NW Natural®

We grew up here.



Investor Presentation

December 2008

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

NW Natural at a Glance

- Approximately 655,000 customers in OR & WA
  - 90% Oregon, 10% Washington
- A distribution and transmission system totaling 13,474 miles
- Customer growth twice the national average
- 16 billion cubic feet gas storage capacity in NW Oregon with growth potential
- Constructive regulatory environment
  - Washington general rate case settlement proposed – all parties agreement filed
  - Filing made for gas storage project in California
- Strong balance sheet & cash flows
- Financial & operational discipline to control costs
- Shareholder-focused strategy
- Experienced management team
- JD Power Customer Satisfaction – #1 in U.S.
- Non-utility growth projects underway – Gill Ranch Gas Storage & Palomar Pipeline



NW Natural

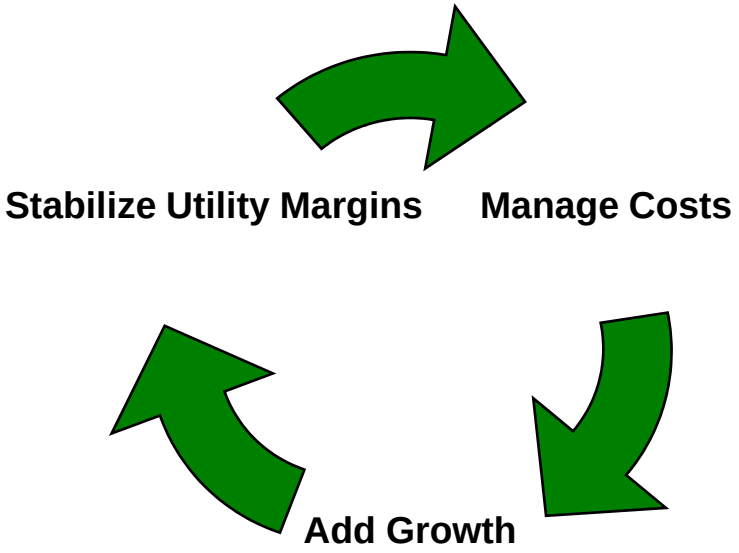
2008 YTD Highlights

- YTD (nine months through Sept. 30 2008): net income of $36.3 million ($1.37 eps) vs. $44.8 million ($1.65 eps) due to record commodity cost sharing in 2007
- Have a proposed all-parties general rate case settlement in Washington (~10 percent of customers), subject to WUTC approval
- Sold last non-core asset in the year in non-operating sector
- Focus on managing costs & long-term growth projects
- 2008 earnings guidance established at $2.48-2.63 per share on Feb. 14, 2008 & reaffirmed on Nov. 4, 2008 with Q3 earnings announcement
- Filed the necessary permits as scheduled for 20 Bcf gas storage facility in California on July 29th
- Raised dividends paid on common stock for 53rd consecutive year to indicated annual rate of $1.58 per share on Oct. 1, for a 5.3% increase
- Pipeline Integrity program settlement proposed to OPUC
- Palomar Pipeline Project filing expected by end of 2008 with FERC

NW Natural

NWN Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
  - Rate case settlement proposed in WA
- Managing cost structure
  - Continuing to make improvements to keep costs under control
- 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



NW Natural

Constructive Regulation

- Purchased Gas Adjustment (PGA) mechanism
  - Sought better balance risk-reward with customers
  - 80/20 or 90/10 customer-shareholder sharing mechanism implemented
- 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
- Filed Washington general rate case all-parties settlement – waiting for action by WUTC before end of 2008
- Pipeline integrity program in Oregon consolidates older programs into single one
- Filed required permits related to Gill Ranch on July 29, 2008 w/CPUC
- December filing expected related to Palomar Pipeline project w/FERC

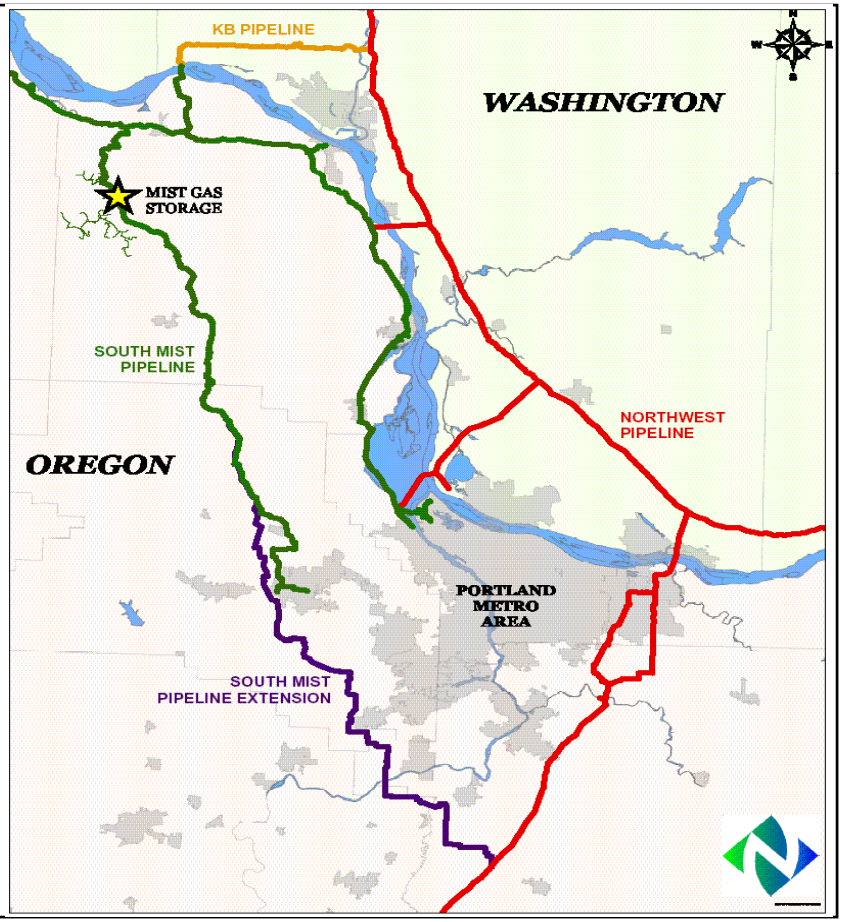
NW Natural

Sustainable Growth

- New residential construction – continuing to capture majority of the market
  - Targeted marketing communications and programs with construction partners to maintain momentum
  - Rate of new construction growth has slowed, but remains above national average
- Conversion results show improvement due to enhanced sales efforts
- Cost control measures in place to achieve targeted results – efficiency improvements in place or making progress
- Opportunities for expansion in gas storage
- Continue targeting EPS growth of 5% or more

Natural Gas Storage

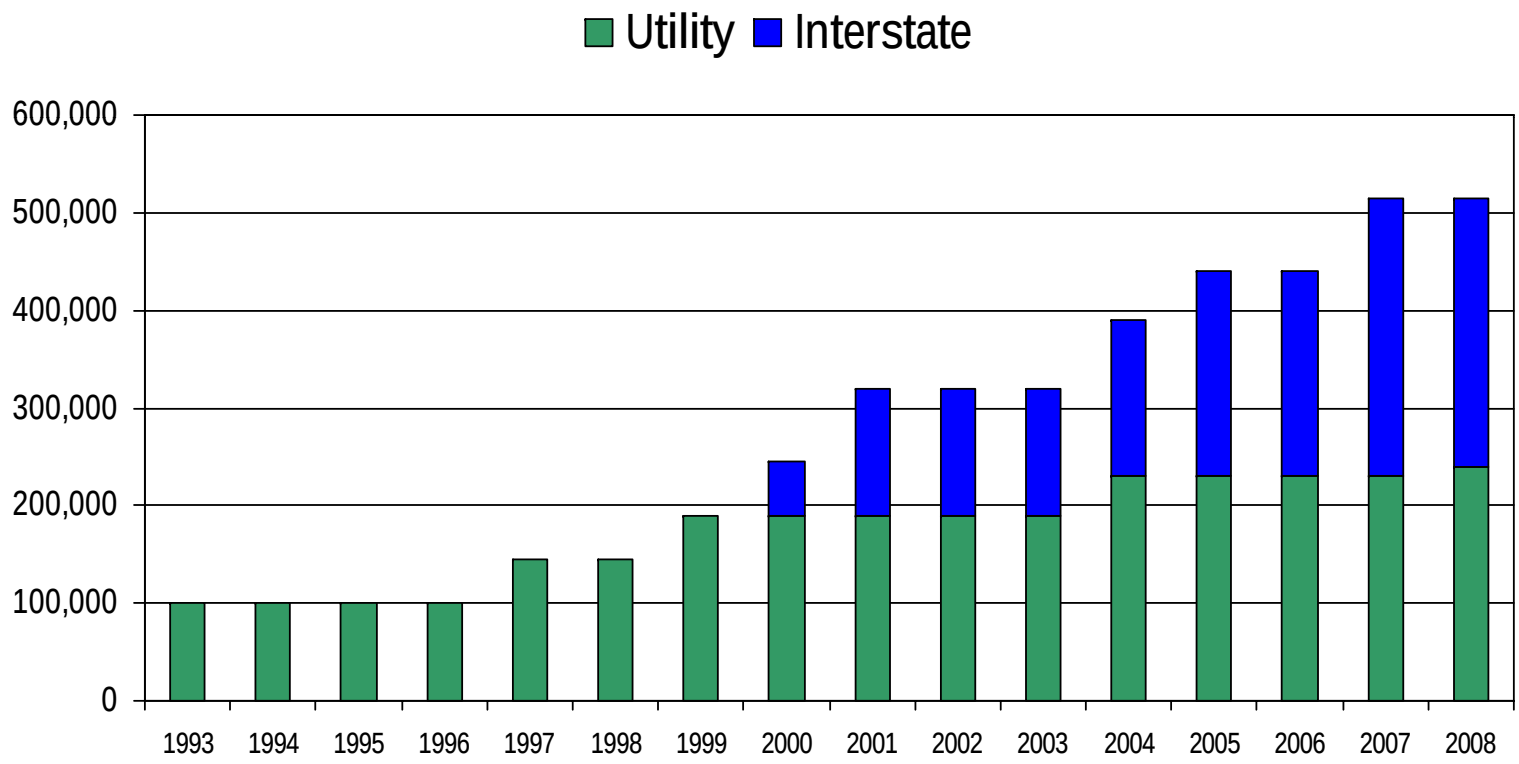
- Key utility resource at Mist (OR) – 16 Bcf
  - Least-cost seasonal peaking supply
  - Low incremental development costs
  - Investment rolled into rates as needed for core customers
- Separate business segment – Interstate storage services
- Additional storage capacity in advance of core customer needs 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



NW Natural

Historic Mist Integrated Development

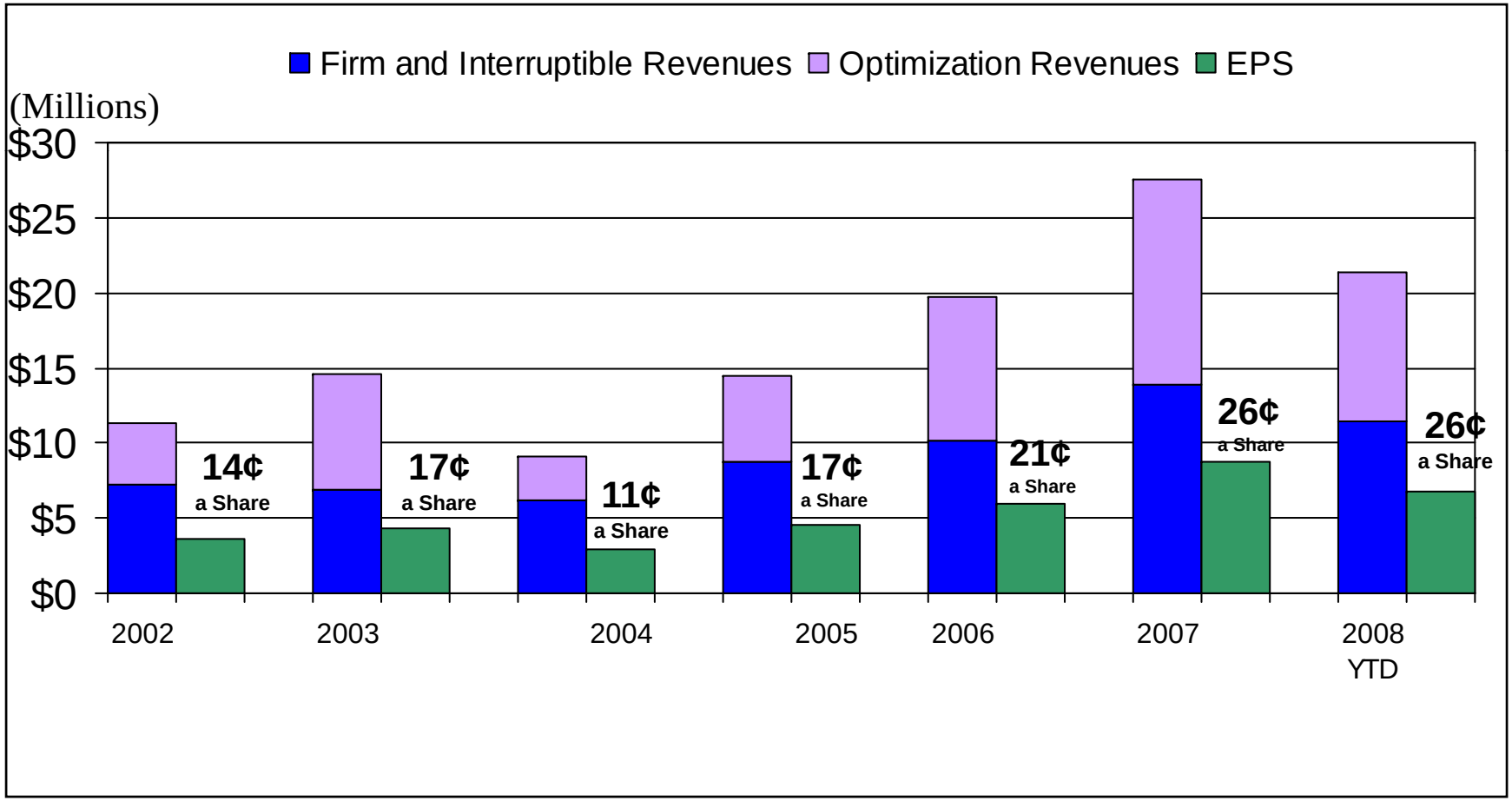
(Deliverability/Dtherms)



NW Natural

Gas Storage Revenues & EPS

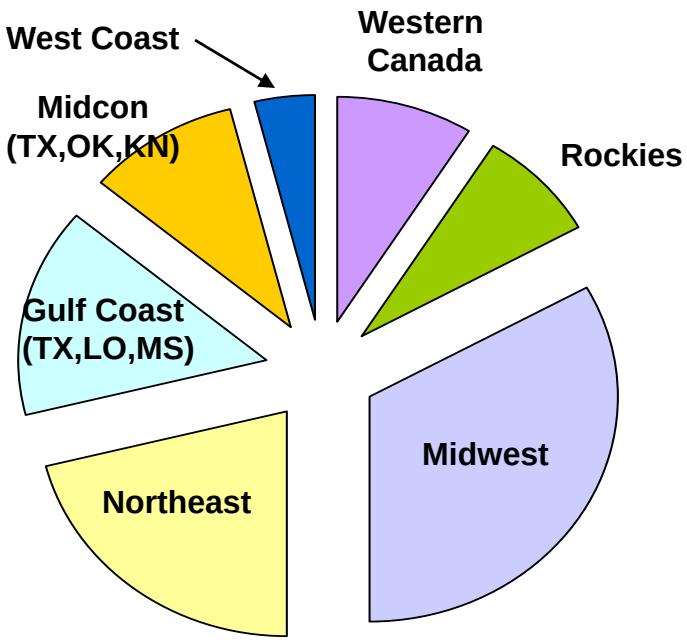
(through September 30, 2008)



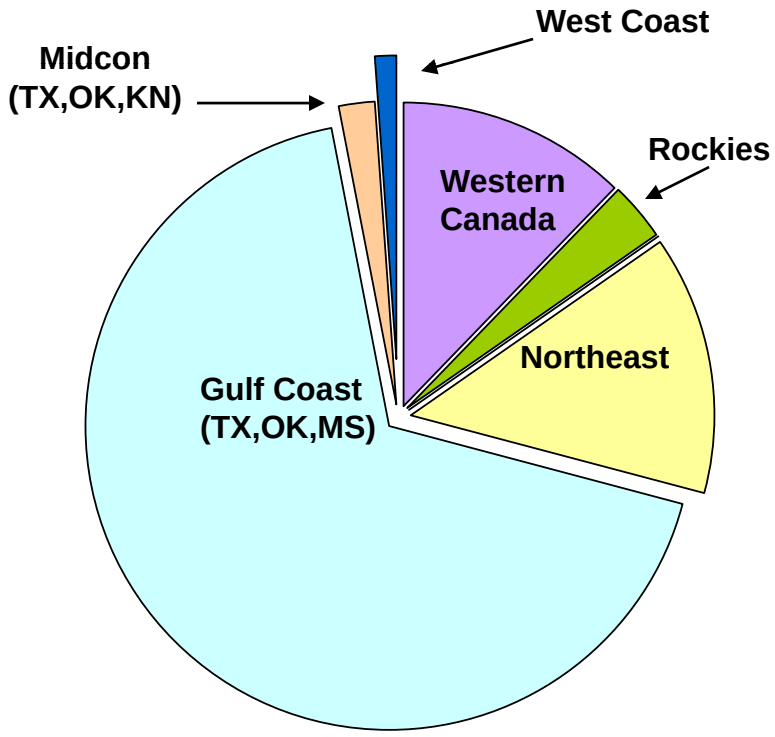
NW Natural

Need for Additional Storage in West

Existing Storage (4,395 Bcf)



Proposed Storage (403 Bcf)



Source: EIA

NW Natural

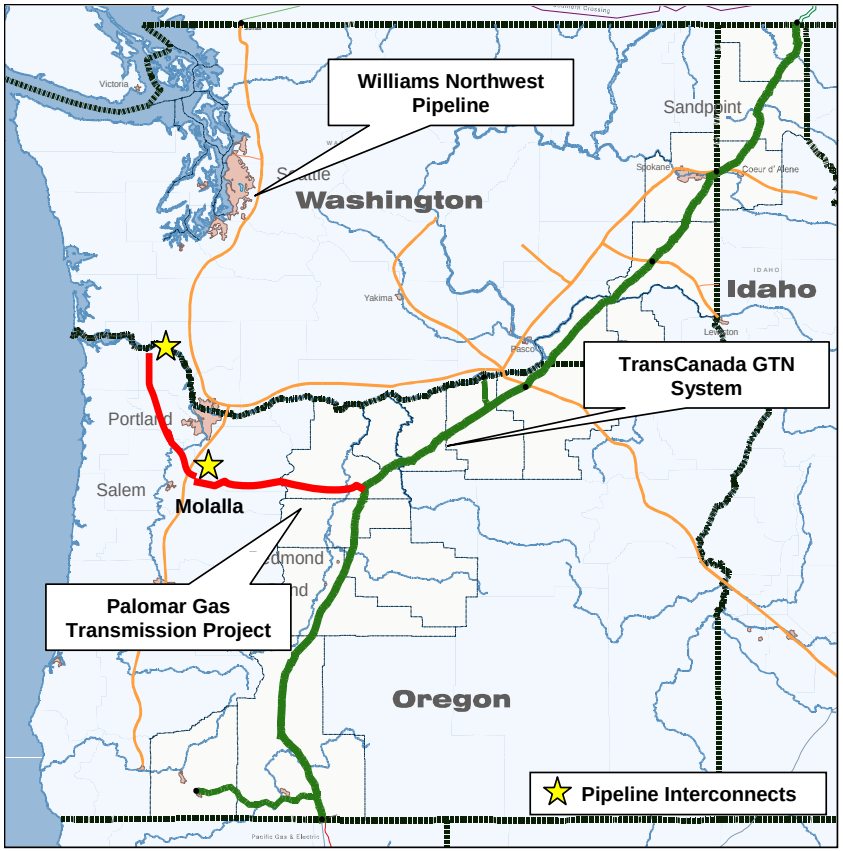
Gill Ranch Project Overview

- 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
- ~$180m development costs (NWN portion)



NW Natural

Palomar Pipeline Project Overview



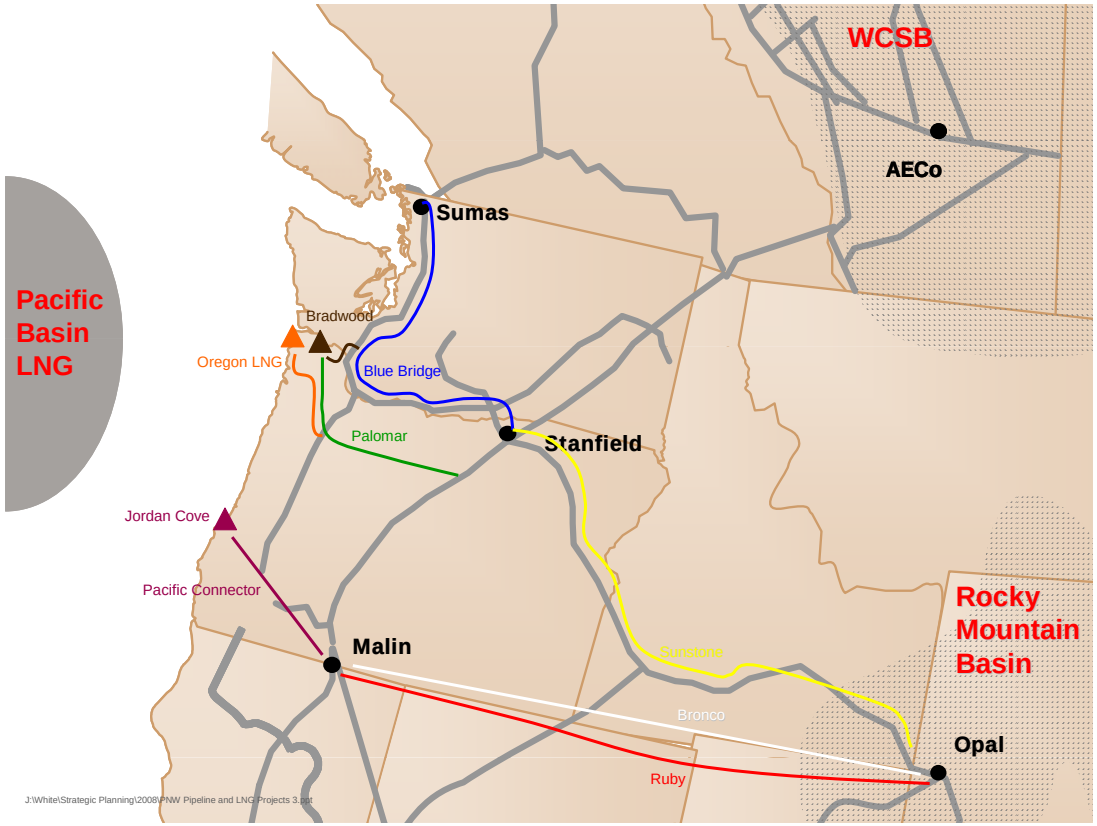
Project Review

- 50/50 JV with TransCanada
- Planned 2011 in-service date
- Late 2008 FERC application filing expected
- 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

Proposed Pipelines & LNG



Three hard truths –

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

Proposed LNG projects –

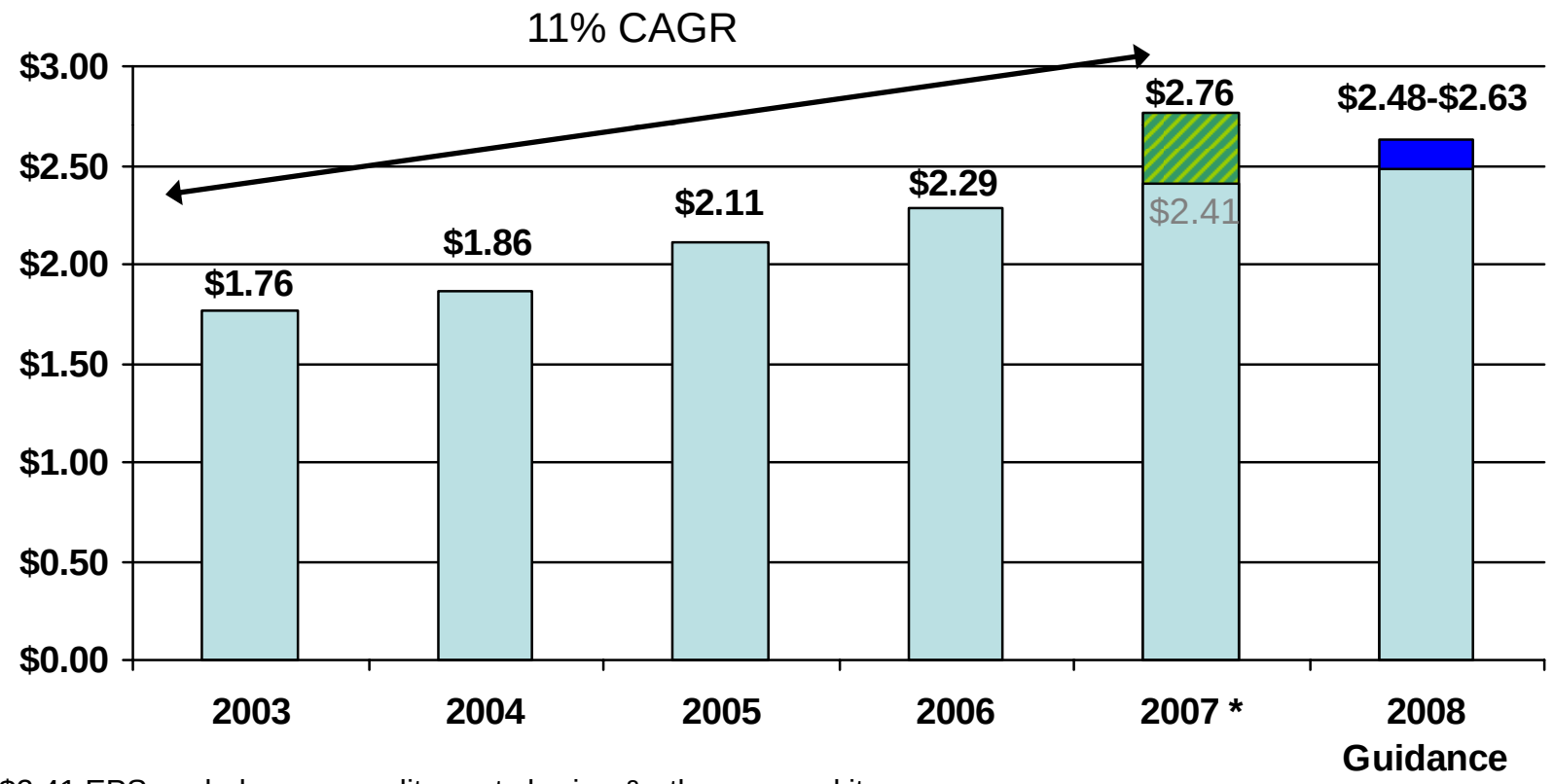
1. Bradwood Landing
2. Oregon LNG
3. Jordan Cove

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

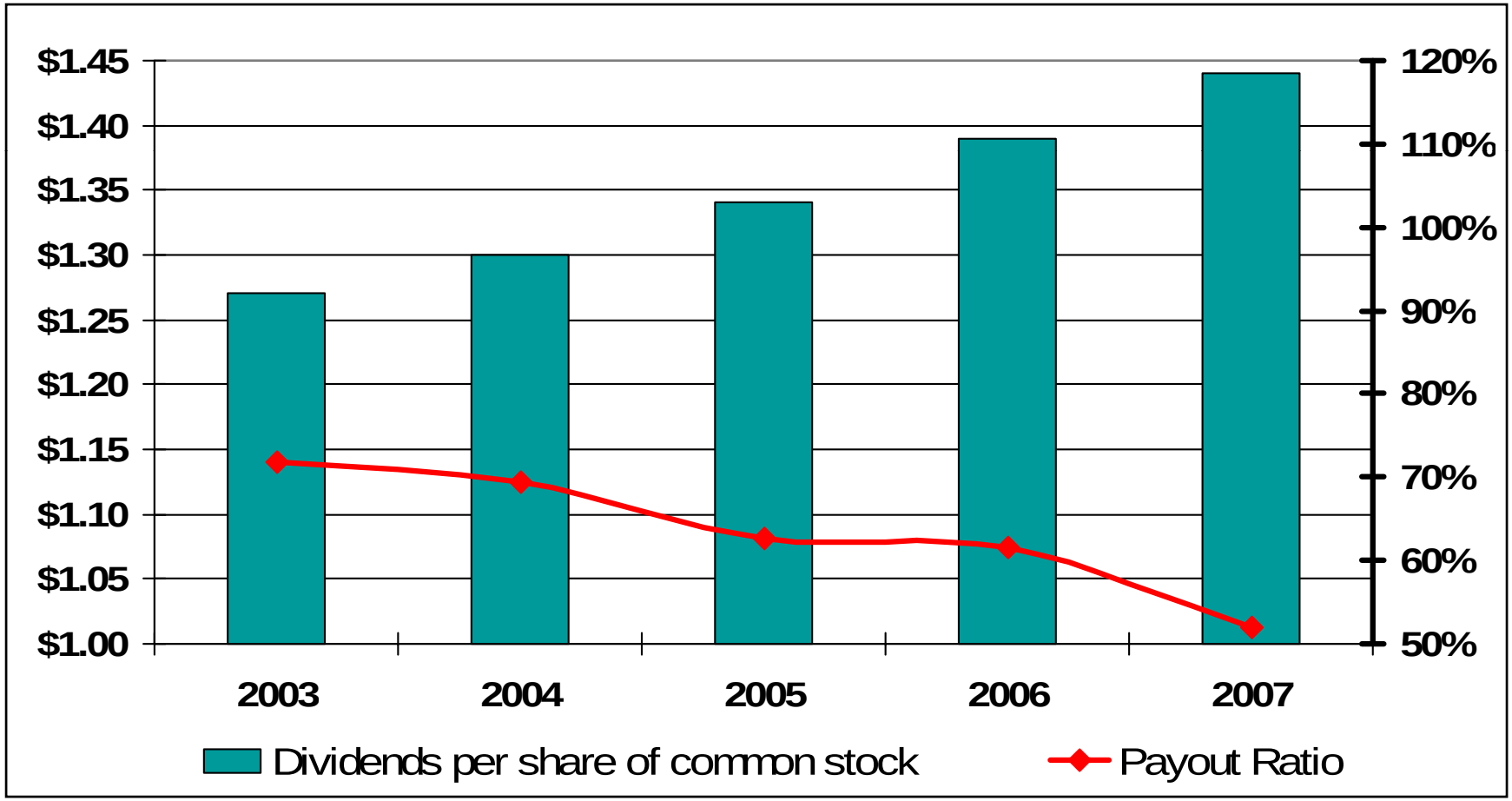
Earnings Per Share Growth



* $2.41 EPS excludes commodity cost sharing & other unusual items

NW Natural

Dividend History



NW Natural

Conclusion

- Exceptional 2007 results & YTD 2008 results in line with expectations
- 2008 earnings guidance of $2.48-2.63 per share reaffirmed at Q3
- 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
- Washington rate case filed in March – 10% of customer base – and filed all-parties settlement filed with WUTC
- Pipeline integrity agreement filed with OPUC
- Non-utility opportunities from Gill Ranch storage & Palomar Pipeline
- 53-year history of dividend increases
- 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)

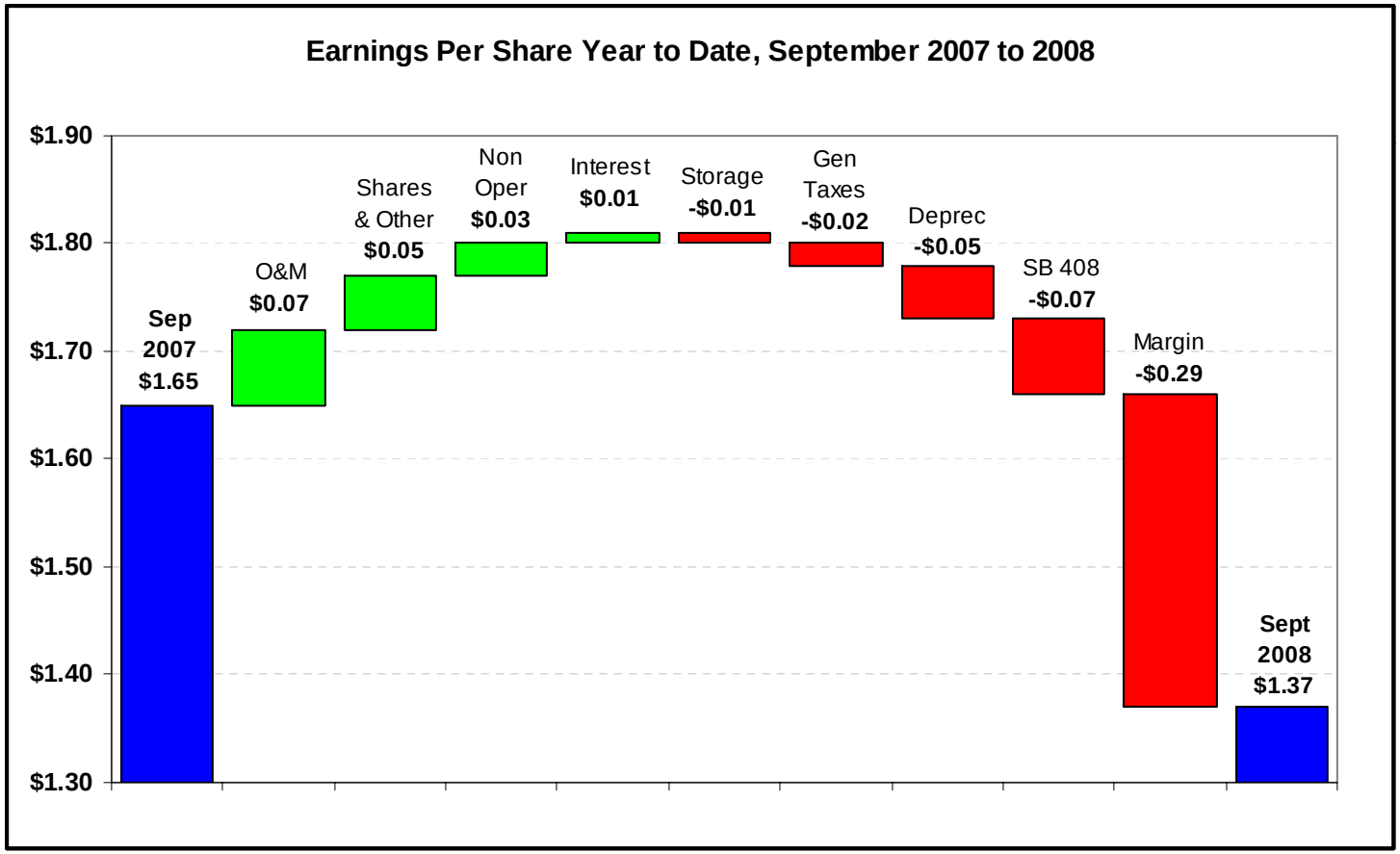
Addendum



NW Natural

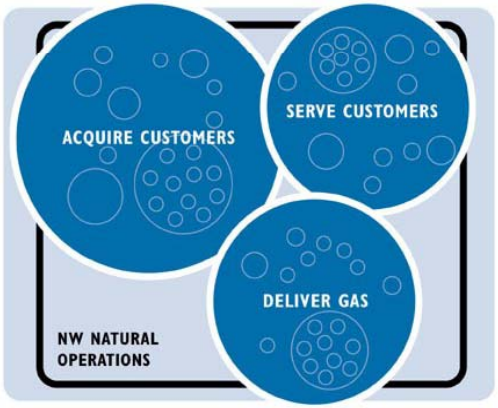
2008 YTD EPS Variance

(through September 30, 2008)

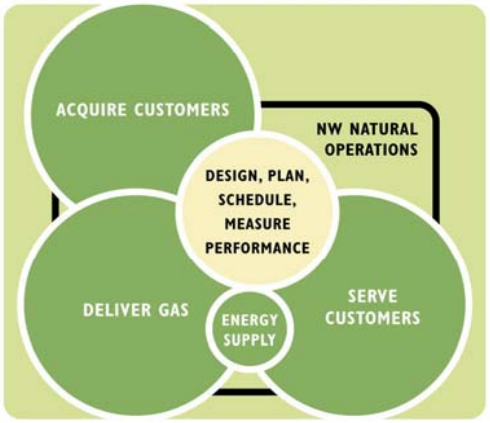


Operations Business Model Review

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

NW Natural

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)



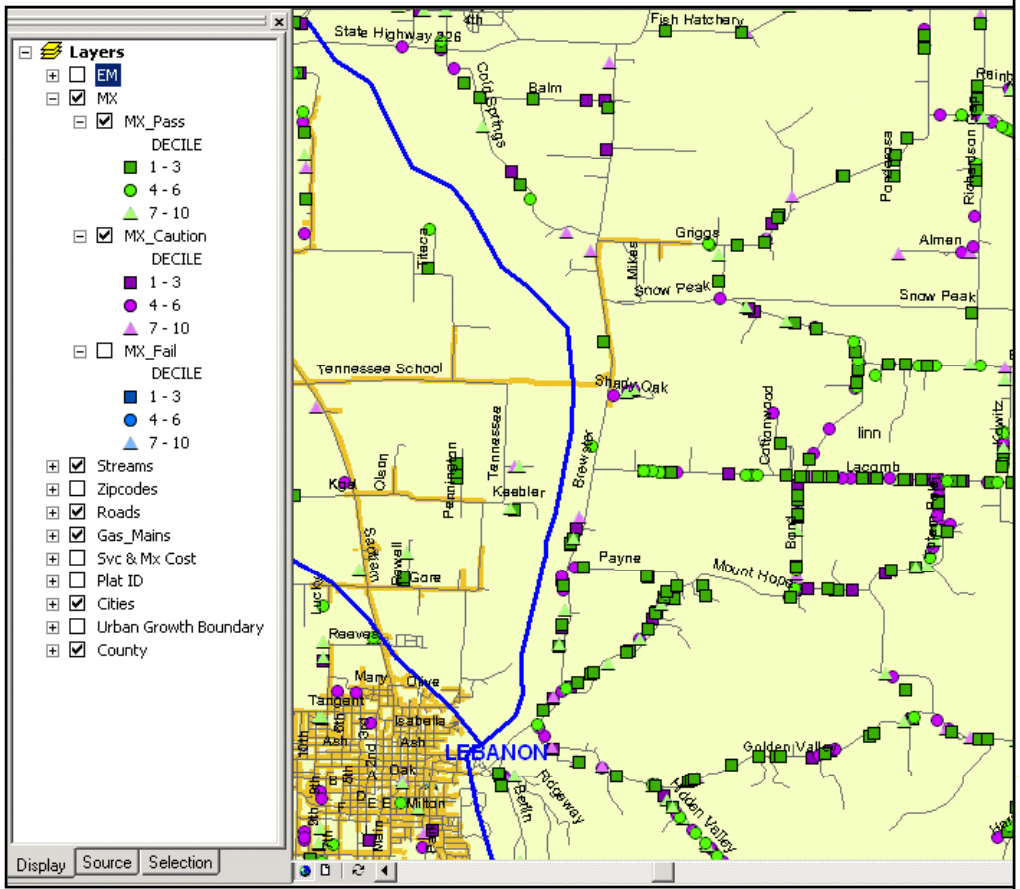
NW Natural

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**

NW Natural

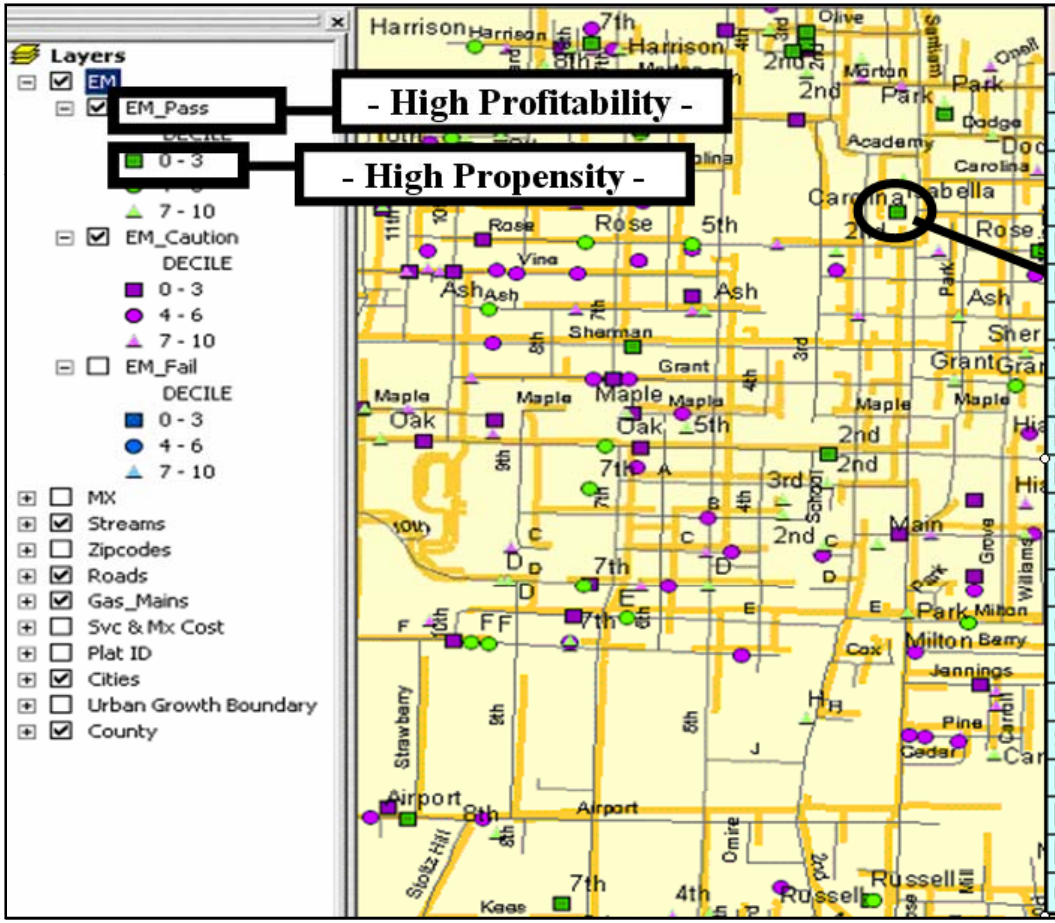
AROE – Main Mapping



- 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

NW Natural

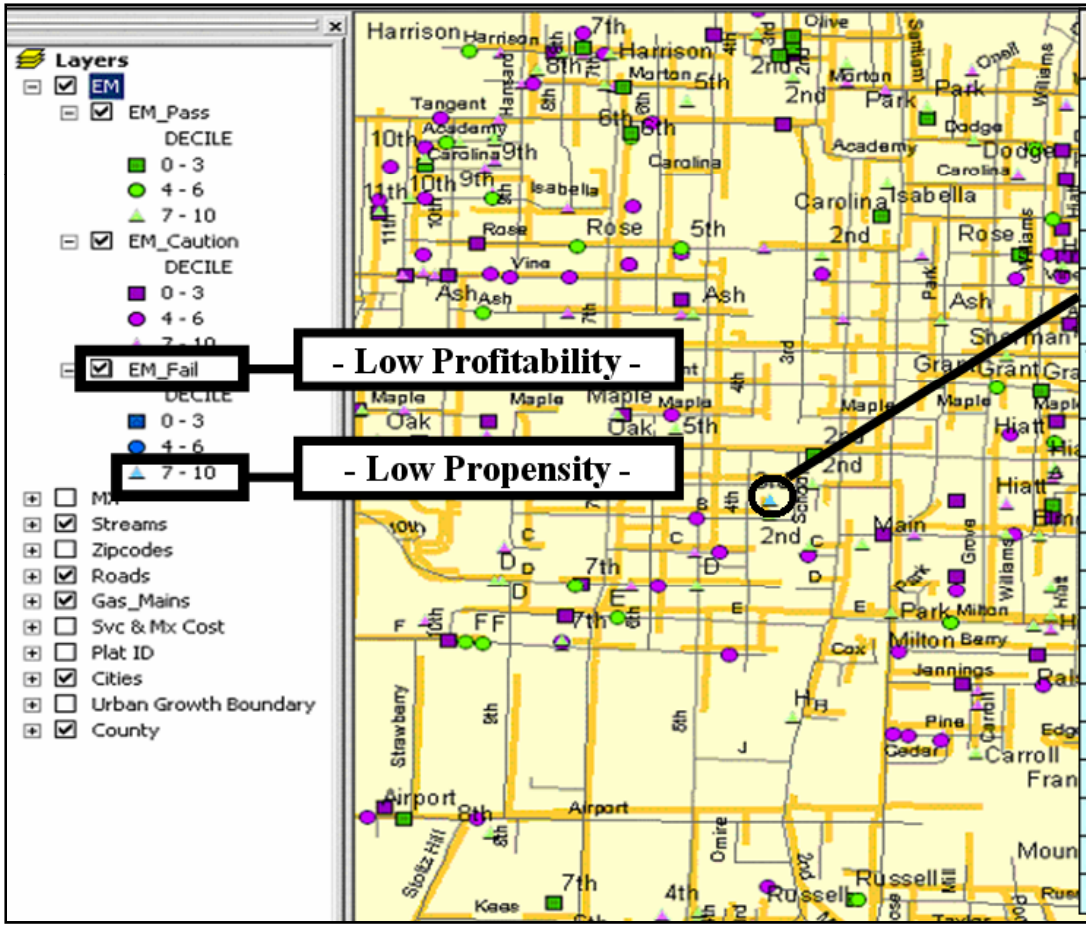
Example of a “Pass” Conversion



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

NW Natural

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

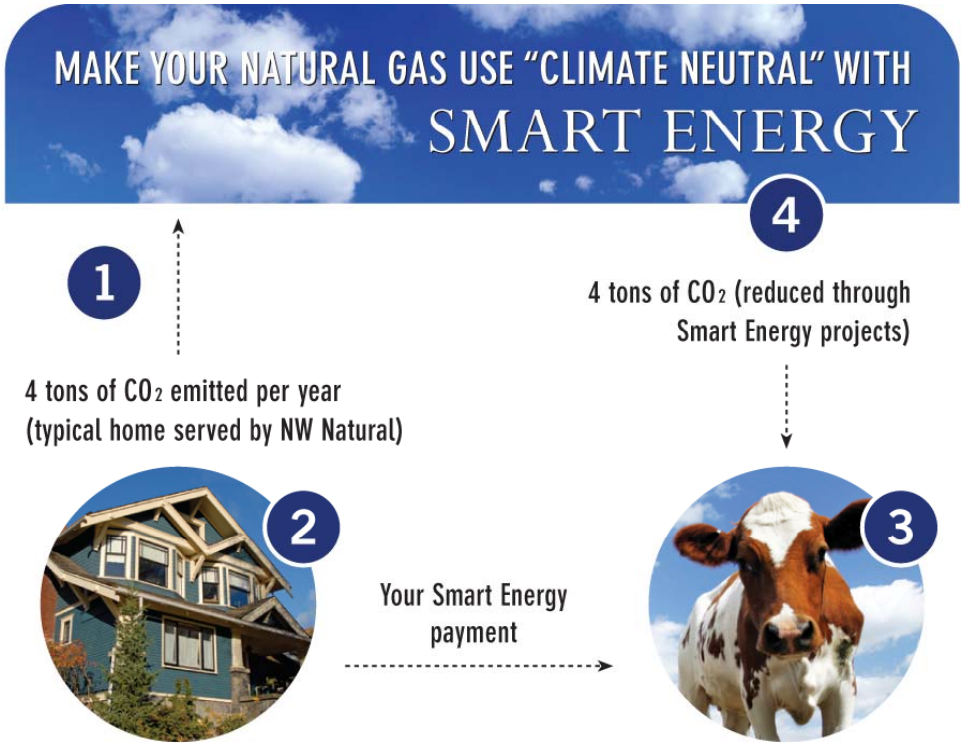
NW Natural

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

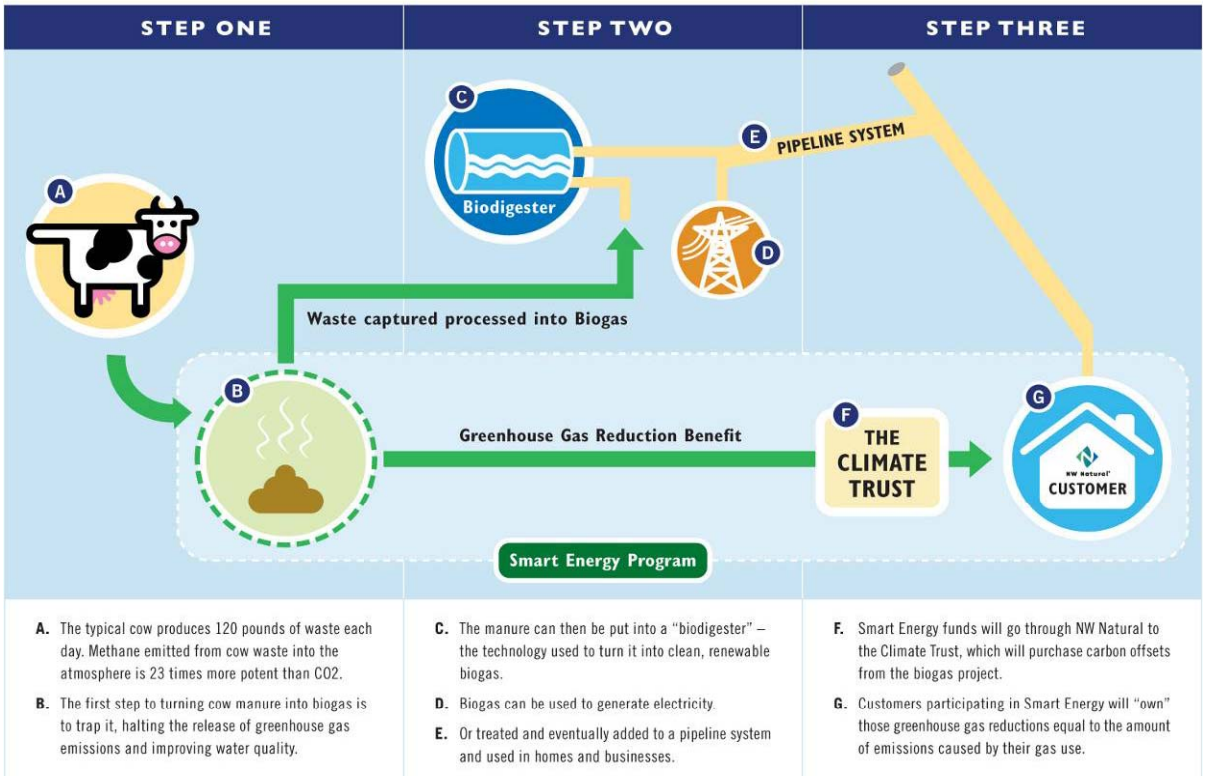
NW Natural

How Does Smart Energy Work?



NW Natural

Smart Energy and Biogas



NYSE: NWN

NW Natural

NW Natural

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

Key Indicators:	2008 YTD	2007 Y/E	2006 Y/E
Total Customers	654,965	652,012	636,584
Total Common Equity	$604,849	$594,751	$599,545
Avg Shares of Common Stock Outstanding	26,445	26,821	27,540
Number of Registered Common Shareholders	7,650	7,863	8,958
Institutional Ownership	65%	62%	52%
Annual Dividends (ttm)	$1.50	$1.44	$1.40
Diluted Earnings per Share	$1.37	$2.76	$2.29
Book Value per Share	$22.85	$22.52	$21.97

Composition of Utility Revenue:	2008 YTD	2007	2006
Residential	54%	55%	54%
Commercial	30%	29%	29%
Industrial & Transportation	14%	14%	17%
Other	2%	2%	0%

Current Bond Ratings:	Moody's	S&P
Long-Term Debt	A2	AA-
Commercial Paper	P-1	A-1+

Stock Exchange: NYSE

Ticker: NWN

Web site: www.nwnatural.com

Investor Relations contact::
Bob Hess
Director of Investor Relations
Direct Ph: 503-220-2388
e-mail: bob.hess@nwnatural.com

220 N.W. Second Avenue
Portland, OR 97209