NW Natural®

We grew up here.



Brean Murray Carret & Co.

Investor Presentation

September 2009

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

NW Natural at a Glance

- Approximately 662,000 customers in OR & WA
  - 90% Oregon, 10% Washington
- A distribution and transmission system totaling 13,500 miles
- 16 billion cubic feet gas storage capacity in NW Oregon with growth potential
  - 3-D seismic testing in 2009 completed
- Constructive regulatory environment
  - Washington general rate case settlement delivers $2.7 revenue requirement increase
  - Filing approved for gas storage project in California on accelerated schedule
- Strong balance sheet & 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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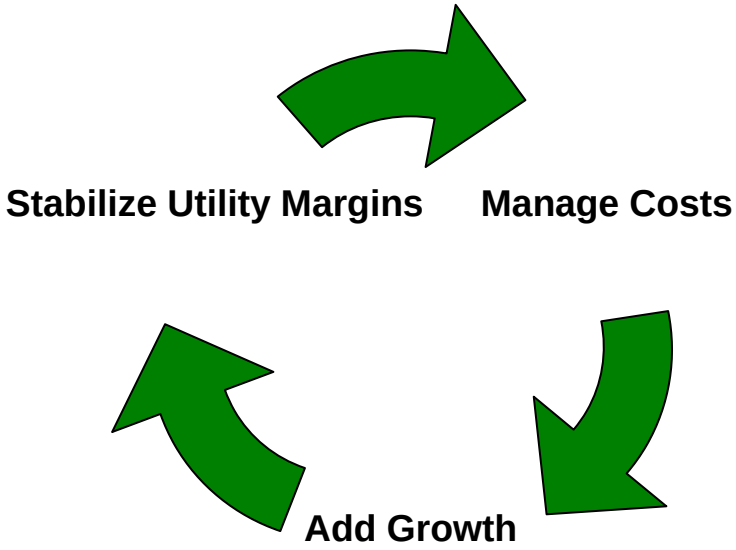
2009 Q2 & YTD Highlights

- Earned $1.90 per share on earnings of $50.4 million YTD 2009, versus $1.75 per share on earnings of $46.5 million in 2008
  - 9 percent increase in net income and EPS for first six months of 2009
  - Q2 results were the same as last year at 12 cents per share
- Union employees agreed to new, five-year agreement in early July that adds flexibility and keeps expenses aligned with lower growth
- Oregon and Washington customers were refunded more than $35 million in June due to lower gas prices, with further reductions expected for 2009-10
- Selected 90%-10% Purchased Gas Adjustment incentive sharing component for next year's heating season, starting Nov. 1, 2009
- Focused on managing costs & long-term growth projects
  - Made changes three years ago to operations and are currently reviewing and implementing further process improvements to reduce operating and capital costs to align with growth levels
- Bad debt expense kept to 0.38% of revenues – among the lowest in the country – but watching it carefully
- Reaffirmed 2009 guidance of $2.70-2.85 per share

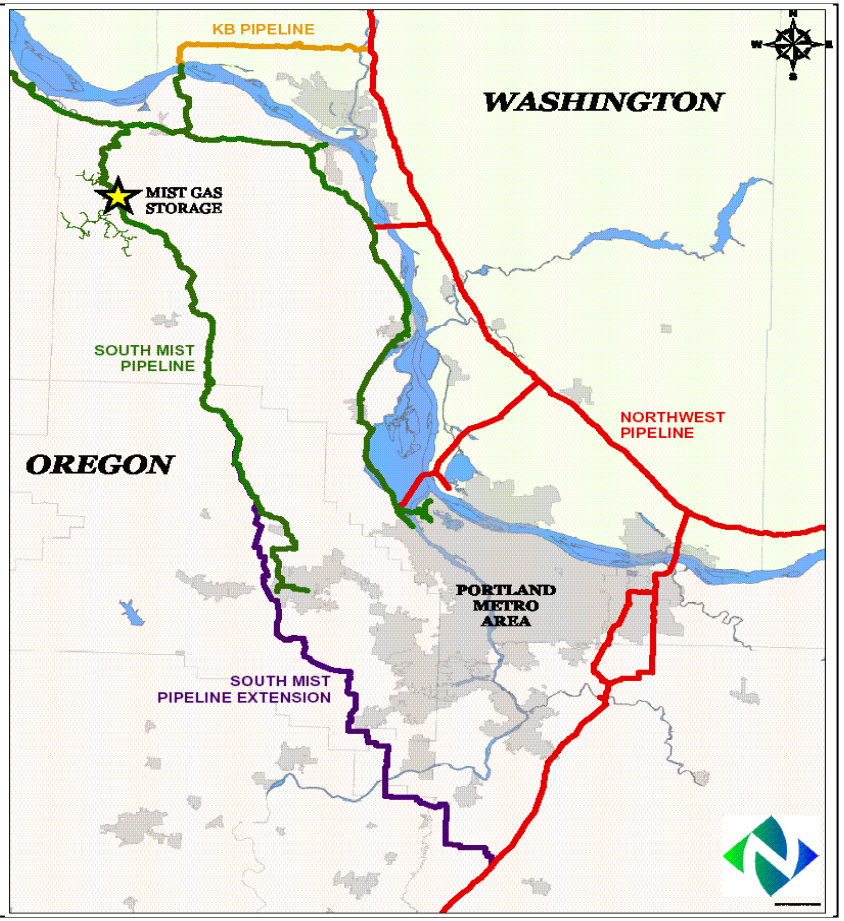
NWN Corporate Strategy

- 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.
  - Further changes to match lower-growth environment will be implemented
- 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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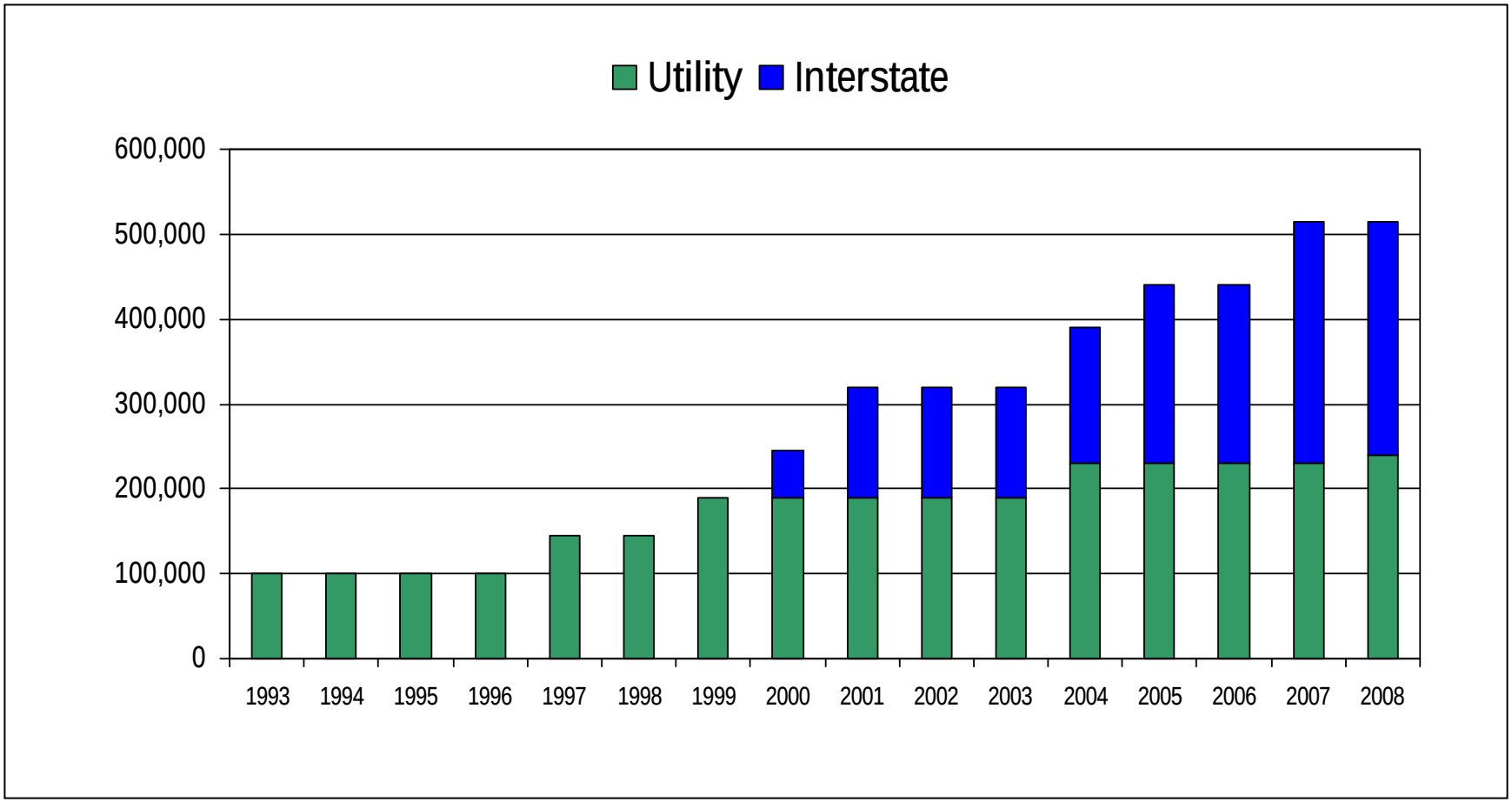
Historic Mist Integrated Development

(Deliverability/Dtherms)



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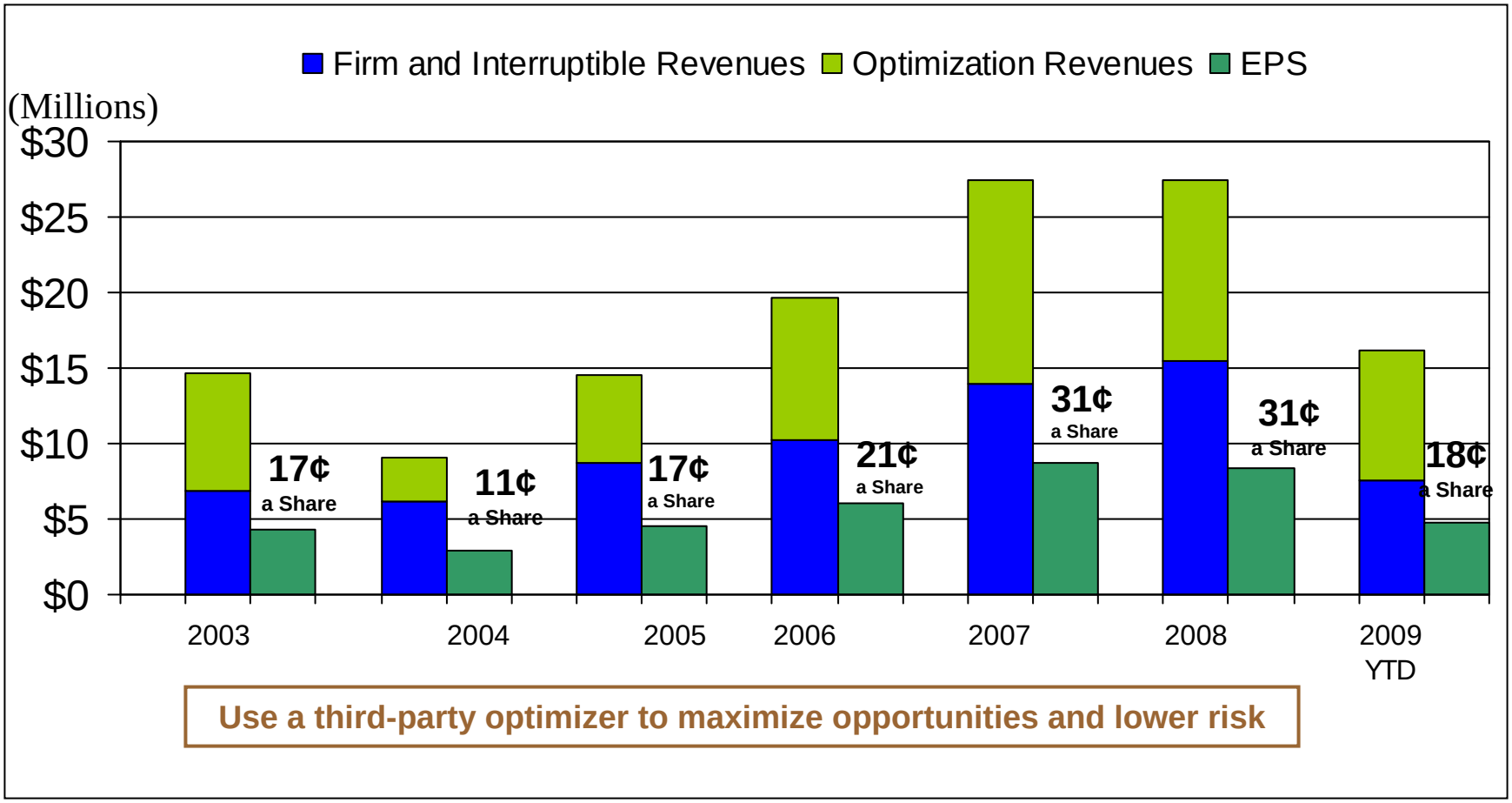
Gas Storage Revenues & EPS

(through June 30, 2009)



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

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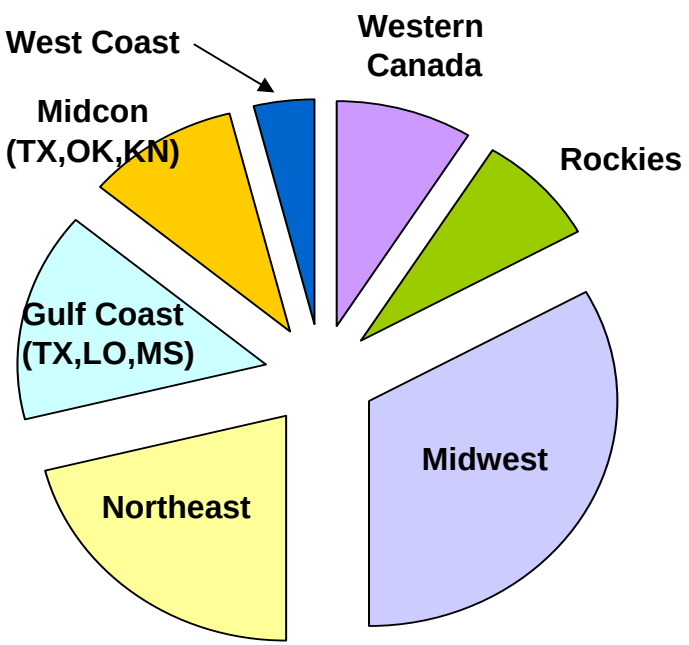
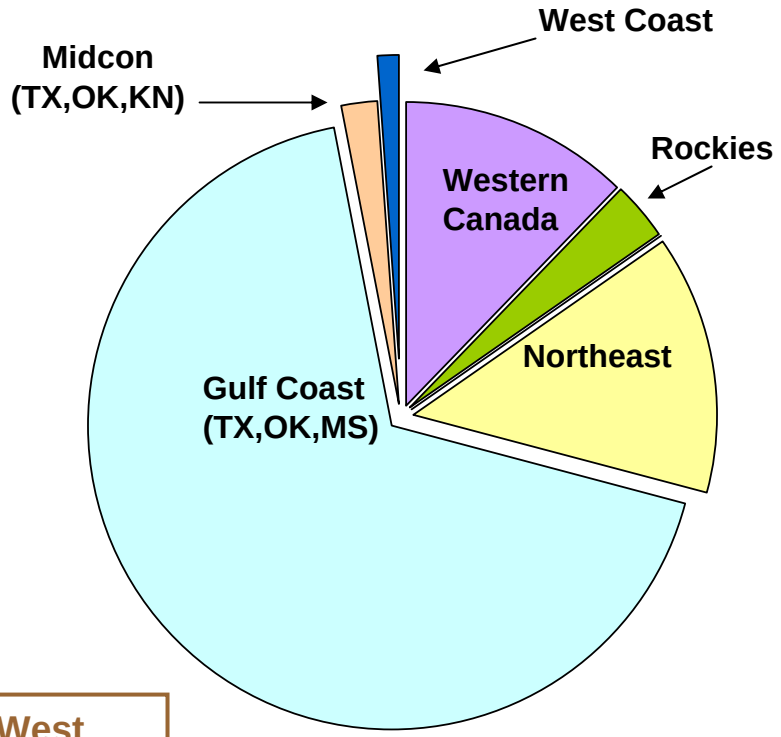
Need for Additional Storage in West

Existing Storage (4,395 Bcf)



Proposed Storage (403 Bcf)



Little storage in the West

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)



Perfect location for customers…

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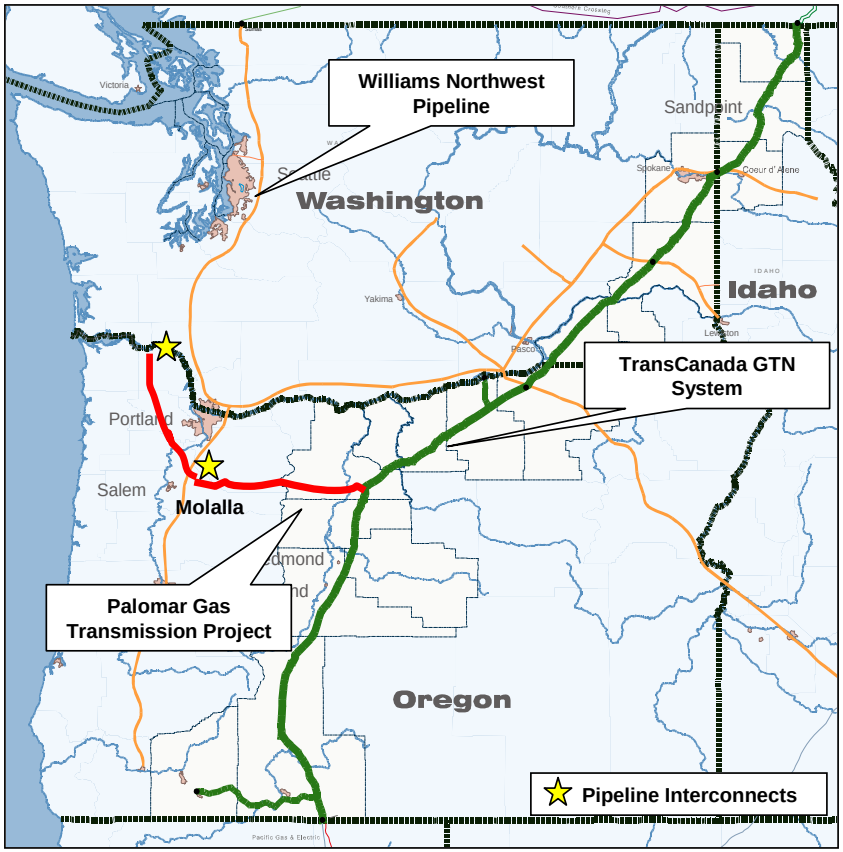
Palomar Pipeline Project Overview



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
- $750-800 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

Two projects: an East & West Zone

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Conclusion

- Strong YTD 2009 results – earnings of $50.4 million and earnings per share of $1.90 over 2008 – both up 9 percent
- Guidance reaffirmed at $2.70-2.85 per share at Q2, 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, Washington rate case settlement, Washington IRP approved
- Purchased Gas Adjustment (PGA) mechanism revised in OR with more appropriate risk-reward balance – 90%-10% selected for 2009-10 season
- Washington rate case resolved last 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. 2009
- Refunded more than $35 million to Oregon and Washington customers in June as a bill credit due to lower prices through March 31, 2009 + lower rates expected next year of ~15% or so
- Low-growth plan designed to deliver needed results by year-end & better align the company with the current economy
- 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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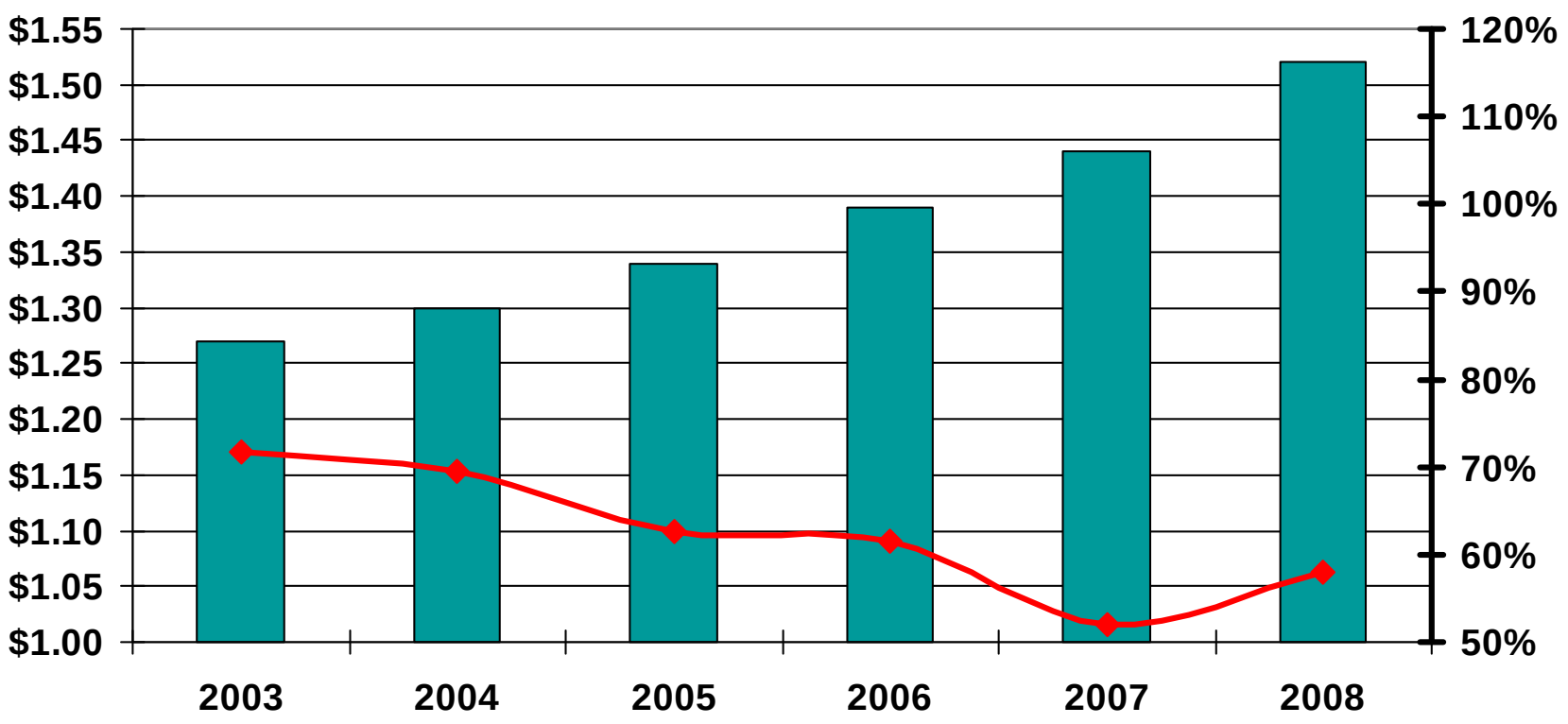
Dividend History



Addendum



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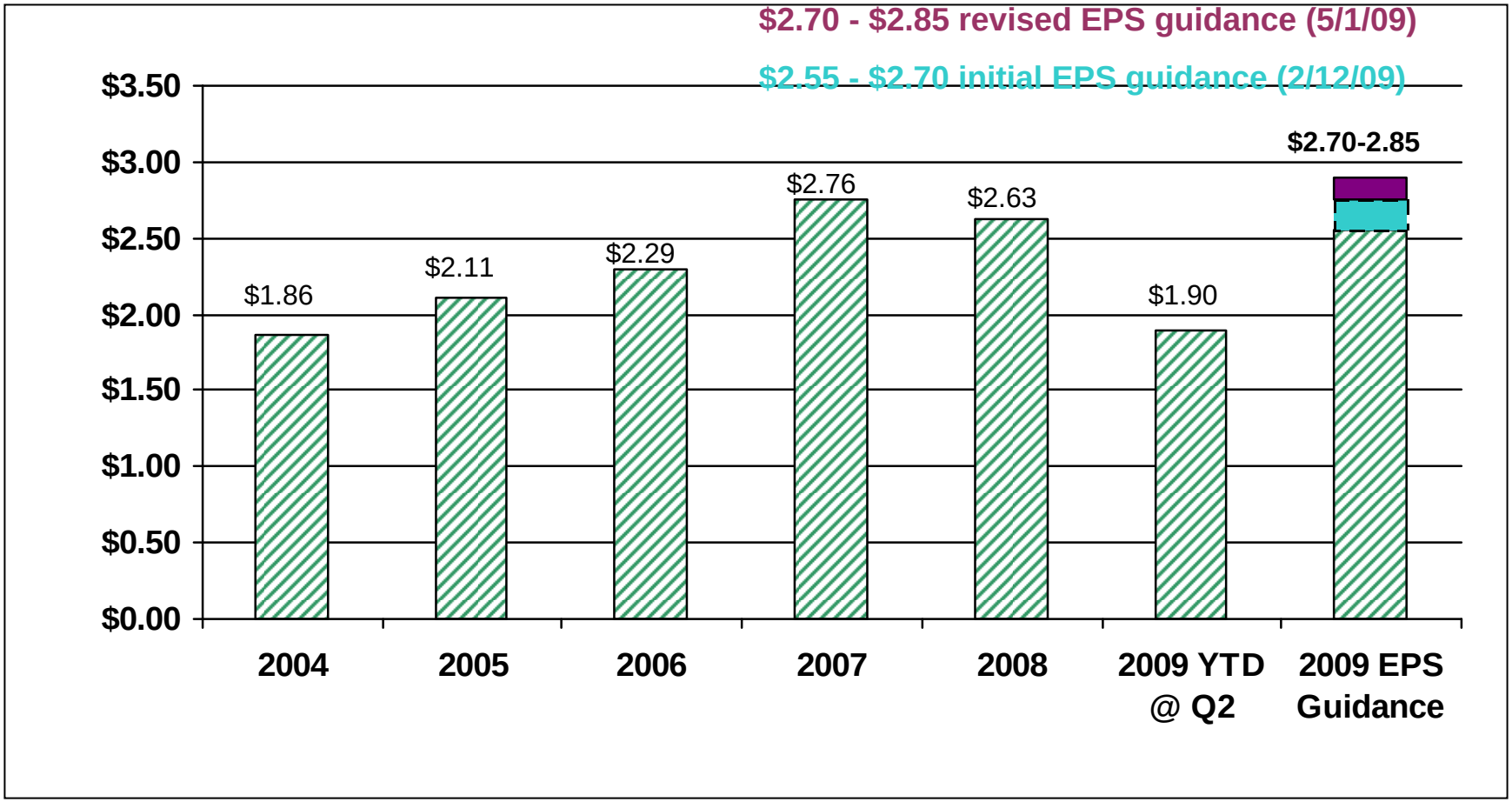
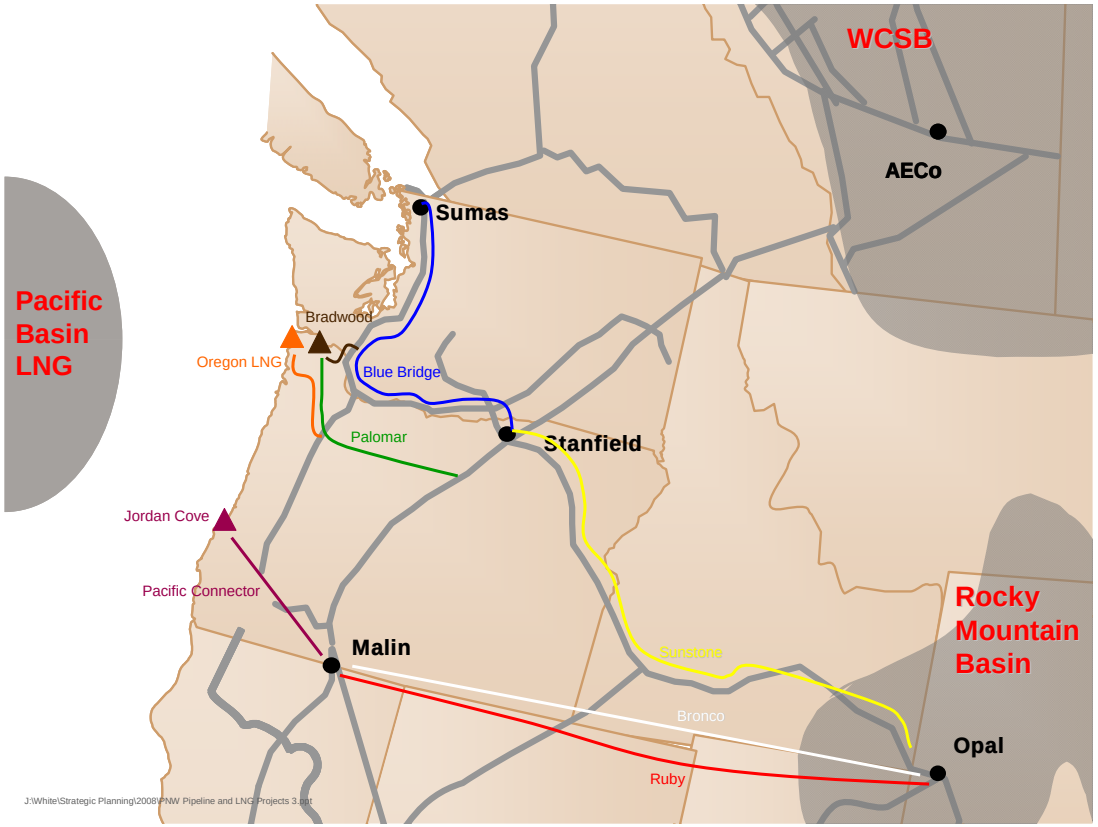
Earnings Per Share Growth



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 –

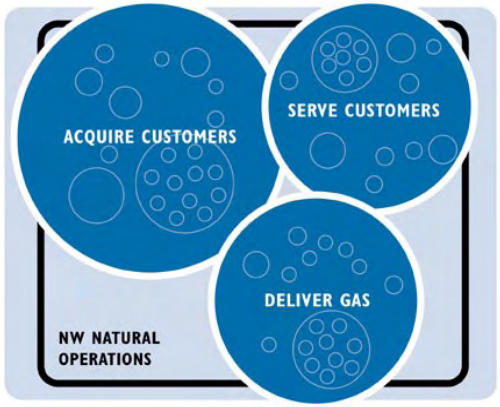
1. Palomar (NWN, TransCanada-GTN)
2. Pacific Connector (PG&E, Williams Pacific, Ft. Chicago LNG)
3. Ruby (El Paso)
4. Bronco (Spectra Energy) – halted
5. Sunstone (Williams, TransCanada)
6. Blue Bridge (Williams, Puget Energy)

Constructive Regulation

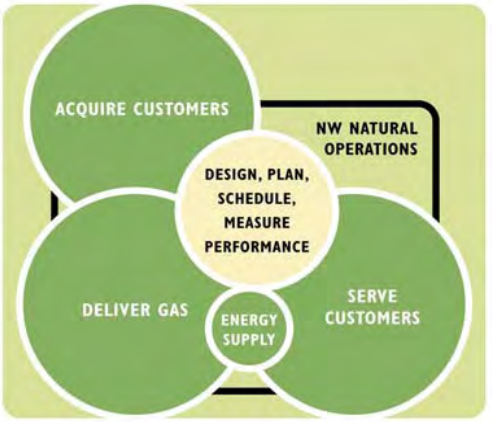
- Purchased Gas Adjustment (PGA) mechanism
  - Establishes better risk-reward balance with customers
  - 90-10 customer-shareholder sharing mechanism elected for 2009-10 heating season
- Oregon Conservation Tariff
  - A decoupling mechanism, breaking the link between profitability and customer consumption
    - 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 and received fast-track process approval
- December 2008 filing made related to Palomar Pipeline project w/FERC
- Refunded more than $35 million to customers as a June credit on their bills in advance of 2009-10 heating season. At this time, our expectation is for a further reduction for the coming 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**

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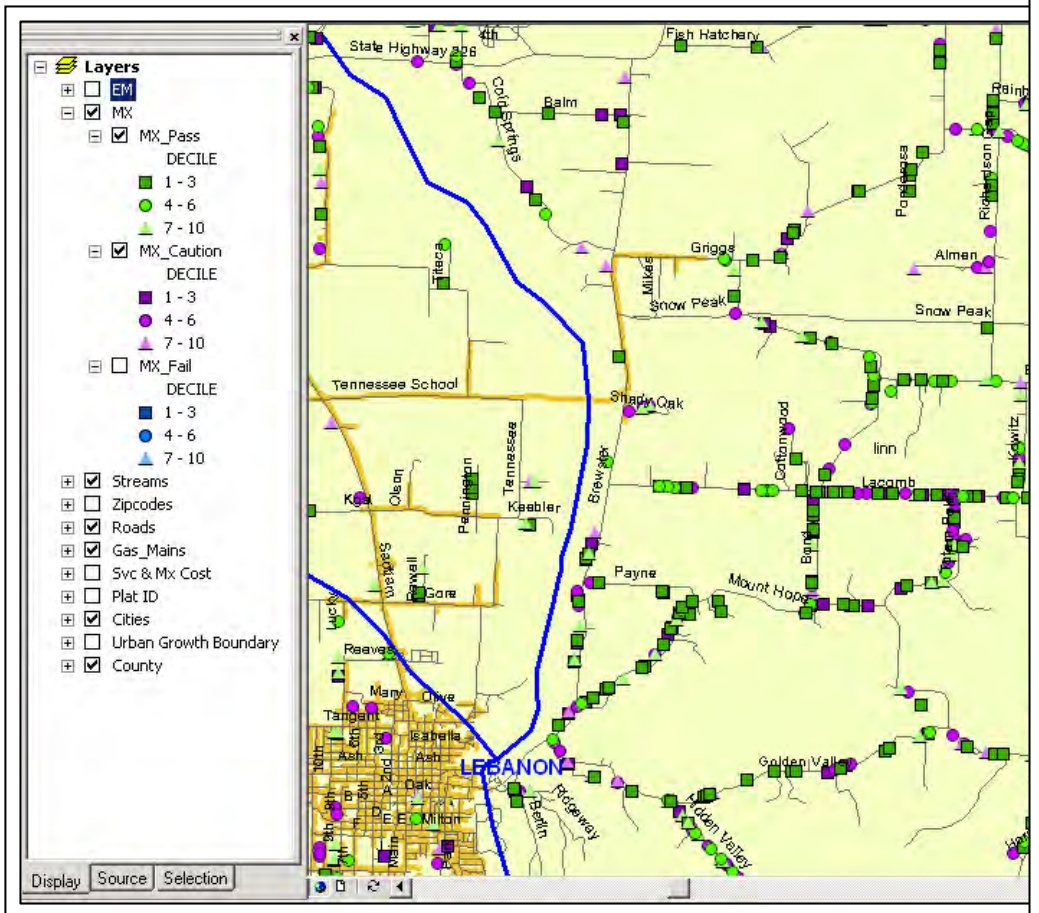
AROE – Main Mapping



- 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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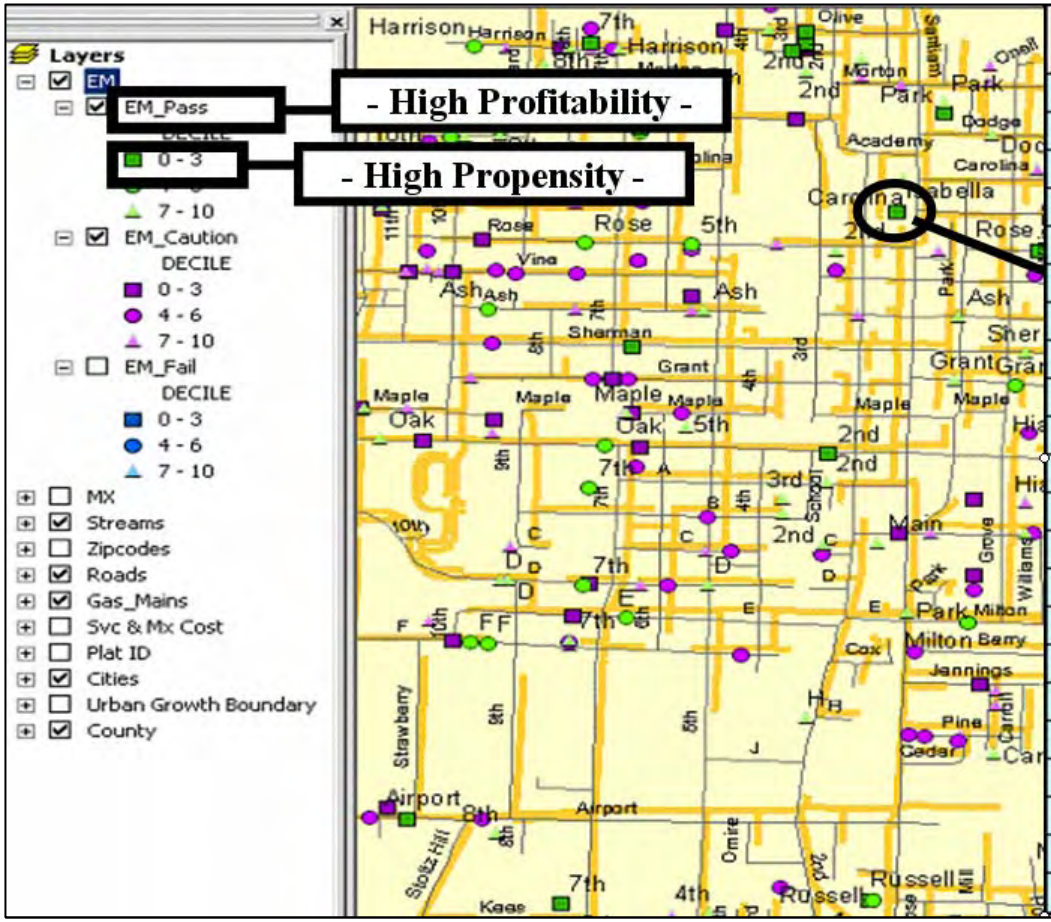
Example of a “Pass” Conversion



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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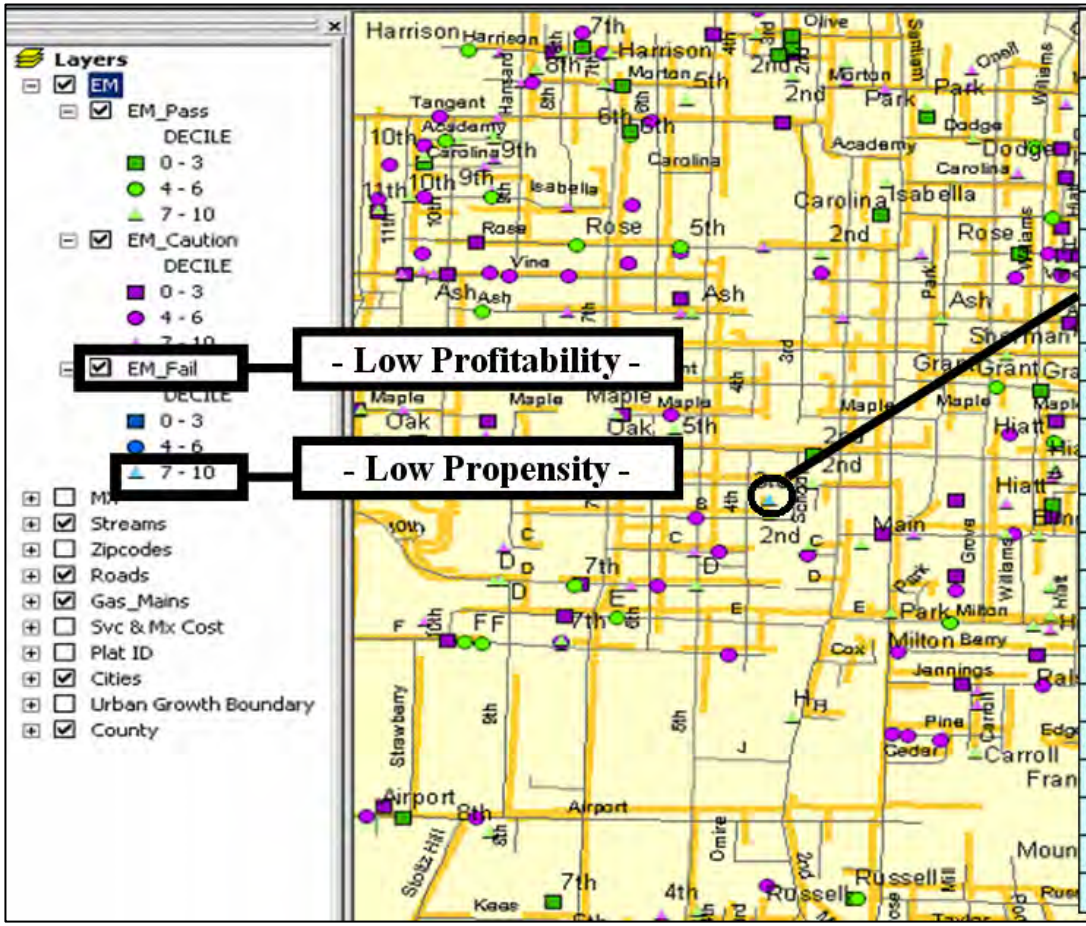
Example of a “Fail” Conversion



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

Overview of Smart Energy Program

Smart Energy

- First standalone gas company in the nation to offer a voluntary carbon offset product.
- 7,123 residential & 166 commercial customers currently enrolled.
- Over 39,000 tons of emissions reductions have been funded.
- The first project is under construction in Boardman, Oregon, and is scheduled to begin operation in October 2009.



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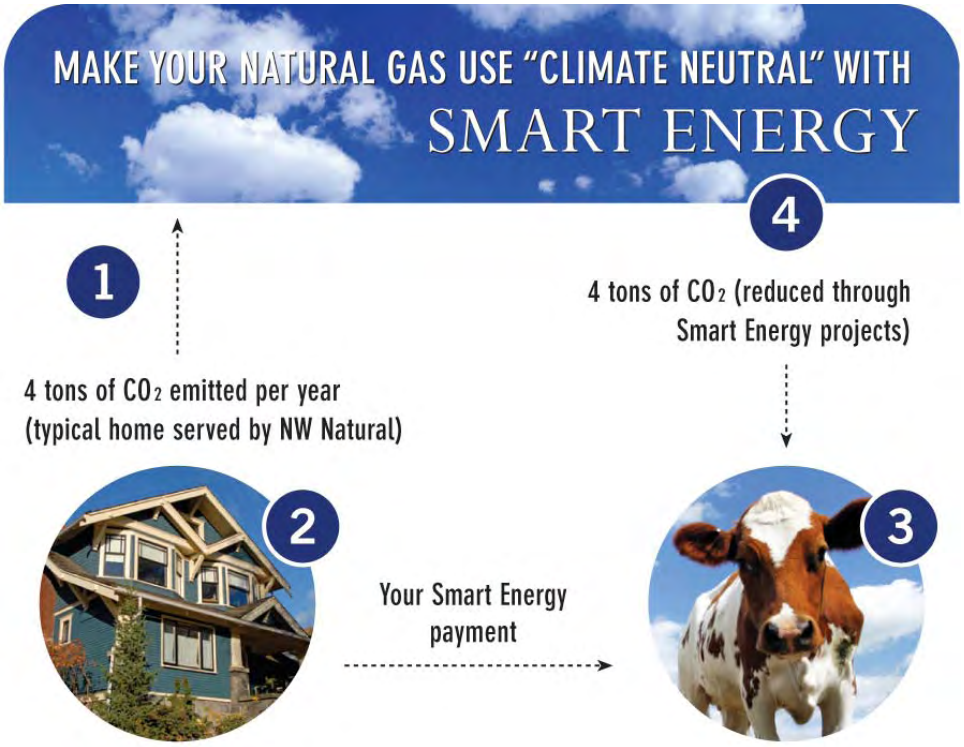
How Does Smart Energy Work?



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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	662,475	657,415	652,012
Total Common Equity	$657,247	$629,265	$594,751
Avg Shares of Common Stock Outstanding	26,504	26,501	26,407
Number of Registered Common Shareholders	7,540	7,673	7,863
Institutional Ownership	58%	65%	62%
Annual Dividends (ttm)	$1.58	$1.46	$1.44
Diluted Earnings per Share	$1.90	$2.61	$2.76
Book Value per Share	$24.79	$23.82	$22.52
Composition of Utility Revenue:	2009 YTD	2008 Y/E	2007 Y/E
Residential	56%	59%	55%
Commercial	30%	30%	29%
Industrial & Transportation	11%	10%	14%
Other	3%	1%	2%
Current Bond Ratings:		Moody's	S&P
Long-Term Debt		A-1	AA-
Commercial Paper		P-1	A-1+

For more information on NW Natural, contact:
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