NW Natural®

We grew up here.



Investor Presentation

September 2006

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. For a more complete description of these uncertainties and risk factors, see the Company's filings with the Securities and Exchange Commission on Forms 10-K and 10-Q.

NW Natural at a Glance

- Over 624,000 customers
- A distribution and transmission system totaling 13,187 miles
- Customer growth of 3%+ for 20th consecutive year; more than twice the national average
- 13.9 billion cubic feet gas storage capacity with growth potential
- Constructive regulatory environment
- Strong balance sheet & cash flows
- Financial & operational discipline to control costs
- Shareholder-focused strategy
- Experienced management team



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2006 Highlights YTD (June 2006)

- Increased 6-month 2006 EPS to $1.56 per diluted share ($43 million) vs. $1.43 per share ($40 million) – a 5% increase
- Continued to add customers at a rate of 3.3% for past 12 months
- Managed bad debt effectively (.39% of revenues)
- Strong credit agency ratings
- Strategic initiatives underway to reduce costs and improve efficiencies

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Constructive Regulation

- Purchased Gas Adjustment (PGA) price increases filed in OR (6.7%) and WA (6.4%) – implemented in November
  - October and November weather now covered in Oregon through 2007-08
- Oregon Conservation Tariff
  - A decoupling mechanism, breaking the link between profitability and customer consumption
    - Price elasticity adjustment
    - Conservation adjustment
    - Renewed through Sept. 2009 and decoupling mechanism raised to 100%
- Weather normalization (WARM) in place in Oregon, decoupling workshop conducted in Washington
- Forward treatment for pipeline integrity & bare steel

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Sustainable Growth

- New residential construction – continuing to capture majority of the market
  - Targeted marketing communications and programs with construction partners to maintain momentum
- Cost control measures in place to achieve targeted results – efficiency improvements
- Gas storage opportunities for expansion
- Continue targeting EPS growth of 5% or more

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Core Business Growth Potential

Residential single-family market

- Gas is still well positioned in Northwest energy market
- 53% market share means large conversion market potential
- Gas came late to Portland (1956)
- Leader in new construction market – single and multi-family

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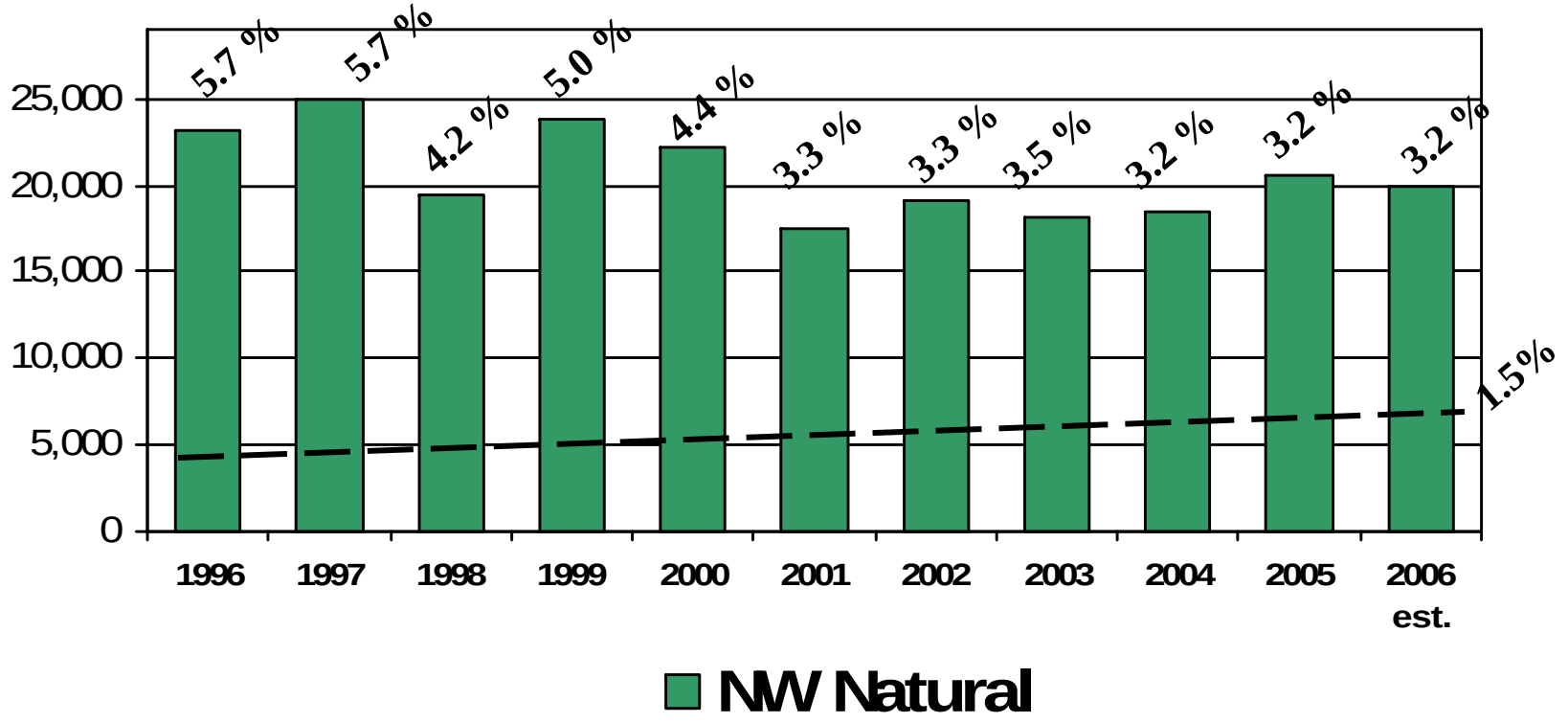
Net Customer Gains and Annual Growth %



Natural Gas Distribution Industry Average Annual Growth : ~1.5 %

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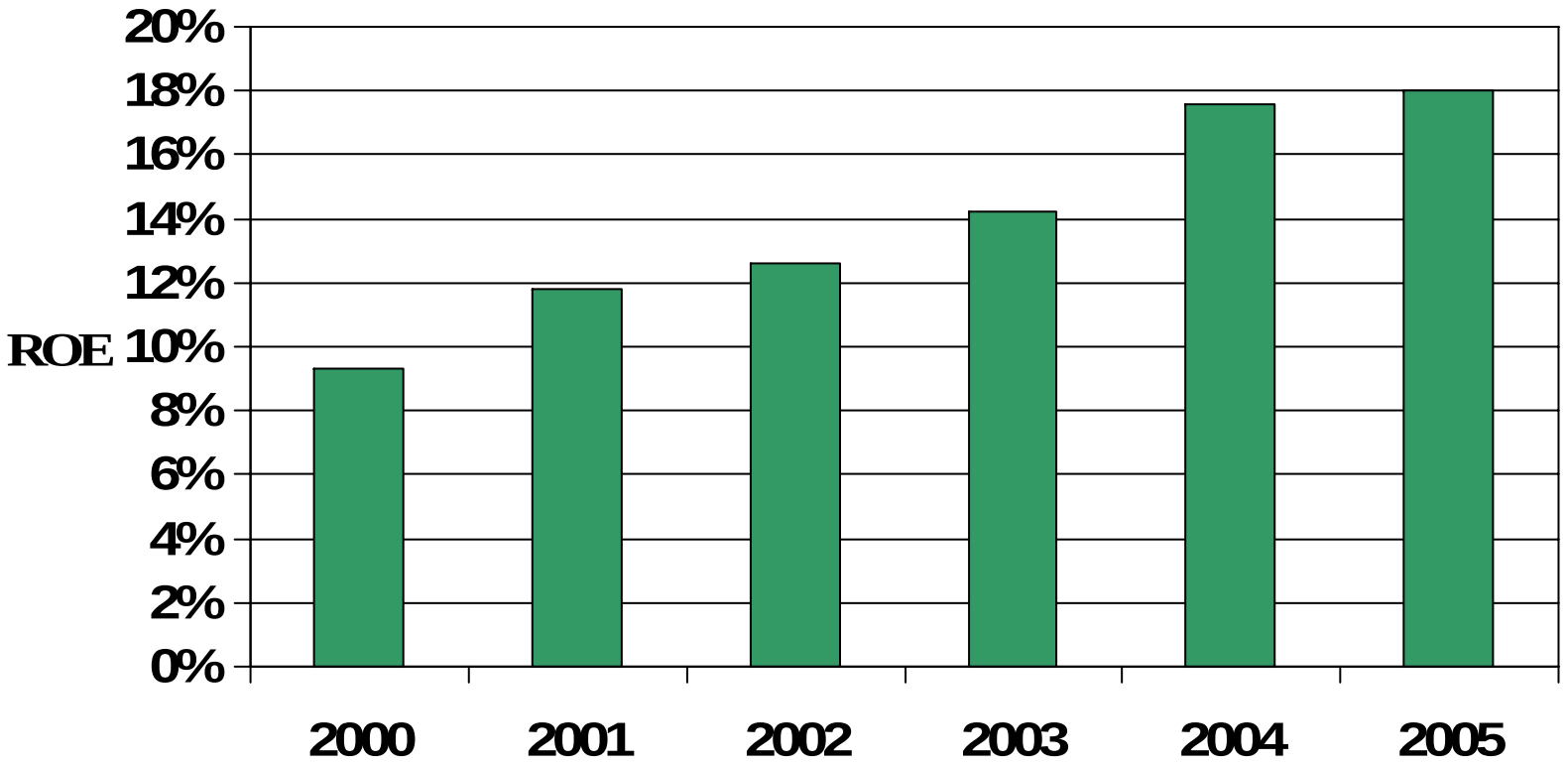
Profitability of New Residential Customer Acquisitions



Conversion Opportunities

Estimated Market Potential	Single-Family	Multi-Family	Non-Residential	Total
On-Main Potential - Gas in same block	141,962	6,551	14,807	**163,320**
On-Main Potential - Probably Gas in same or next block	111,542	27,172	18,845	**157,559**
Near-Main Potential - Gas main somewhere in neighborhood	41,882	7,980	8,517	**58,379**
Off-Main Potential - No gas main in neighborhood	65,077	3,666	14,788	**83,531**
TOTAL	**360,463**	**45,369**	**56,957**	**462,789**

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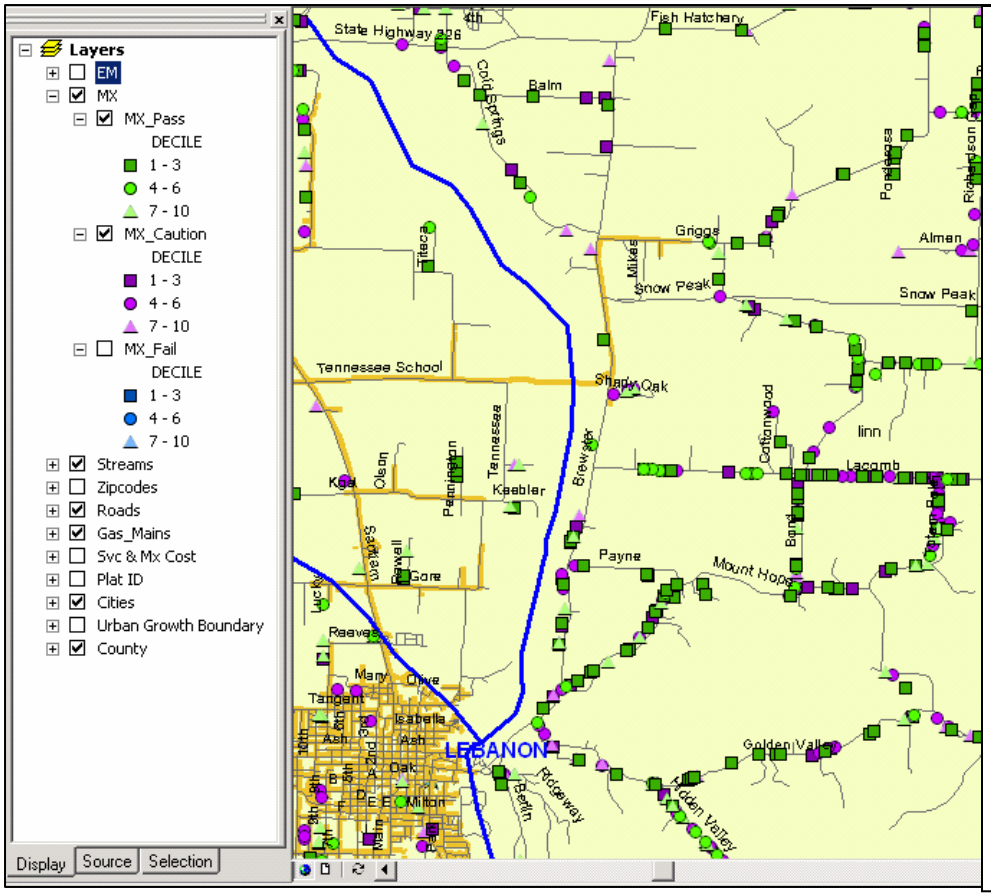
AROE – Main Mapping



- 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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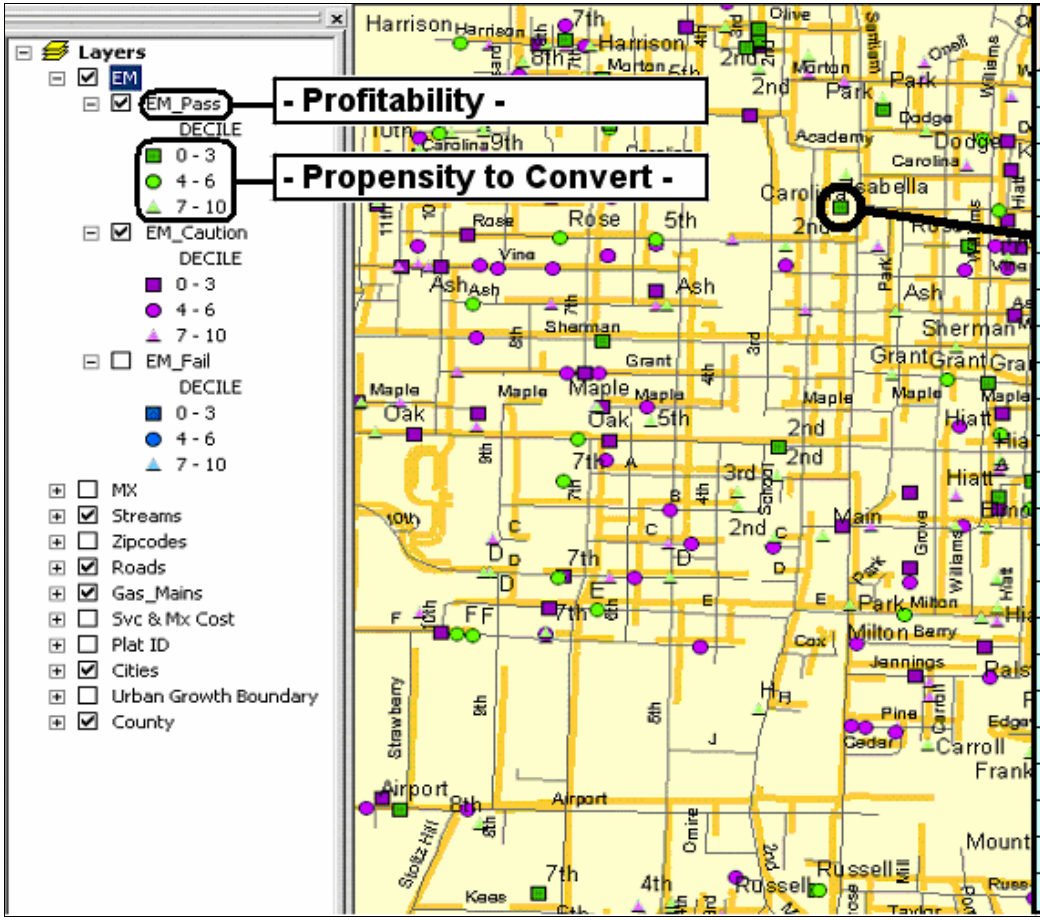
Mix of Technology, Targeting, Segmentation & Profitability



Field	Value
NWN Customer:	NO
Segment:	Residential
EM (Existing Main):	YES
Income (Demographic):	MEDIUM
Life Stage (Demographic):	FAMILY
Market value:	$ 235,444
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**
Construction Cost:	**$ 1,419**
STATUS:	**PASS**
ROE (3 years):	**14%**
IRR:	22%
NPV:	$ 802
Contribution Required	$ 0

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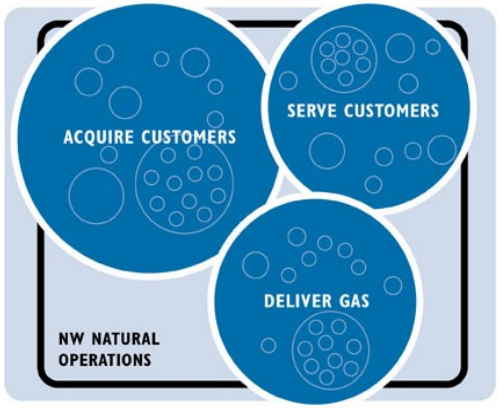
Operations Business Model Review

Vision:

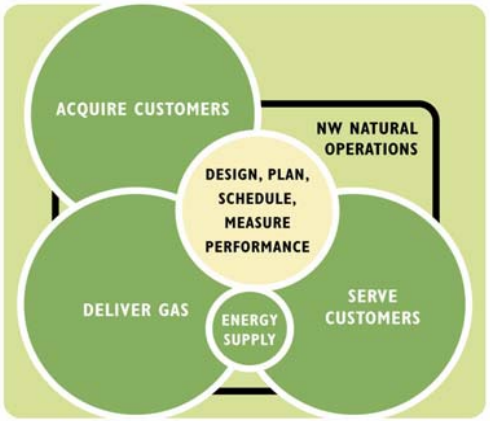
- Be one of the “Best in Class” LDCs in the country based on industry benchmarking
- Structure the organization around key business processes and be operationally excellent
- Provide the right resources, with the right skilled employees, on the right jobs, at the right time

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

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Operations Business Model Review

What Changes?

- **Centralization/consolidation** – consolidated call centers, centralized scheduling & dispatch of field resources, and center and district facilities will become “resource centers”
- **Process orientation** – establish process directors around the new model, with improved accountability, fewer managers, and increased role of supervisors
- **Operational efficiencies** – outsource nearly all new construction by 2009, outsource the majority of locate work and main and service leakage survey work by 2007, move to formula-based estimating, implement AVL & AMR, etc.
- **Enhanced customer acquisition** – build a new sales force and focus on customers and allies in high-growth areas – expand Good Neighbor Service & Open Pathways programs
- **Full union leadership involvement** and support
- **Employee reductions** of 50-100 in 2006 and 100-200 over next two years

Natural Gas Storage

- Separate business segment
  - Interstate storage services
  - 3rd party optimization of assets
- Key utility resource at Mist (OR) – 13.9 BCF
  - Least-cost seasonal peaking supply
  - Low incremental development costs
  - Investment rolled into rates as needed for core customers
- Additional storage capacity above core regulated requirements available for the interstate market
- Well-positioned for potential LNG terminal on Columbia River
- 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
- Last expanded in 2005; further expansion planned in 2007



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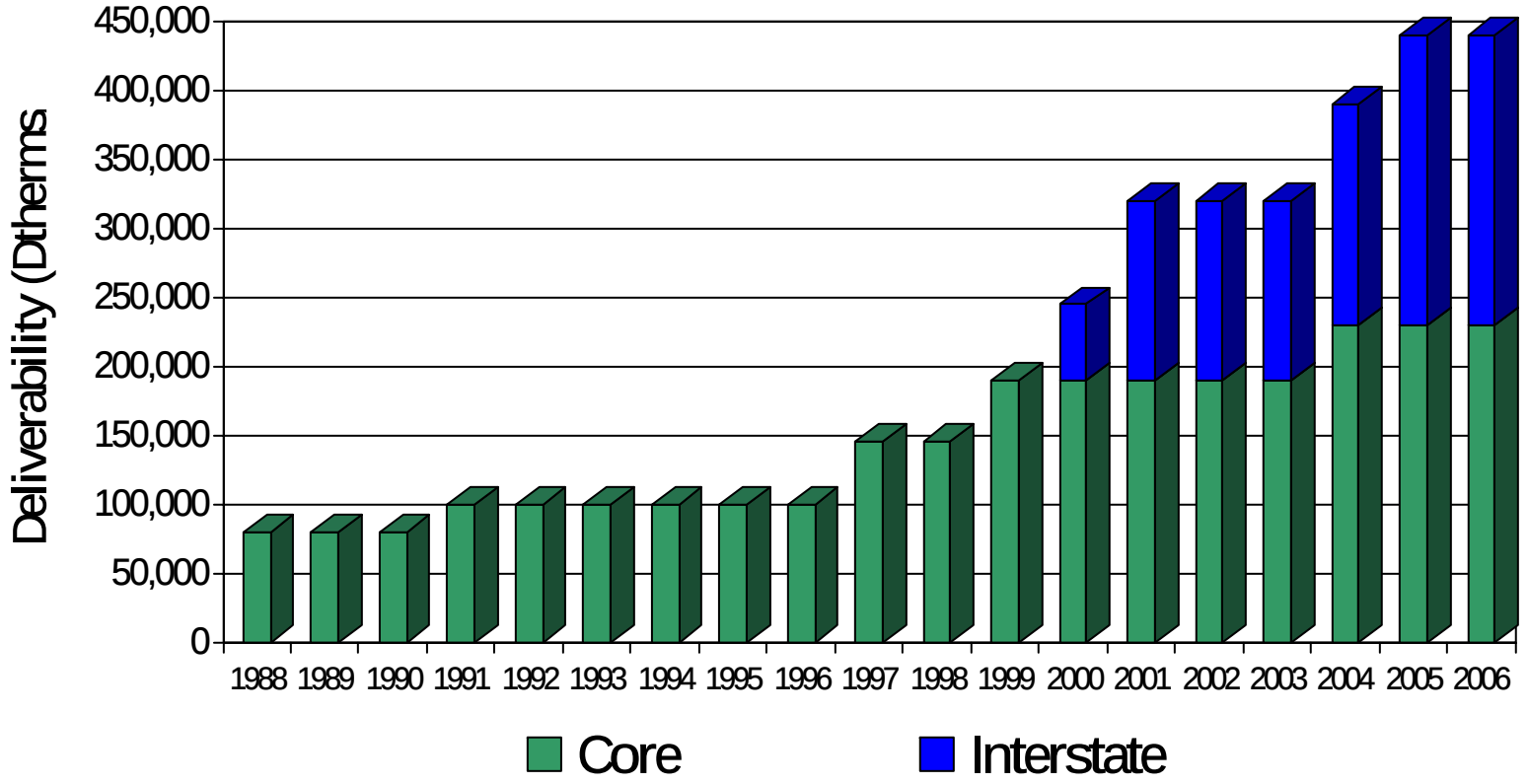
Historic Mist Integrated Development



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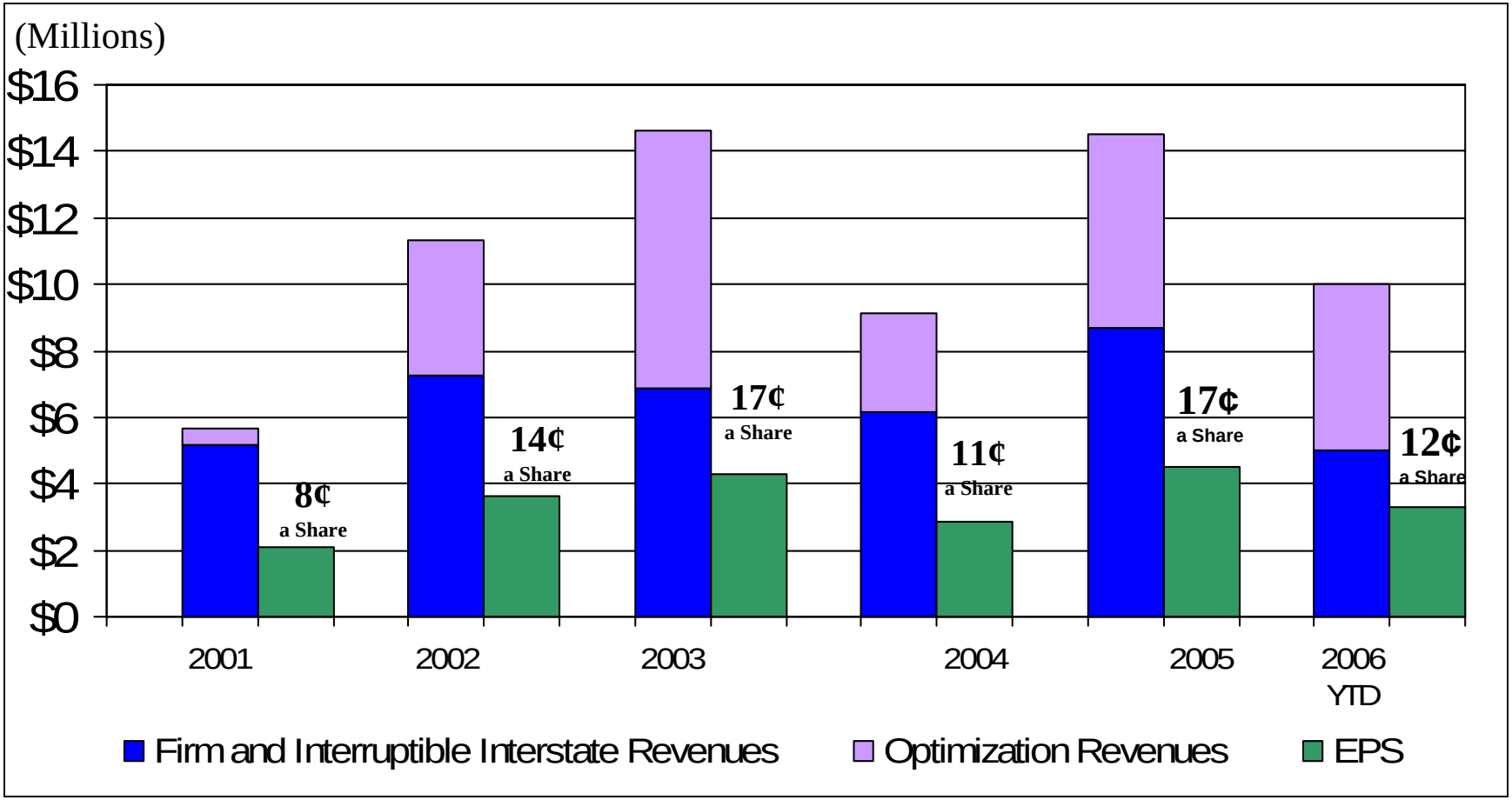
Interstate Gas Storage Revenues & EPS



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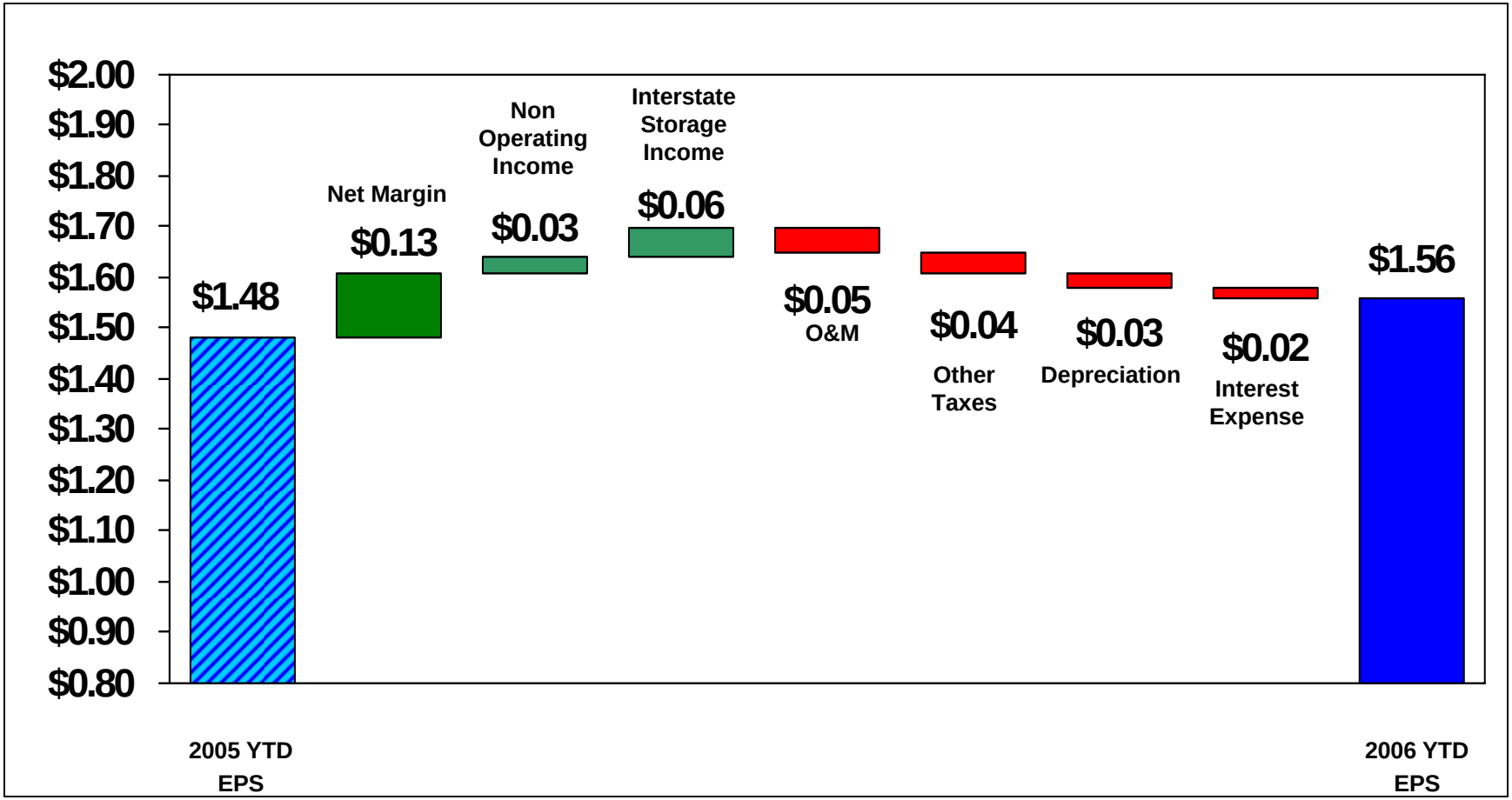
2006 YTD Earnings Per Share Variance

(Q2 ’05 to Q2 ‘06)



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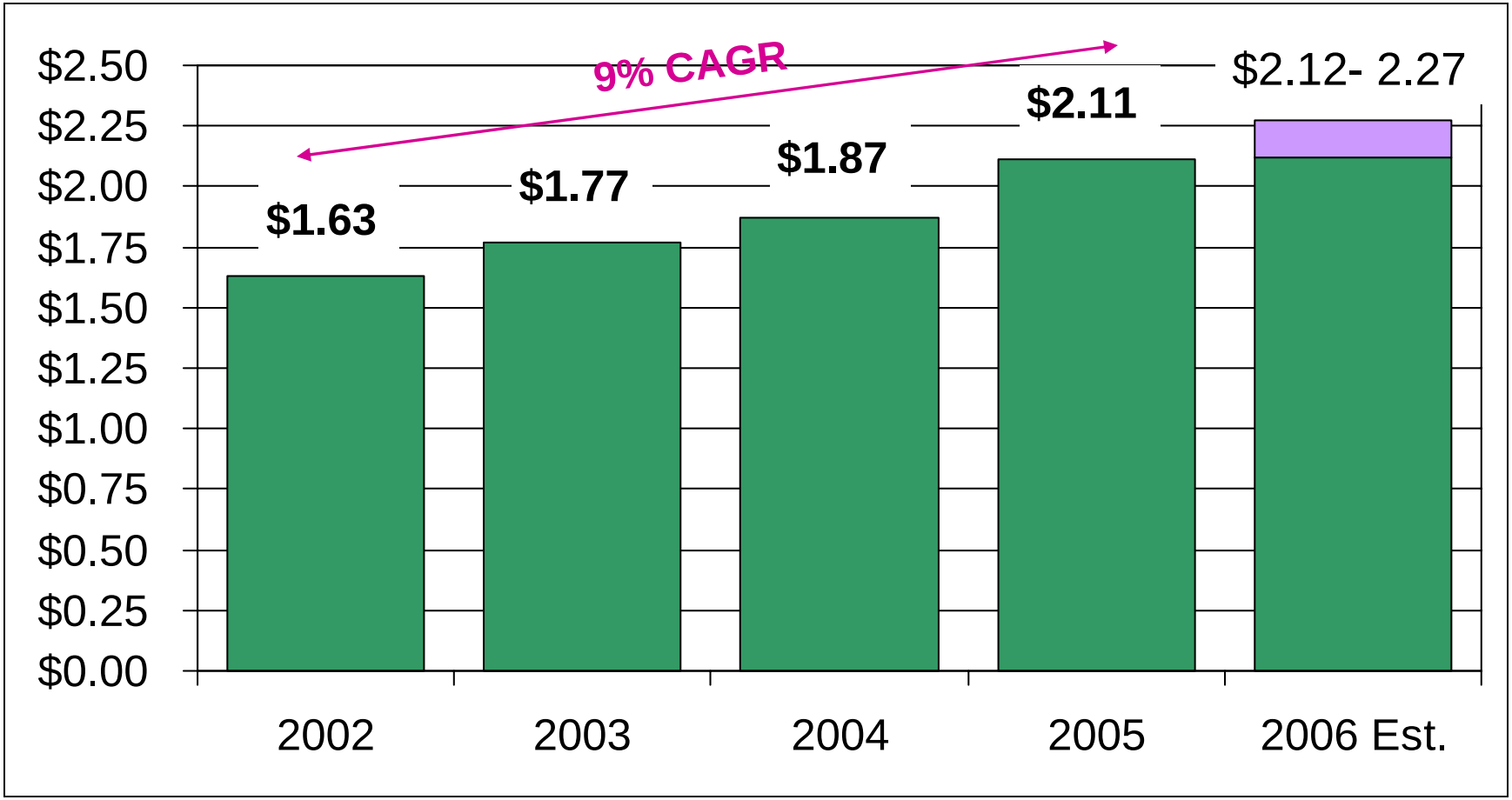
Earnings Per Share



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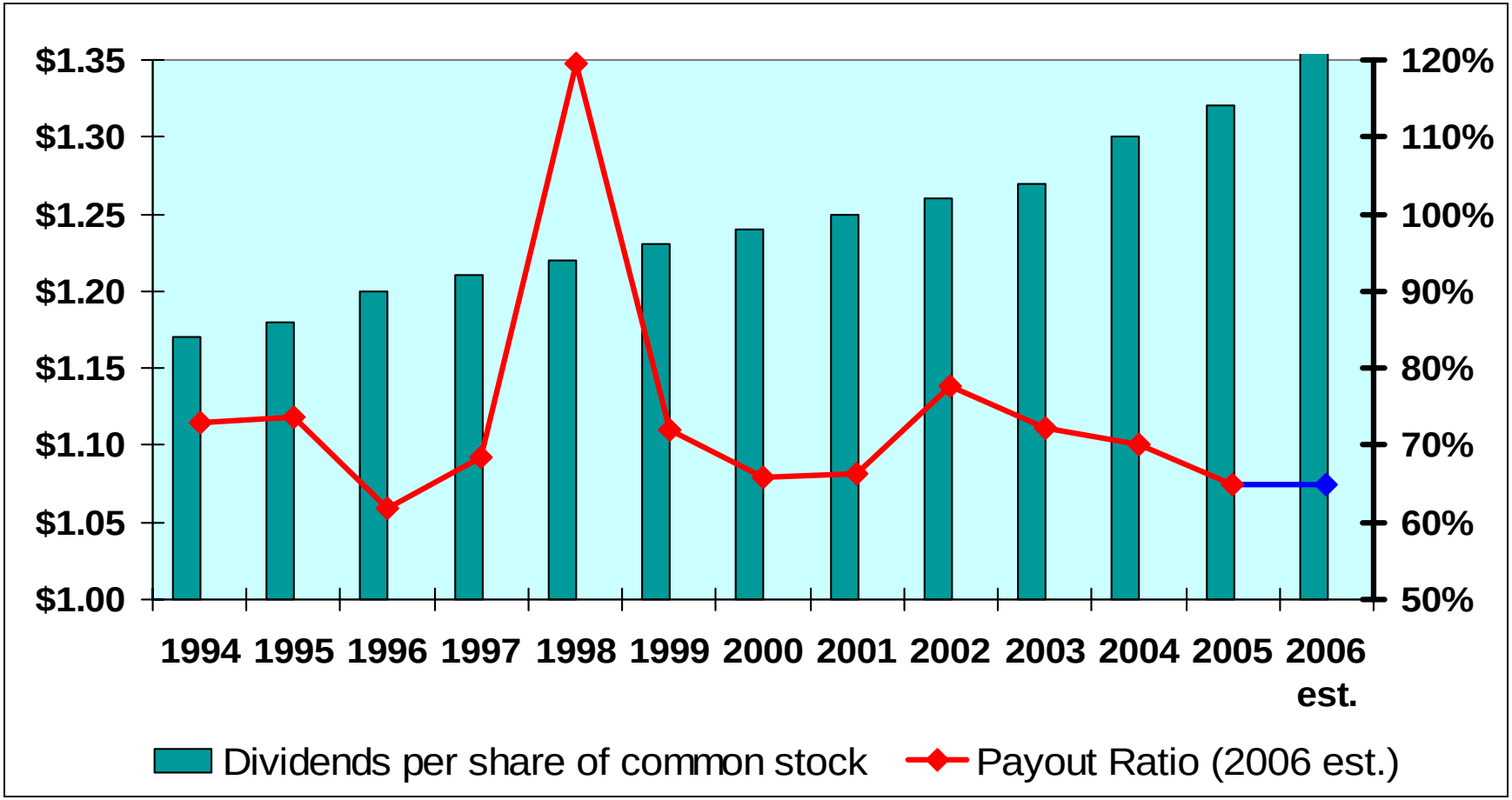
Dividend History



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Conclusion

- Solid second quarter and first half of 2006
  - Strong customer growth (20th consecutive year at 3% or greater) and improving operating results from utility *and* interstate gas storage
- Operational efficiency initiatives announced and underway
- Increasingly predictable earnings stream and internally funded cash flow adequate to fund '06 capex, including AMR project
- Sound regulatory relationships continuing
- Earnings guidance for 2006 reaffirmed in Q2 announcement despite warmer weather
- Regulatory framework provides effective treatment of commodity costs
- Non-utility opportunities from gas storage
- 50-year history of dividend increases
- Strong credit ratings and low refinancing risk –
  - LT Debt: S&P (AA-), Fitch (A+), Moody's (A2)
  - Commercial paper: S&P (A1+), Fitch (F1), Moody's (P1)

NYSE: NWN

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NW Natural and its predecessors have supplied gas service to customers since 1859. The Company's service area, which now spans western Oregon and southwestern Washington, includes the Portland metropolitan area, which has a population of more than 2.7 million people.

KEY INDICATORS:	Q2 2006	2005 Y/E	2004 Y/E
Total Customers	624,545	617,163	596,635
Total Common Equity (000)	$610,878	$586,931	$566,517
Avg Shares of Common Stock Outstanding (000)	27,574	27,564	27,016
Number of Registered Common Shareholders	8,958	9,136	9,359
Institutional Ownership	49%	49%	47%
Annual Dividends (ttm)	$1.34	$1.32	$1.30
Diluted Earnings per Share	$1.56	$2.11	$1.86
Book Value per Share	$22.18	$21.28	$20.64

COMPOSITION OF UTILITY REVENUE:	Q2 2006	2005	2004
Residential	53%	53%	55%
Commercial	31%	27%	29%
Industrial & Transportation	16%	20%	16%

CURRENT BOND RATINGS:	Fitch	Moody's	S&P
Long-Term Debt	A+	A2	AA-
Commercial Paper	F1	P1	A1+

Stock Exchange: NYSE

Ticker: NWN

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