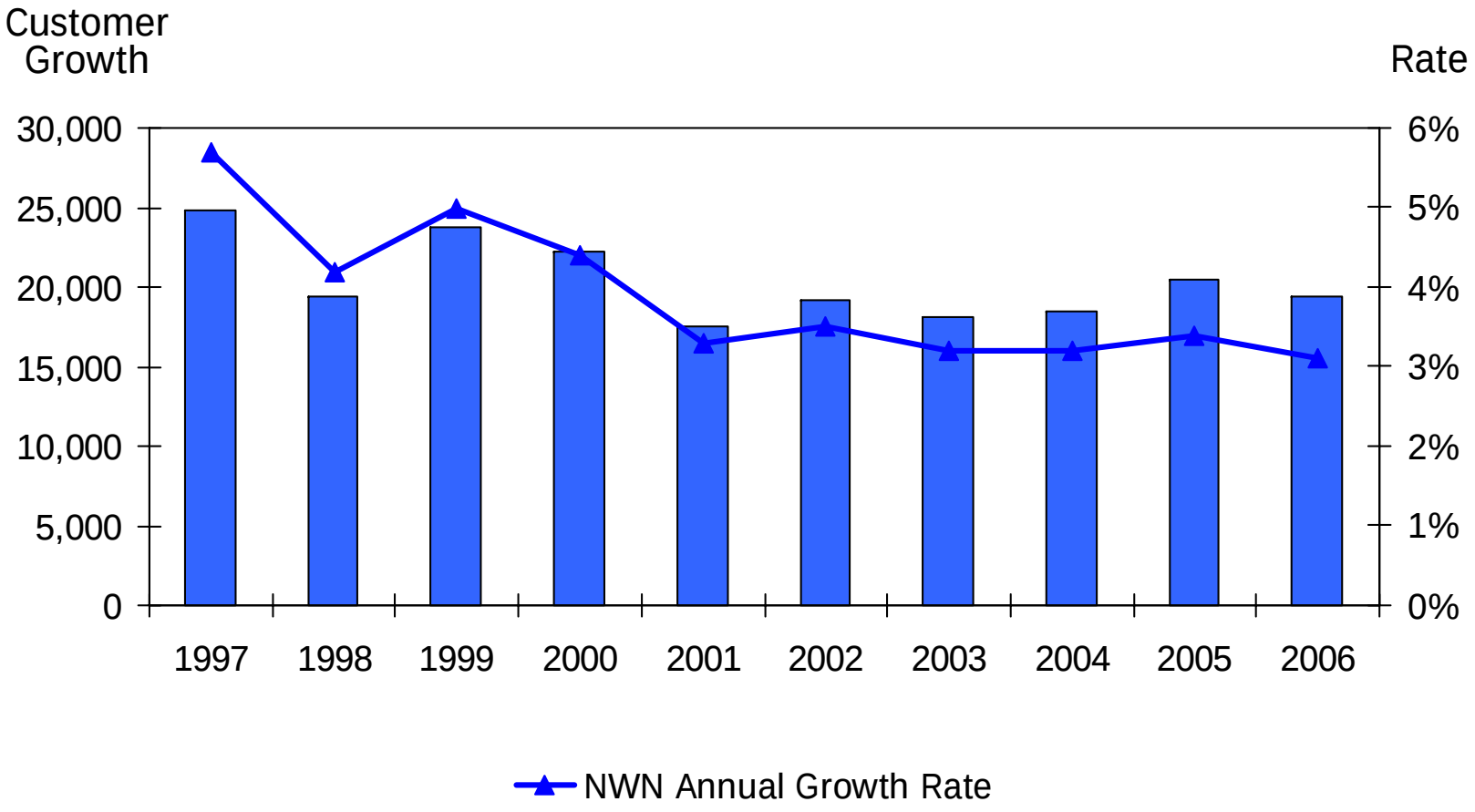
- Financial returns on target
  - Earnings per share of $2.29 on $63.4 million of net income
  - Revenues above $1 billion for first time
  - Managed gas costs, realizing significant savings for shareholders and ratepayers
  - Generated free cash flow of $20 million for the year
  - Strong balance sheet – marked by strong investment-grade credit rating from S&P & Moody's
  - Solid EPS growth

OUR CORPORATE STRATEGY

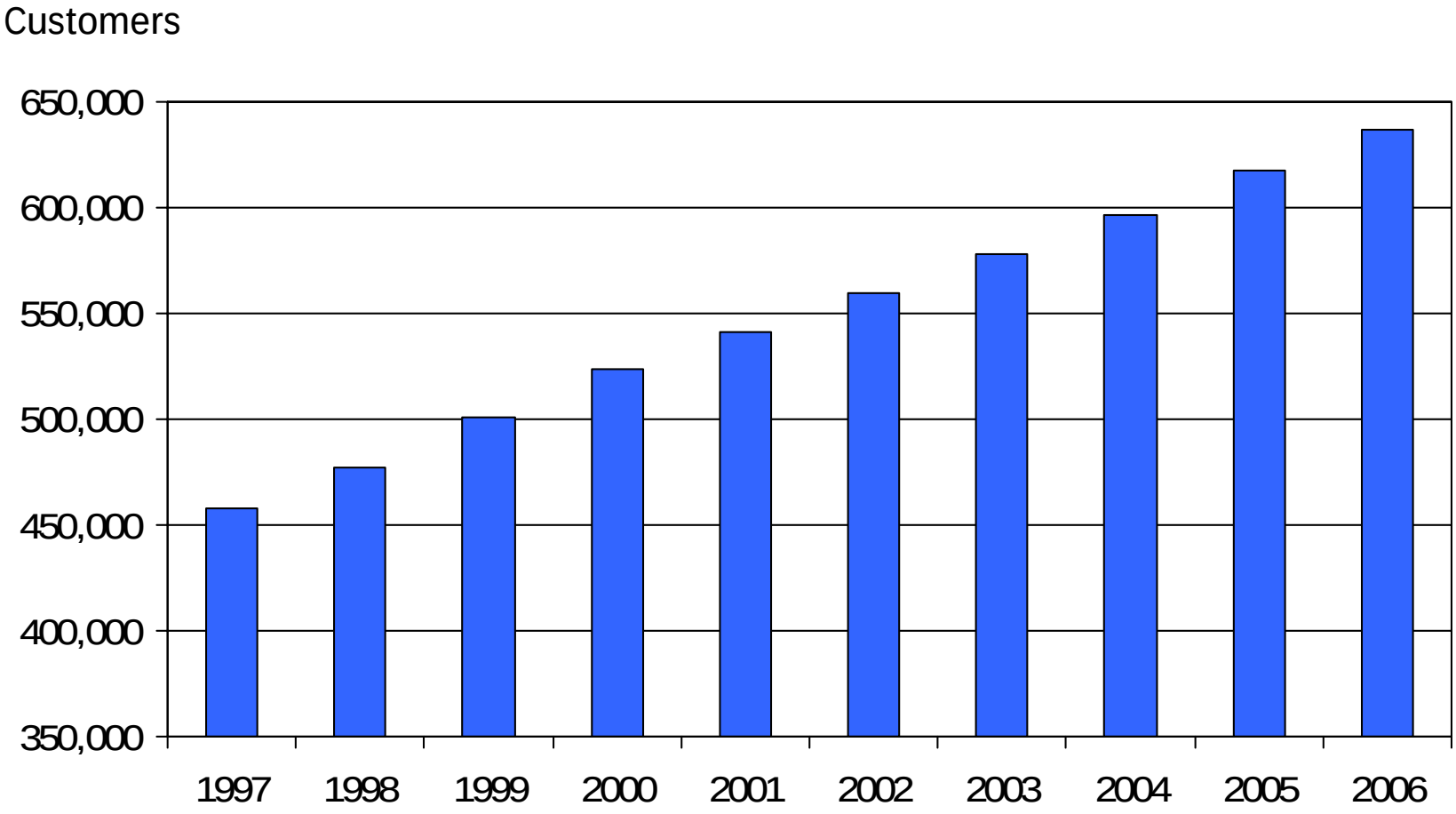
- Stabilized margins through regulation
  - First gas LDC to implement decoupling
- Manage cost structure
  - Achieve first quartile performance
- Look for longer-term growth opportunities
  - Stay with what we do best



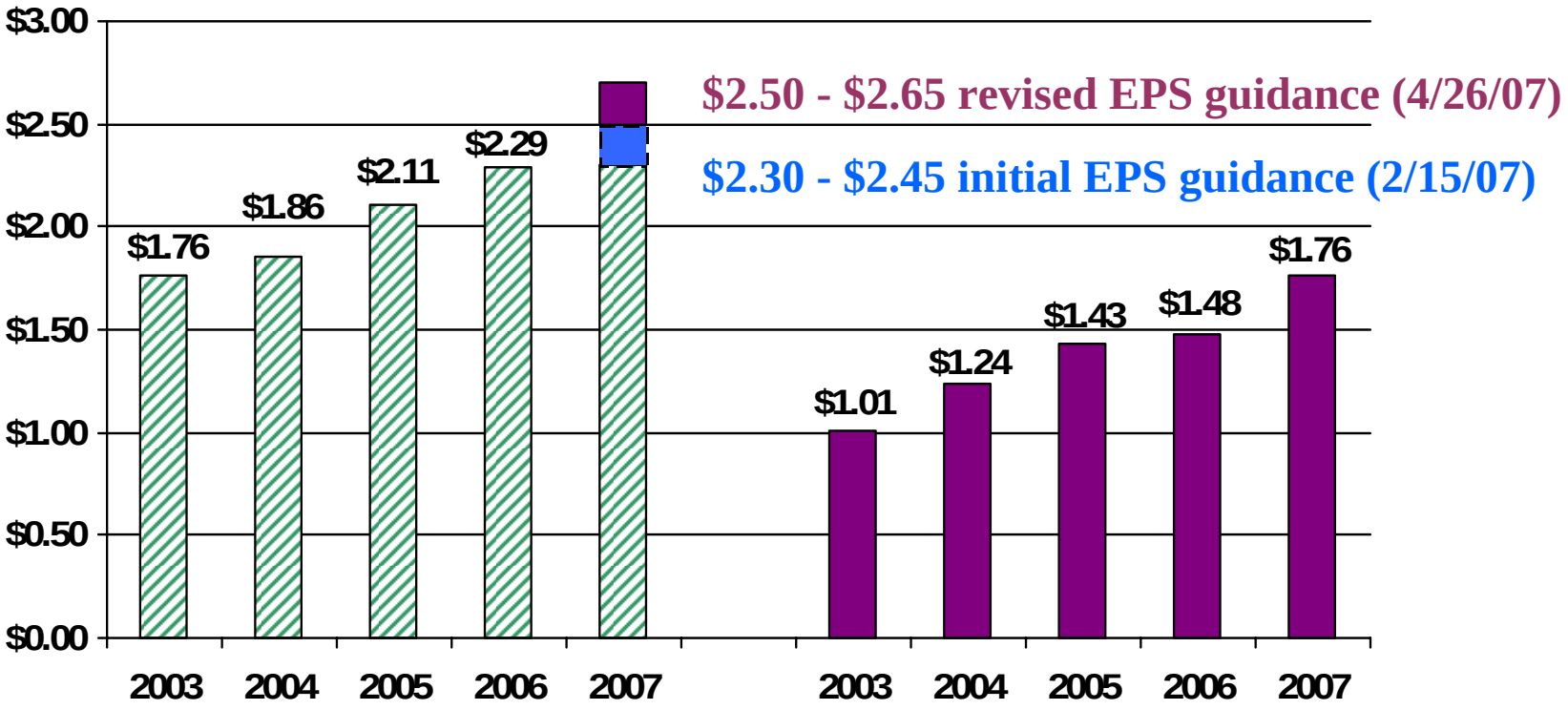
CUSTOMER GROWTH



TOTAL CUSTOMERS



EARNINGS PER SHARE GROWTH



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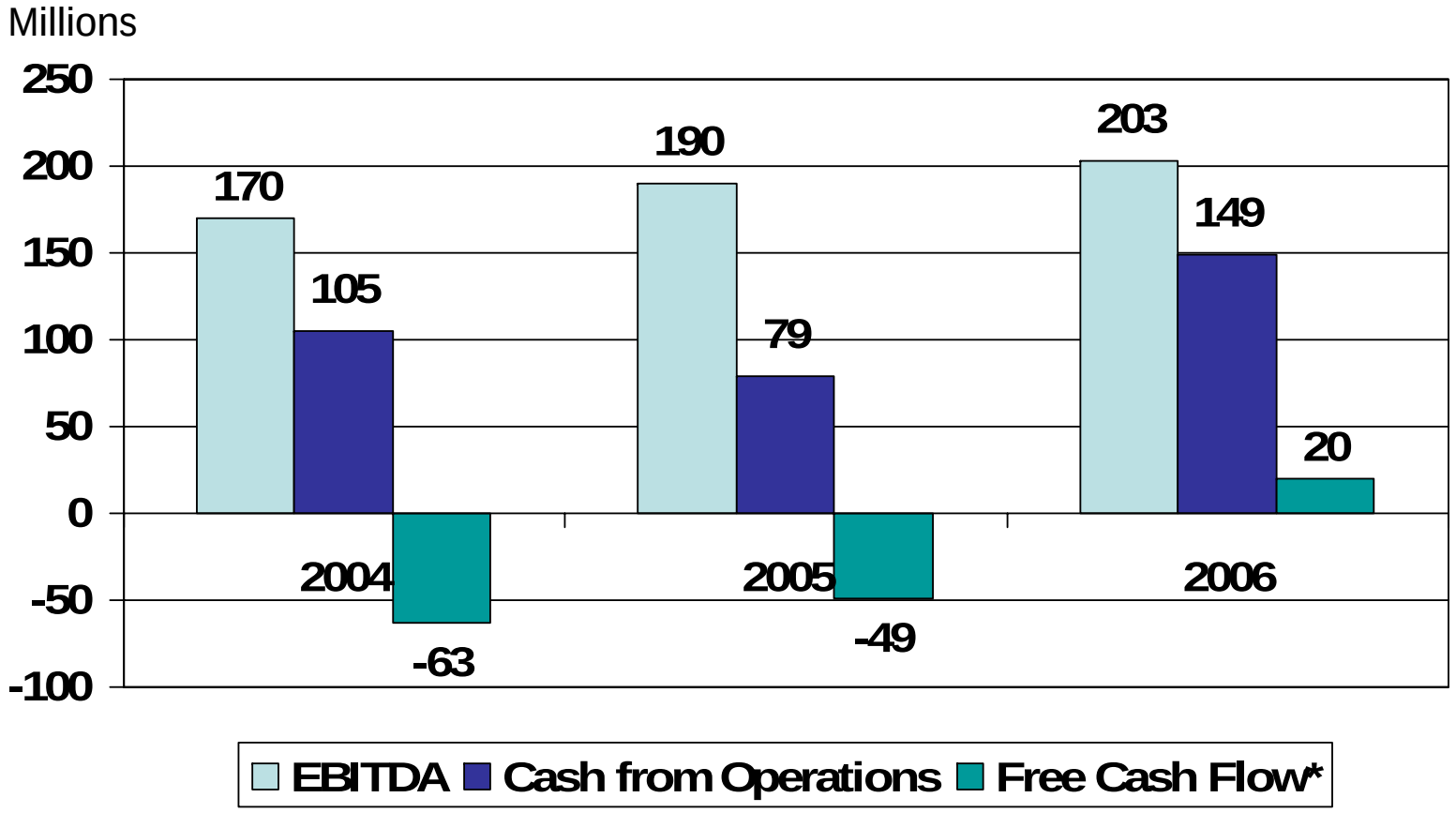
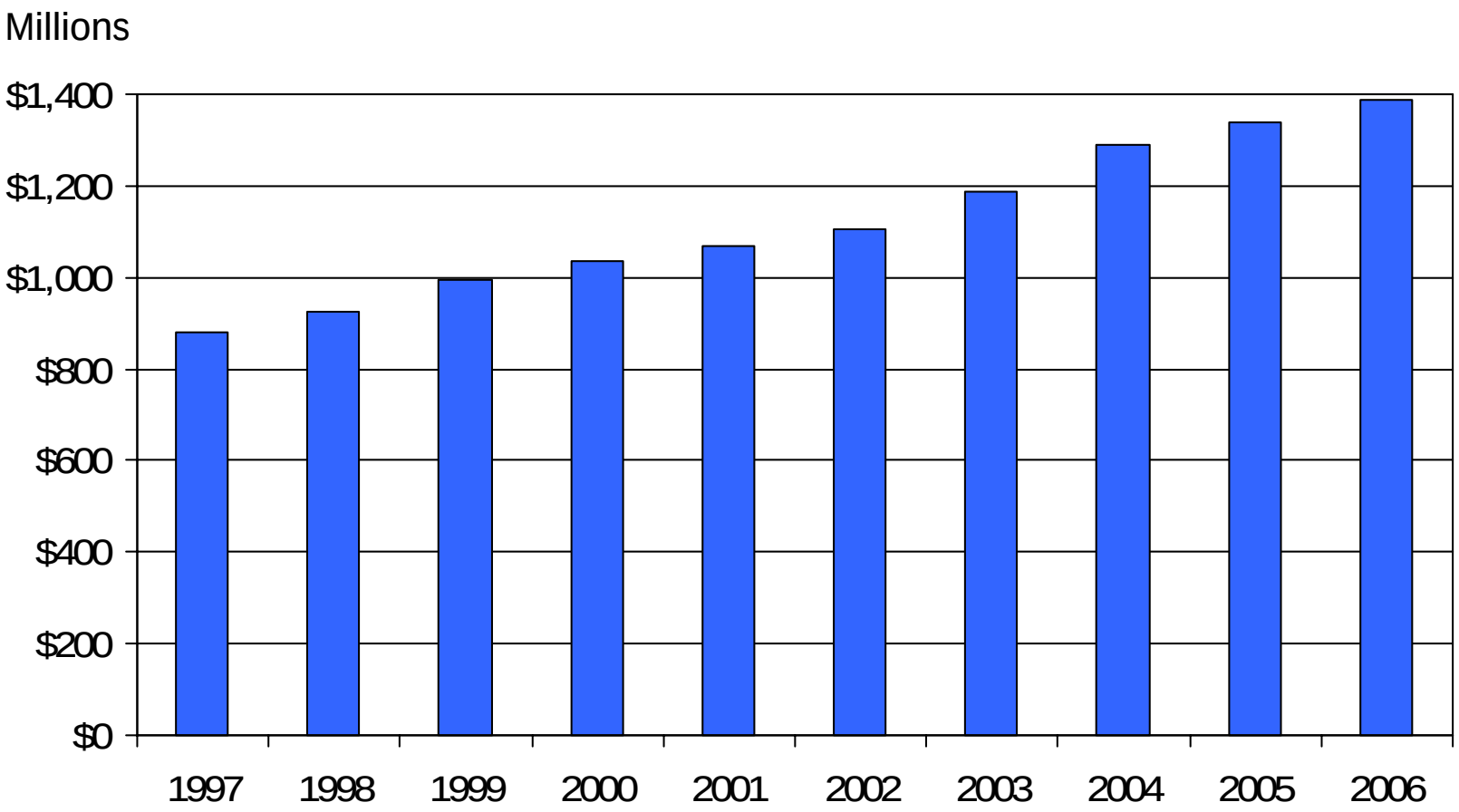
EARNINGS & CASH FLOW



* Cash from Operations less Cash used for Investing and Dividends

NET UTILITY PLANT INVESTMENT



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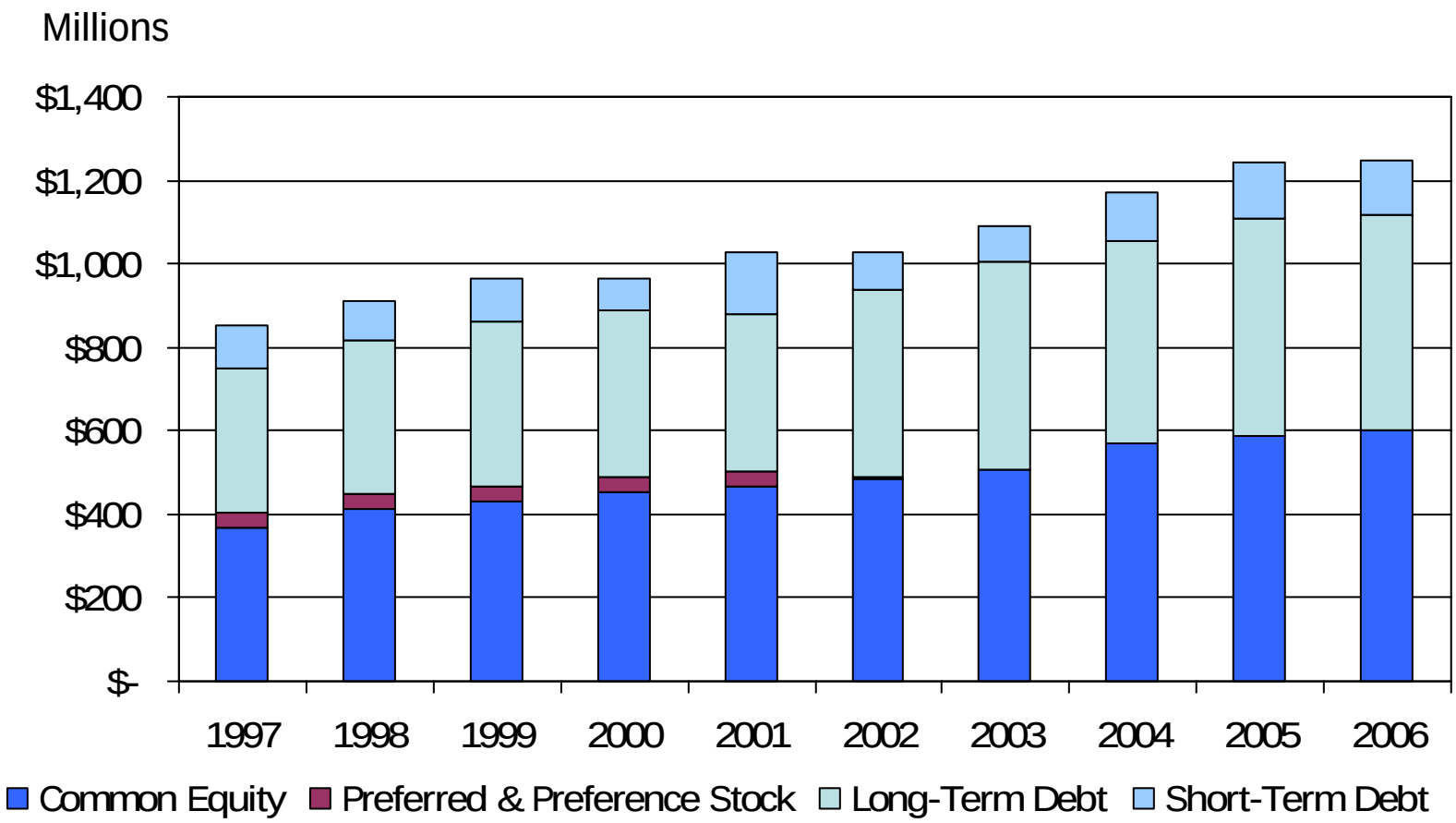
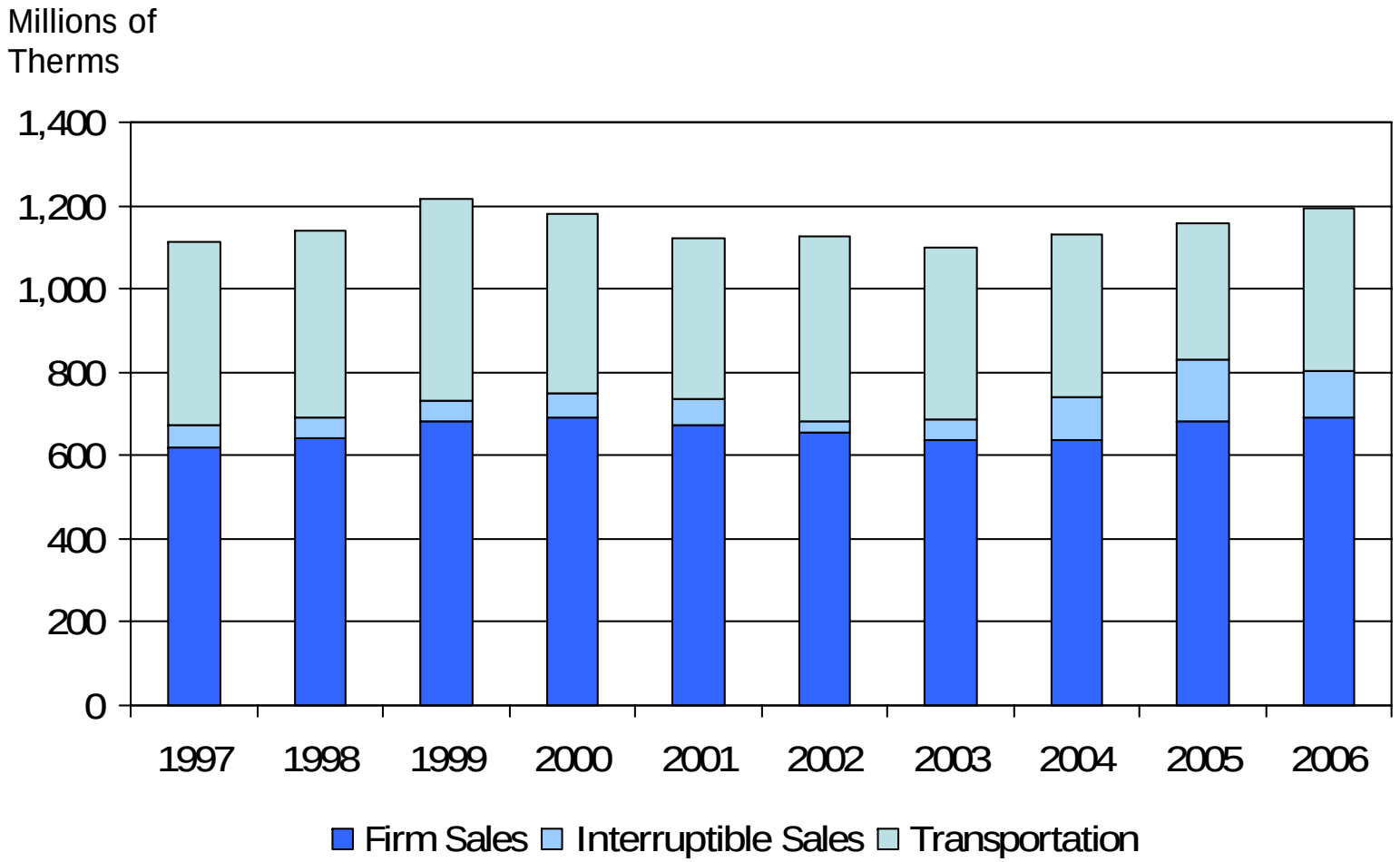
CAPITALIZATION



GAS SALES & TRANSPORTATION DELIVERIES



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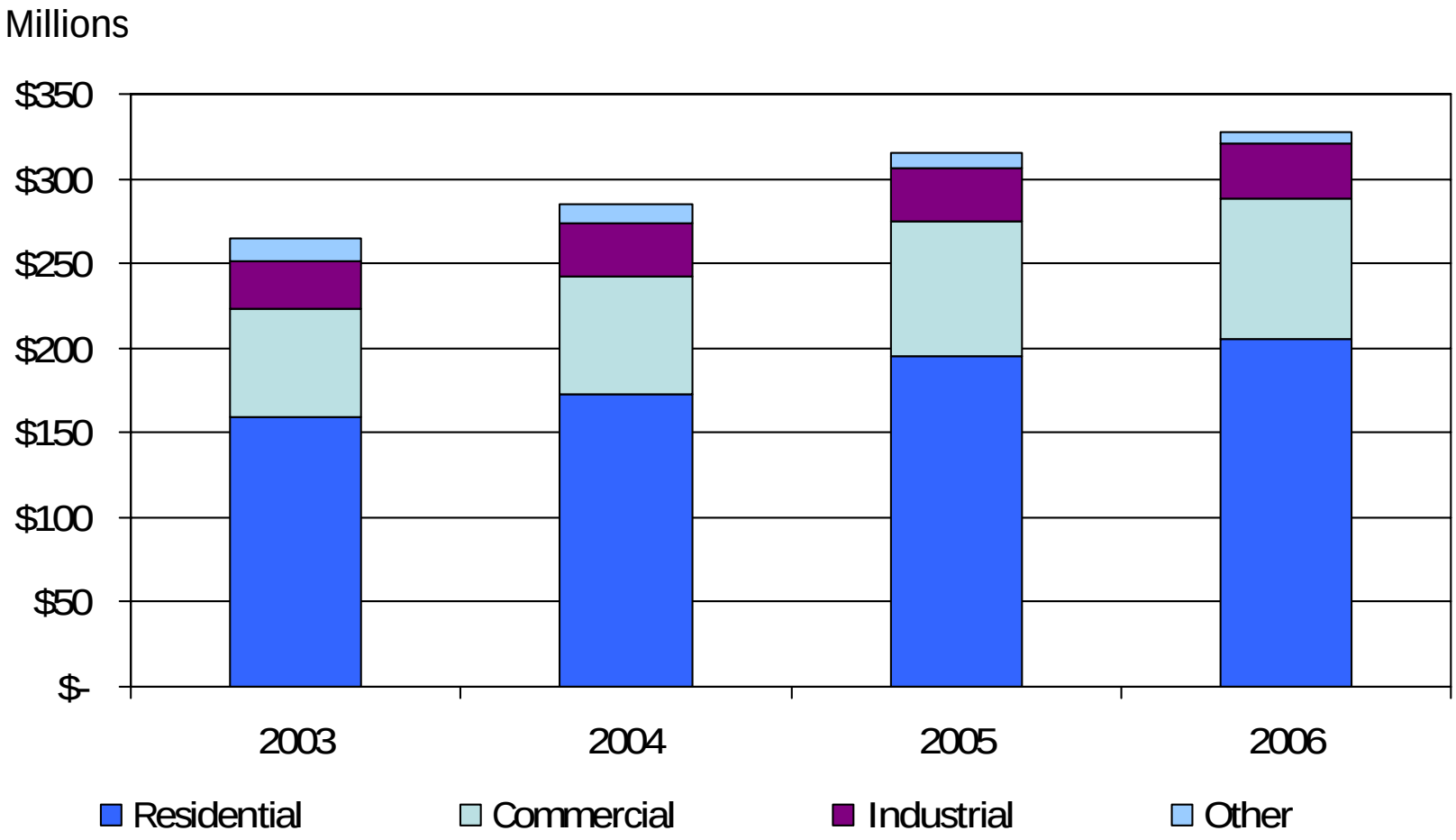
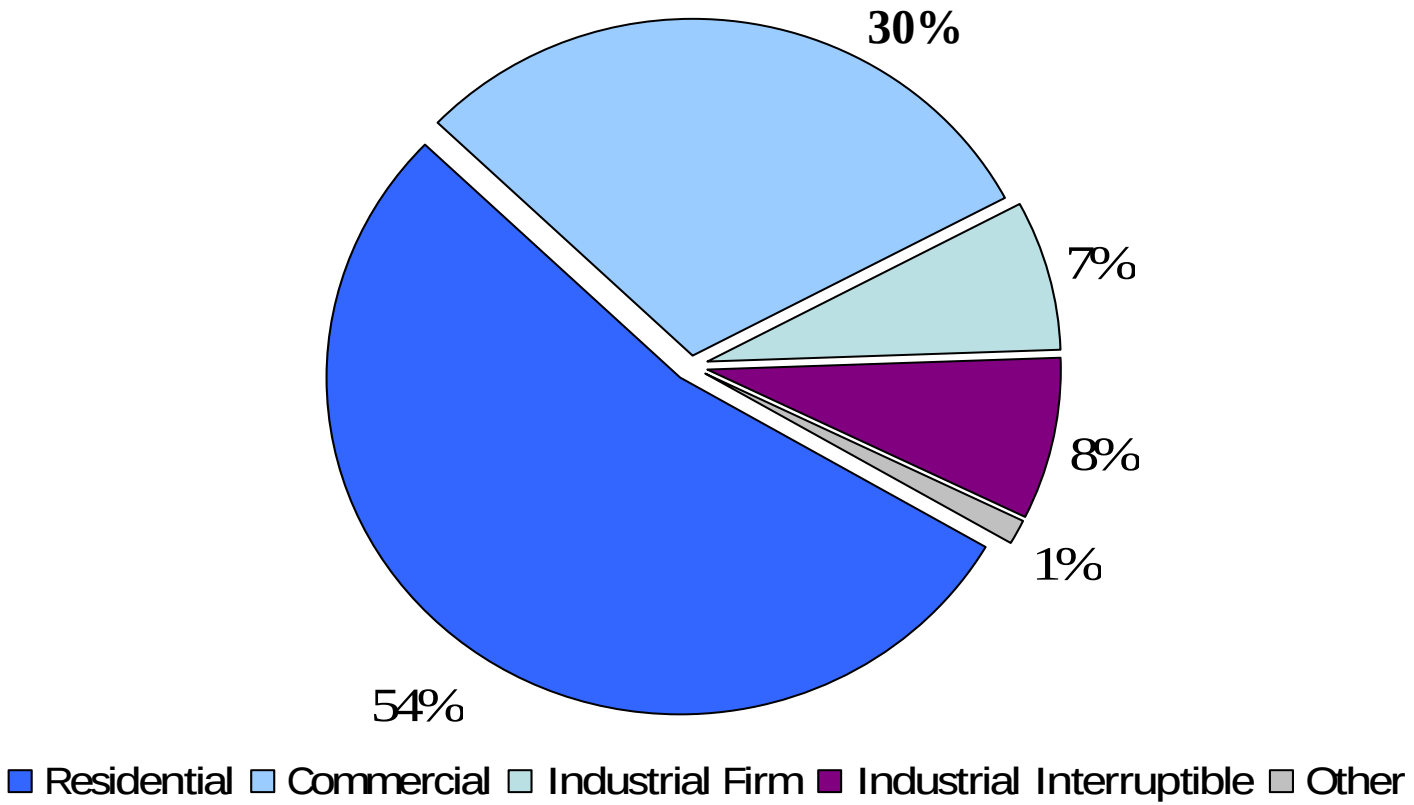
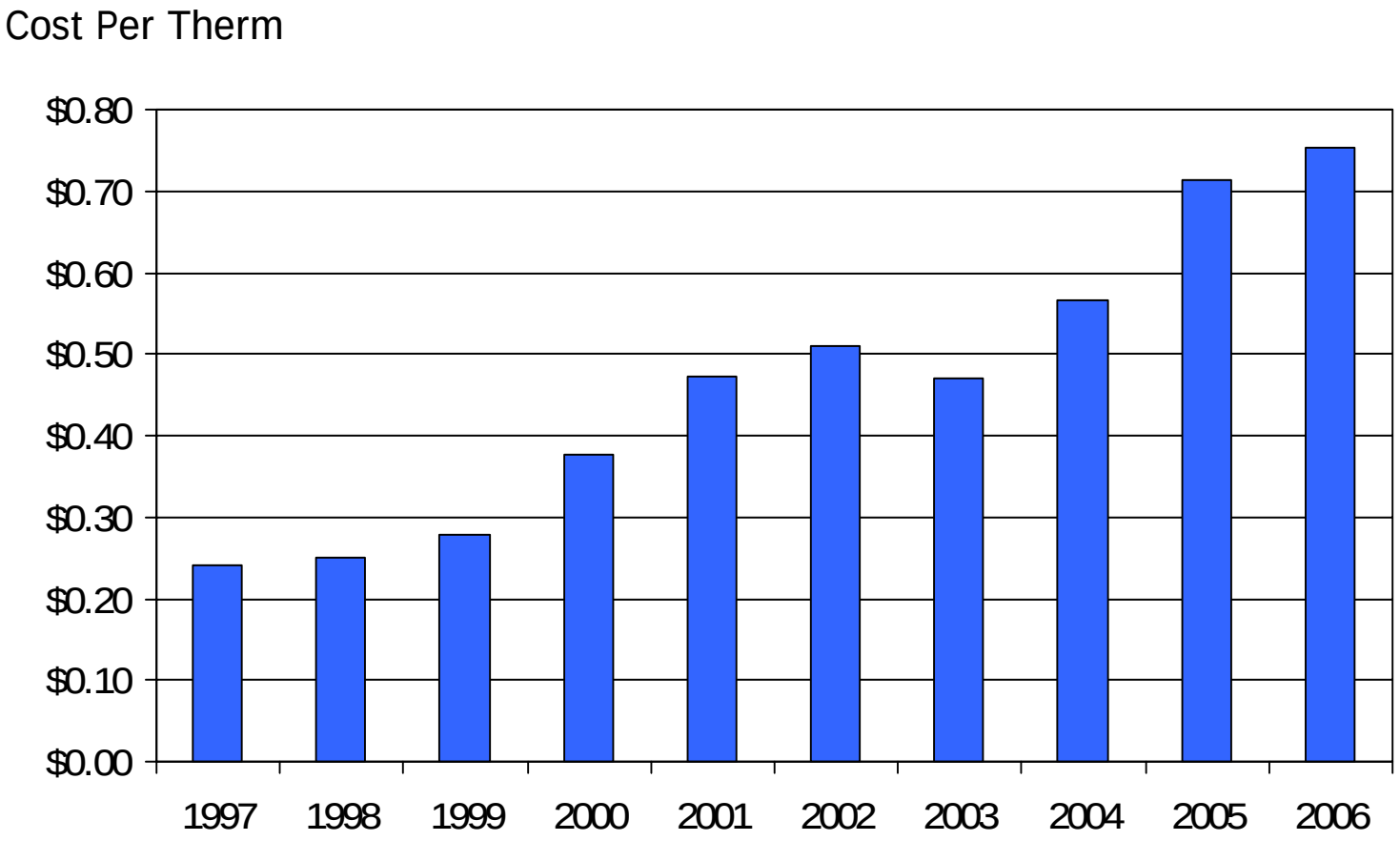
UTILITY MARGIN



2006 UTILITY REVENUES



AVERAGE COST OF GAS PURCHASED



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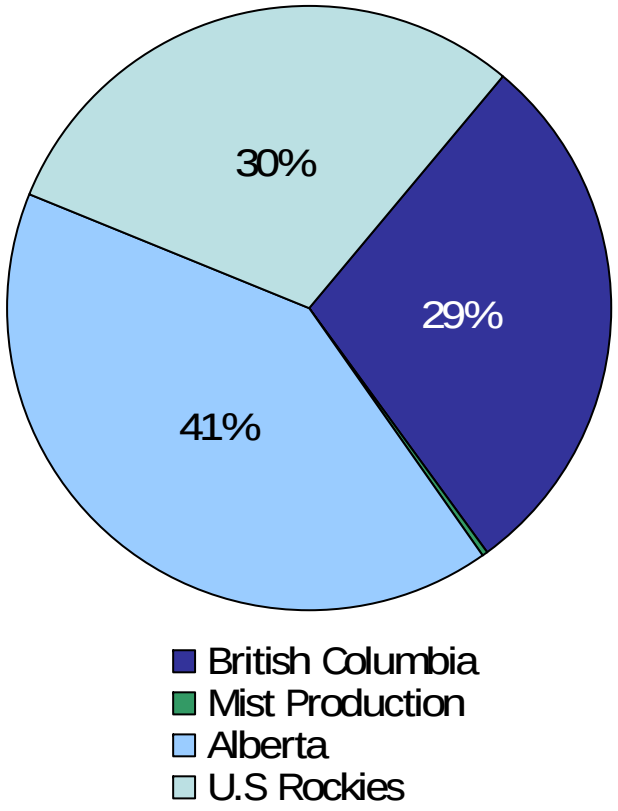
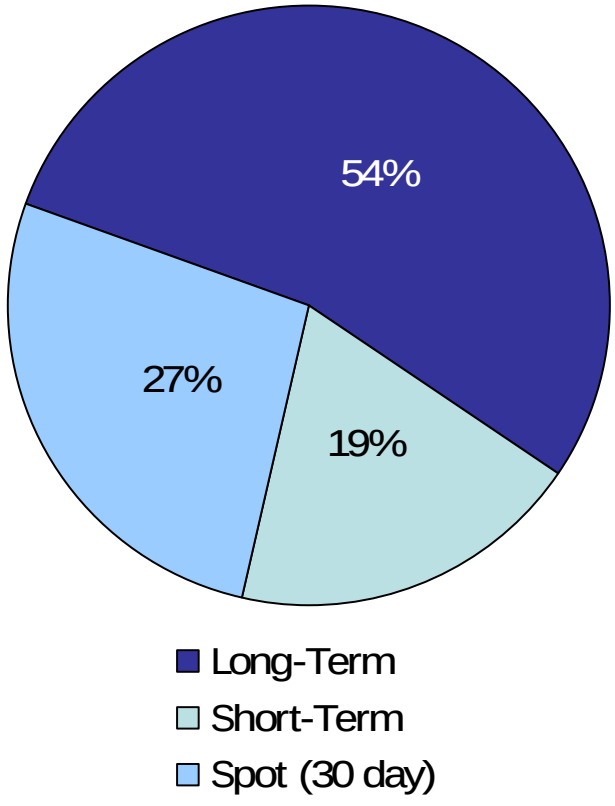
GAS SUPPLY DIVERSITY

Supply Source



Original Contract Length



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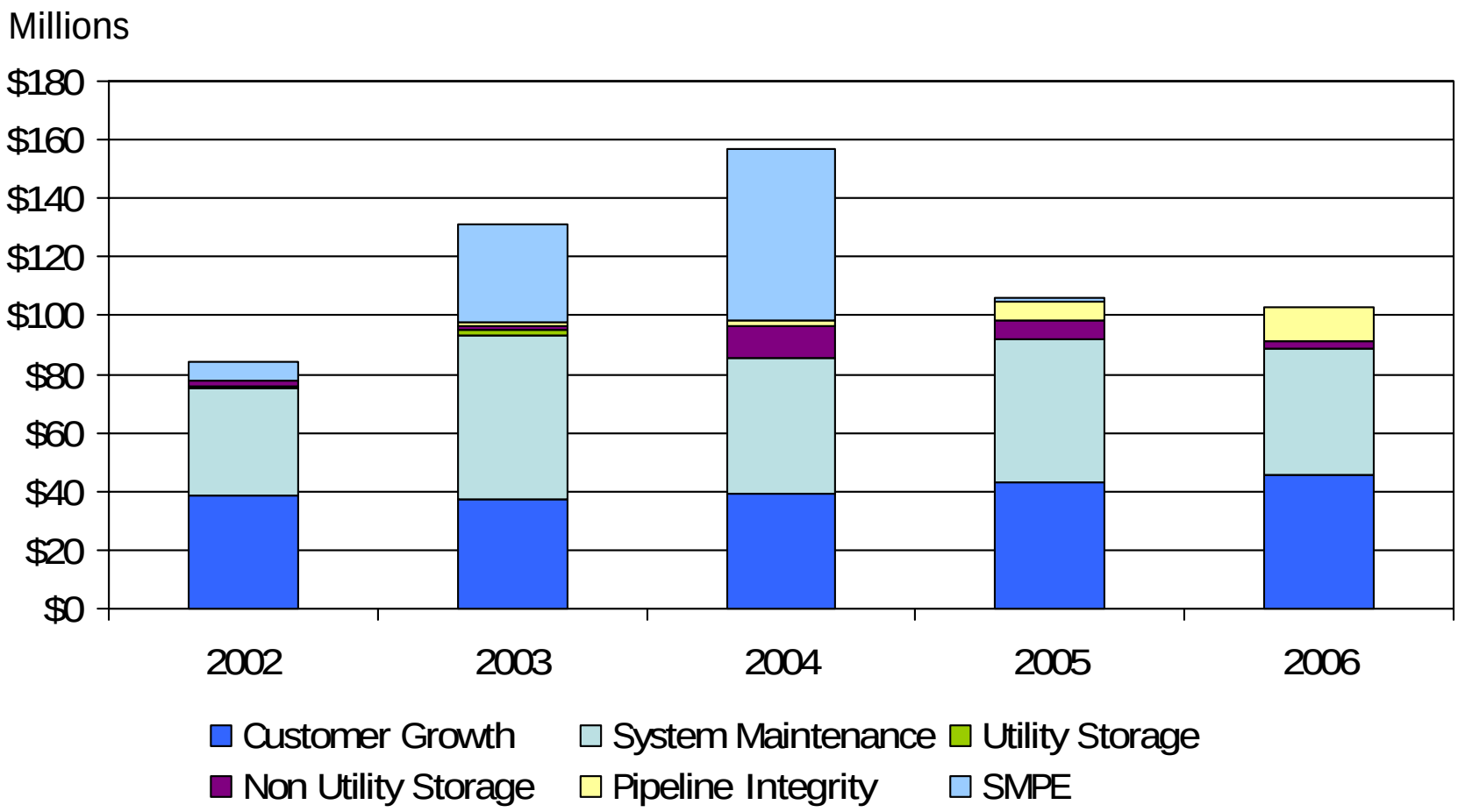
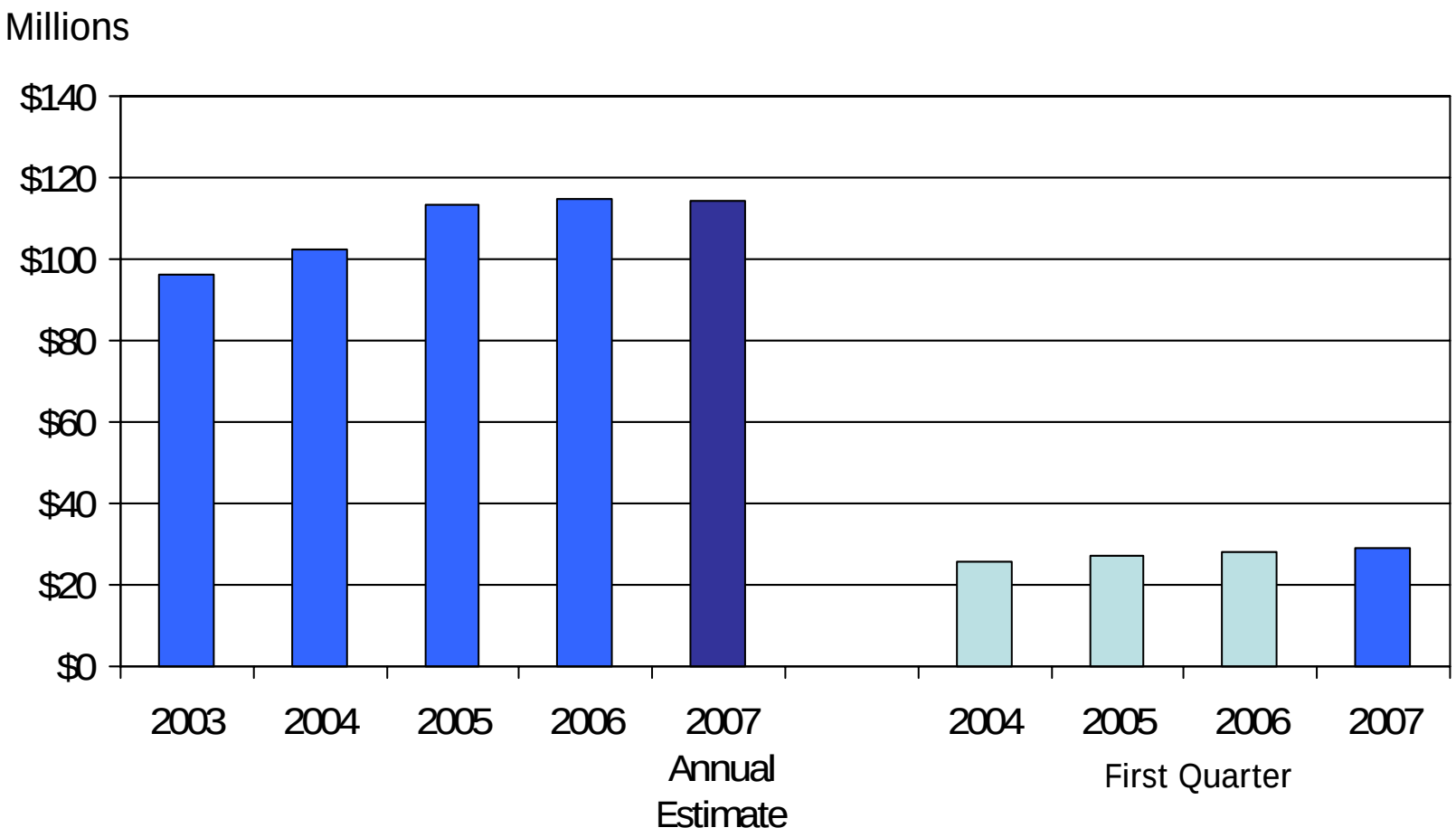
CAPITAL EXPENDITURES



OPERATIONS & MAINTENANCE EXPENSE



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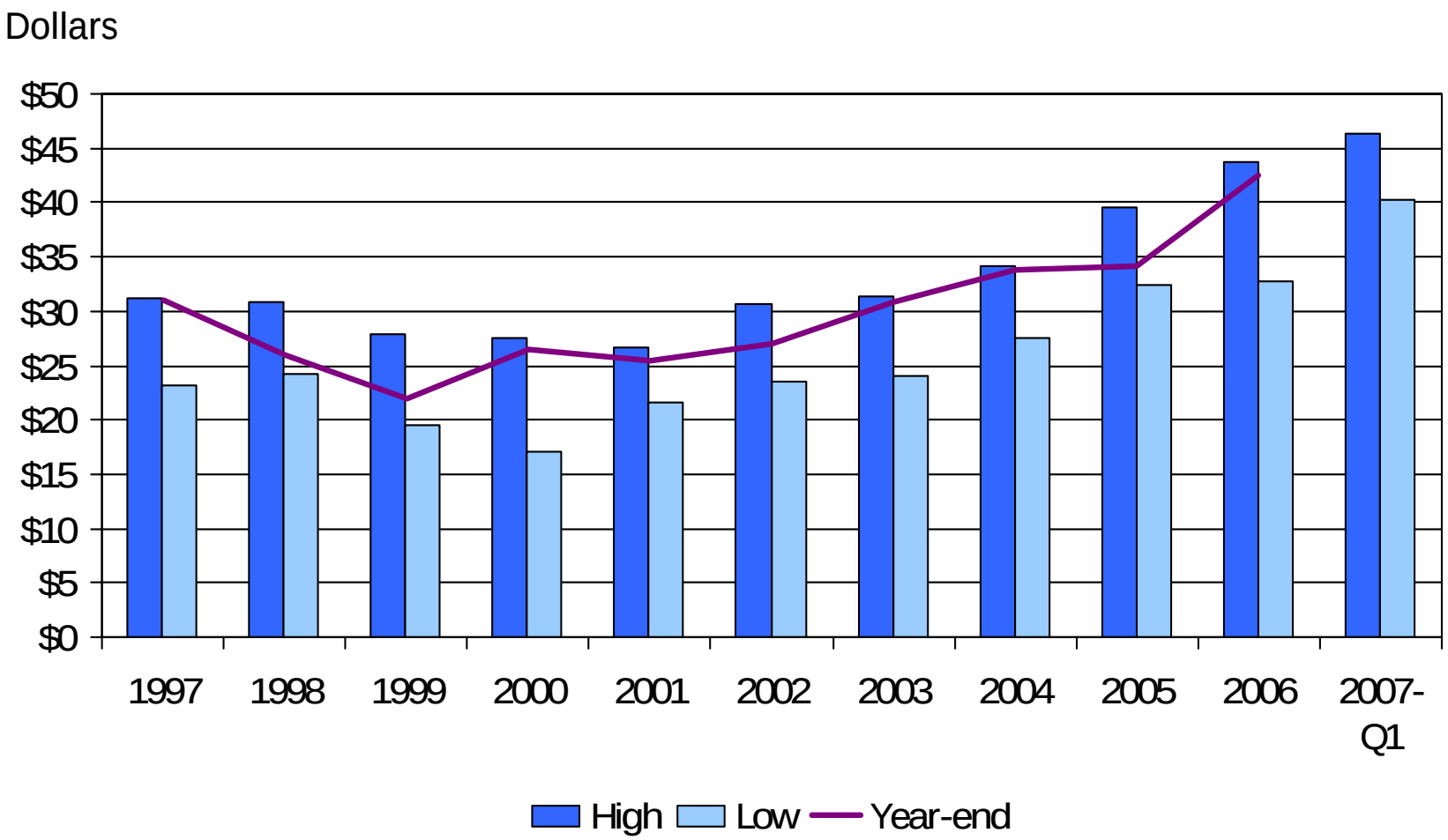
HIGH/LOW MARKET PRICE PER SHARE



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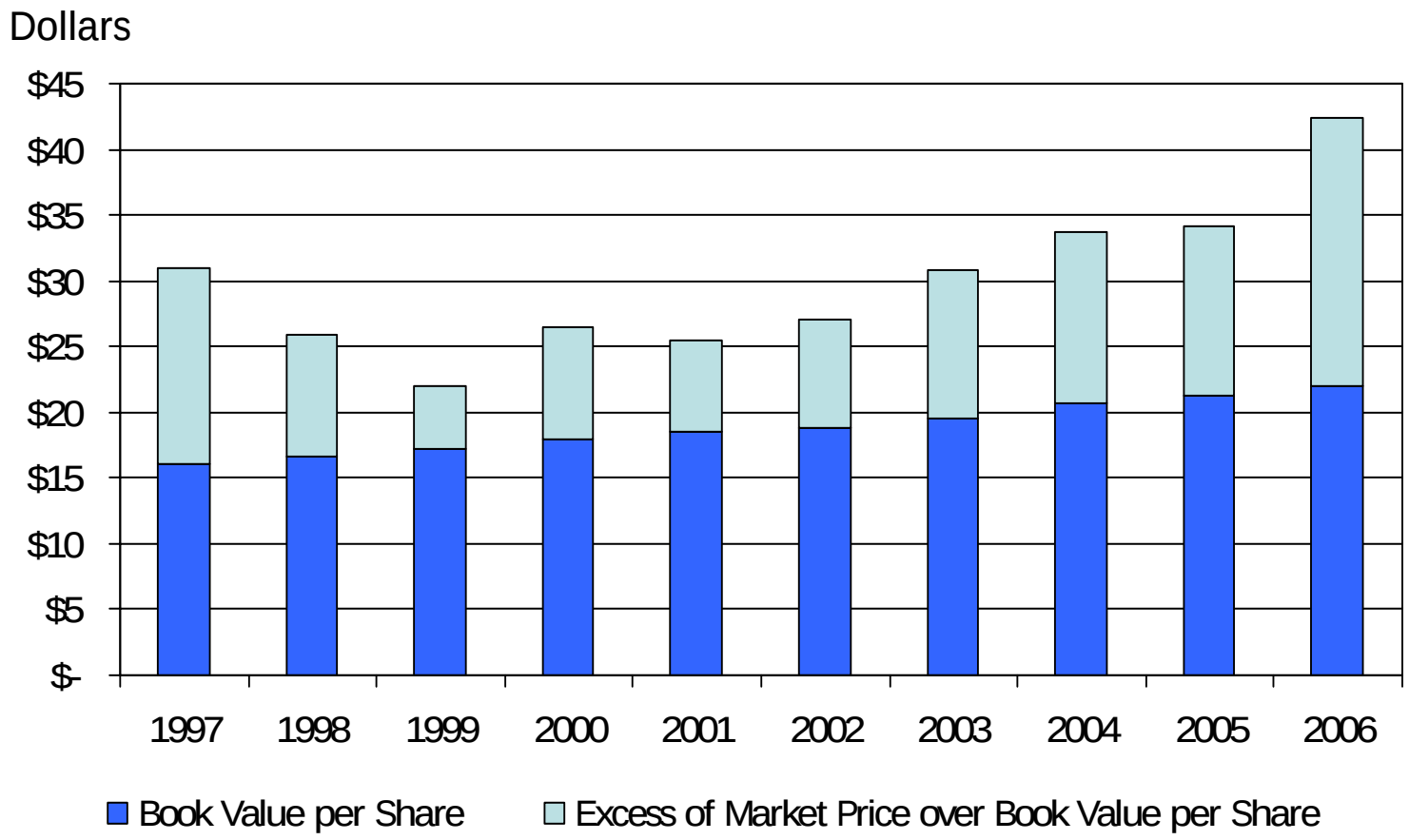
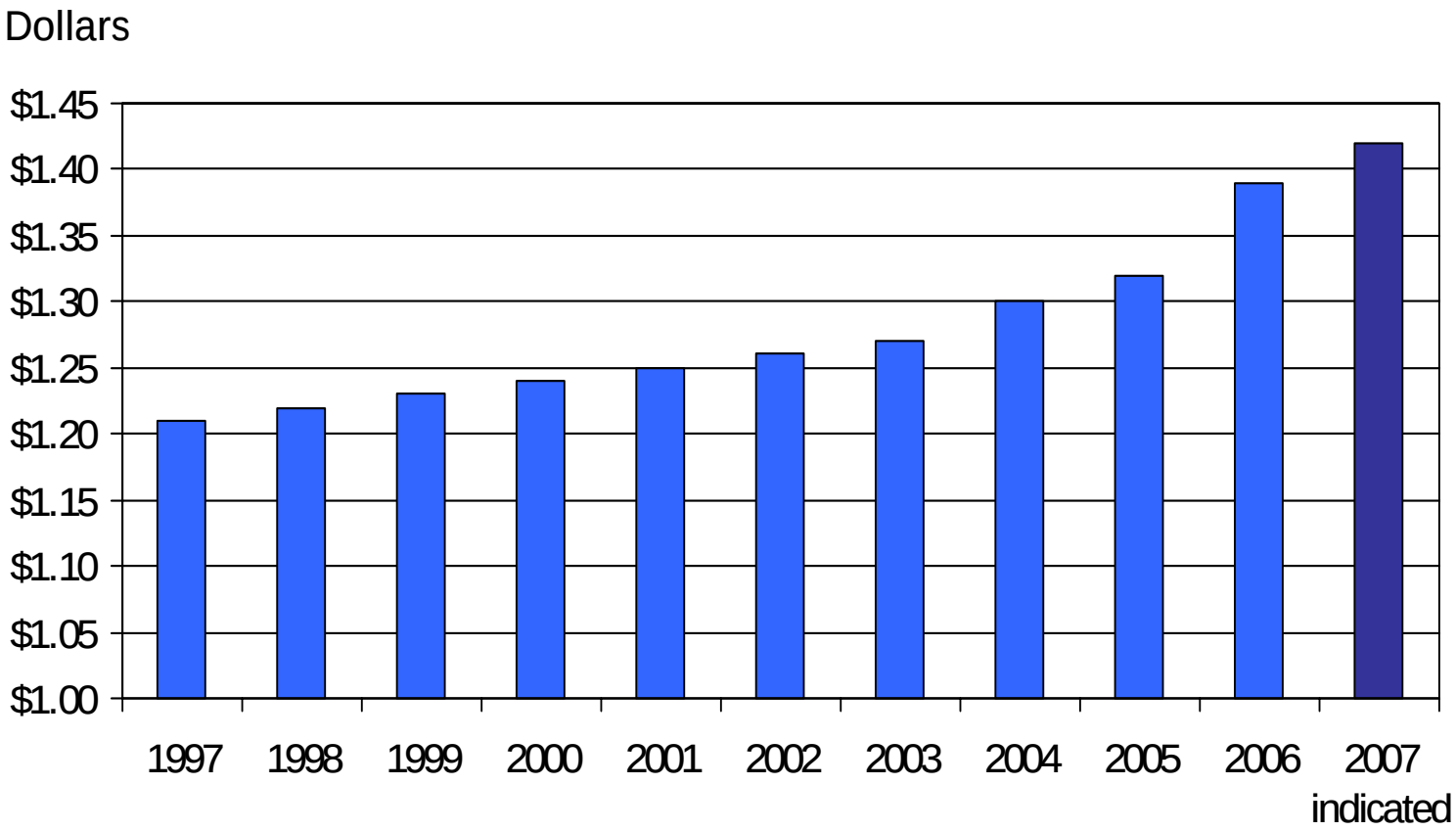
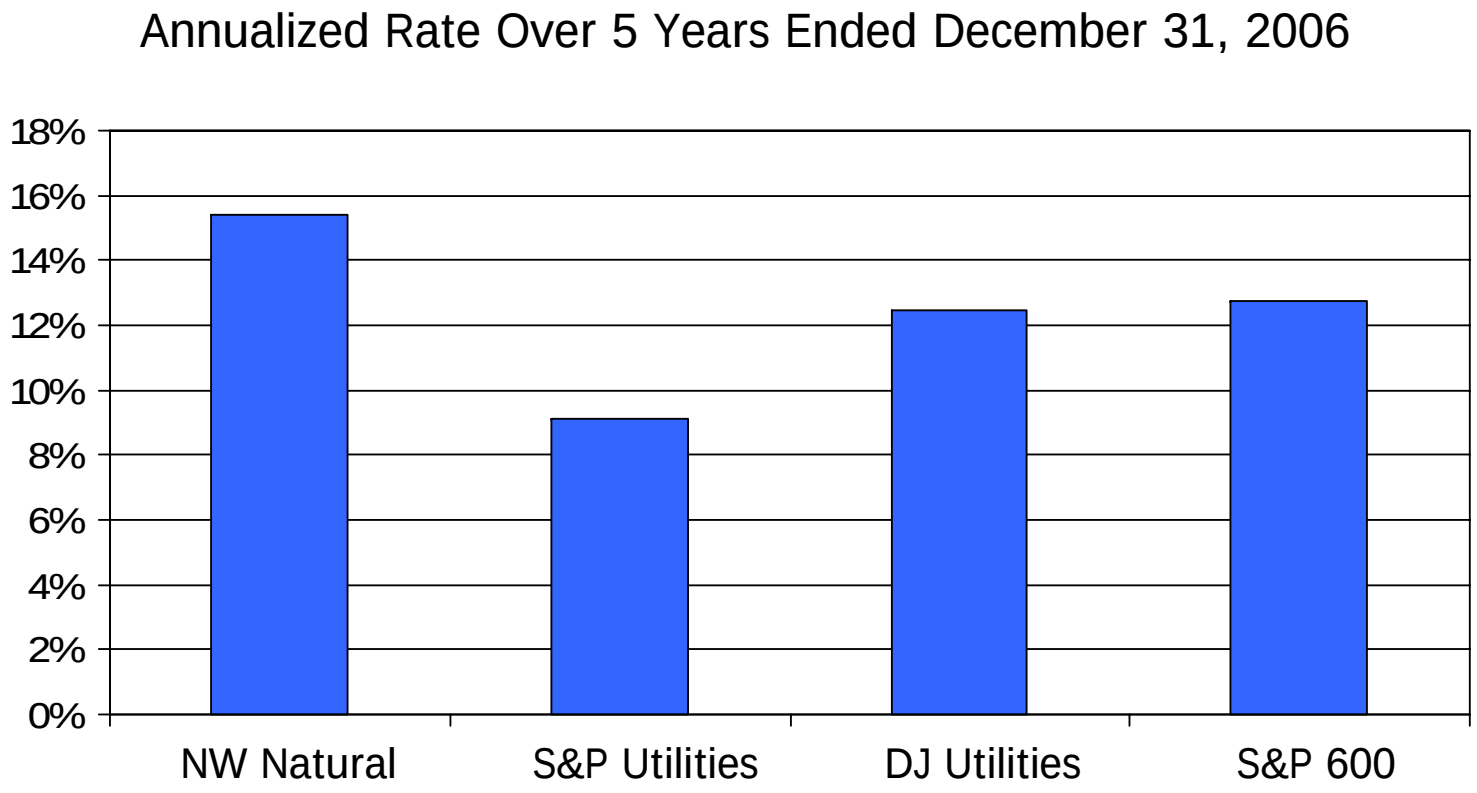
YEAR-END MARKET PRICE & BOOK VALUE



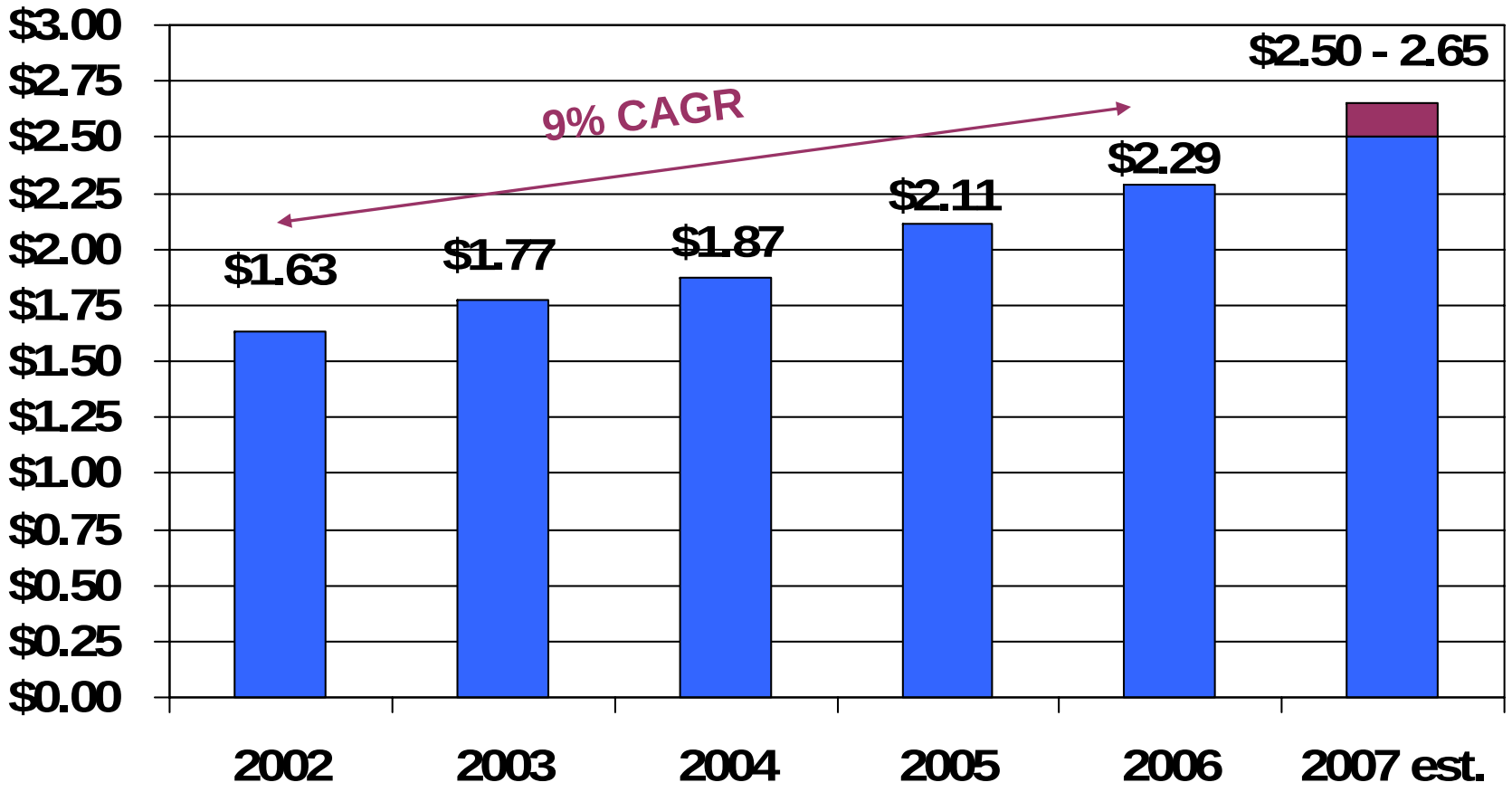
DIVIDEND HISTORY



TOTAL SHAREHOLDER RETURN



EARNINGS PER SHARE



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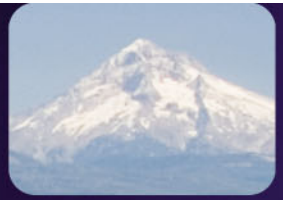
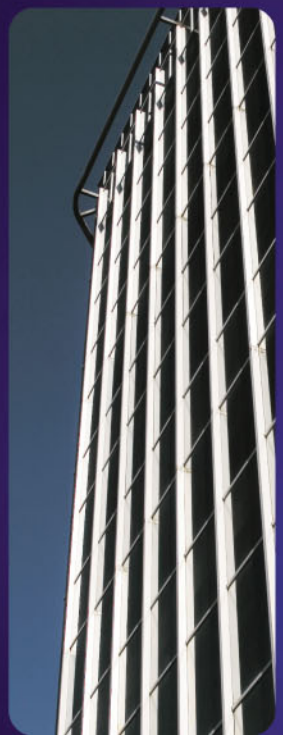
VALUATION

- "We continue to view NW Natural as one of the premier gas distributors in the nation, given very strong core gas utility fundamentals buoyed by profitable storage activities, providing a highly visible earnings-per-share and dividend growth path for investors."
  – Dan Fidell, *AG Edwards*

- "We view the quality of Northwest's earnings as strong, with nearly all of its earnings coming from the regulated utility. Northwest benefits from unique rate mechanisms in Oregon that reduce the impact from weather and changes in volume usage."
  – Brian Youngberg, *Edward Jones*







GREGG KANTOR
President & Chief Operating Officer

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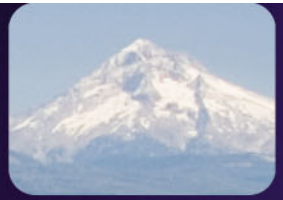



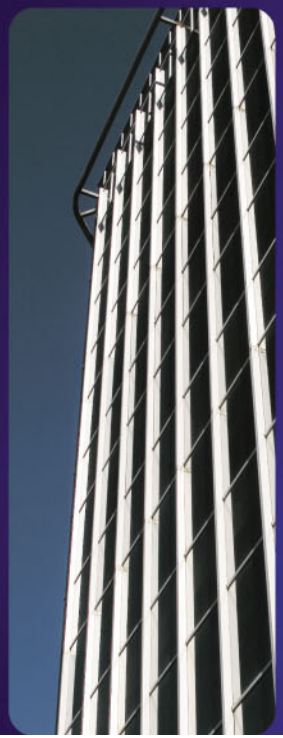

MARK DODSON
Chief Executive Officer

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RECOGNIZING OUTSTANDING SERVICE

- Above and beyond employee contributions to:
  - The company
  - The customer
  - The community

RECOGNIZING OUTSTANDING SERVICE



OPPORTUNITIES AHEAD

- Mist expansion
  - New St. Helens Pool Reservoir
  - Expanded existing Flora Reservoir
  - More capacity and 15% more daily deliverability
- Proposed Palomar Pipeline Project
- Gas cost savings benefits
  - $22 million in savings for customers
  - $9.8 million in margin for the company

COMMITMENT TO SUSTAINABILITY

- Environmental protection - a company value
- Created Office of Environmental Policy & Sustainability
- Serve in leadership role on climate change issues
  - Participate in climate change policy development
  - Natural gas will play a critical role in a carbon-constrained future

NATURAL GAS: THE FUEL OF CHOICE

- Environmentally friendly
- Provides unmatched comfort and convenience
- 97% of natural gas comes from North America
- Highly efficient, reliable and abundant



COMPLETION OF RESTRUCTURING

- We are committed to holding costs down for our customers
- The results of our efforts will mean:
  - Greater centralization
  - More standardization
  - More effective use of technology
  - A more flexible work force
  - Sustainable, long-term value

THE JOURNEY FORWARD

"Every day you make progress.
Yet there will stretch out before you
an ever-lengthening, ever-ascending,
ever-improving path.

You know you will never
get to the end of the journey.

But this only adds to the joy and glory of the climb."

- Winston Churchill


NW Natural®