NW Natural®

We grew up here.



AGA Financial Forum

Investor Presentation

May 1, 2007

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.

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NW Natural at a Glance

- Over 641,000 customers
- A distribution and transmission system totaling 13,474 miles
- Customer growth of more than twice the national average
- 14 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
- Among 100 “most respected” companies in America – 7th year
- JD Power Customer Satisfaction – 3rd Best in United States



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2006 Highlights & Q1 2007

2006 Highlights

- Increased 2006 EPS to $2.29 per share vs. $2.11 per share in ’05 – a 9% increase
- Cash flow from operations of $149 million, creating free cash flow
- Continued to add customers at a rate of twice the national growth rate for new customers
- Strategic initiatives under way to reduce costs and improve efficiencies

2007 Q1 Highlights

- Q1 results up 19% to $1.76 per share on net income of $48.1 million
- Successfully drilled an additional well at Mist underground gas field
- 2007 earnings guidance increased to $2.50-2.65 per share from $2.30-2.45 per share on 4/26/07

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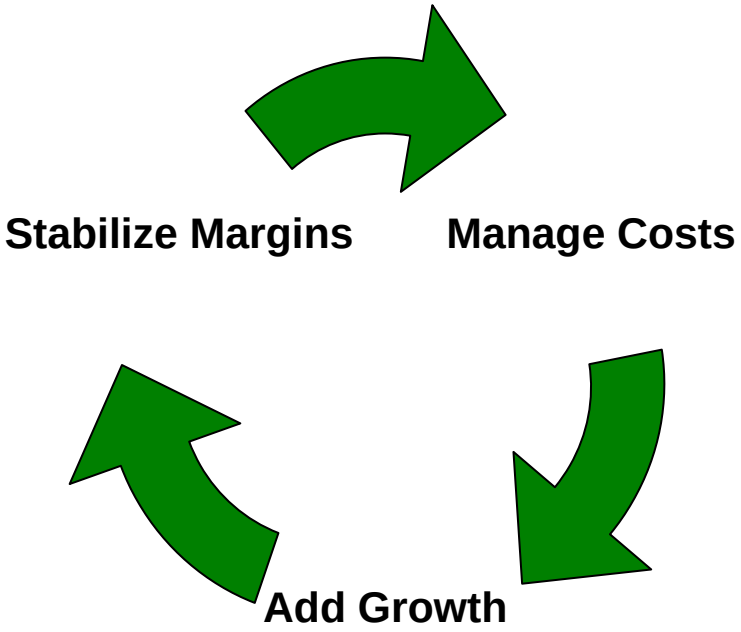
NWN Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
- Managing cost structure
  - Corporate “scrubbing” of costs to achieve first quartile performance
- Looking for longer-term growth opportunities that fit NWN’s “DNA” of what we do best



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Constructive Regulation

- Purchased Gas Adjustment (PGA) price increases filed in OR (3.5%) and WA (3.0%) – 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 September 2009 and decoupling mechanism was 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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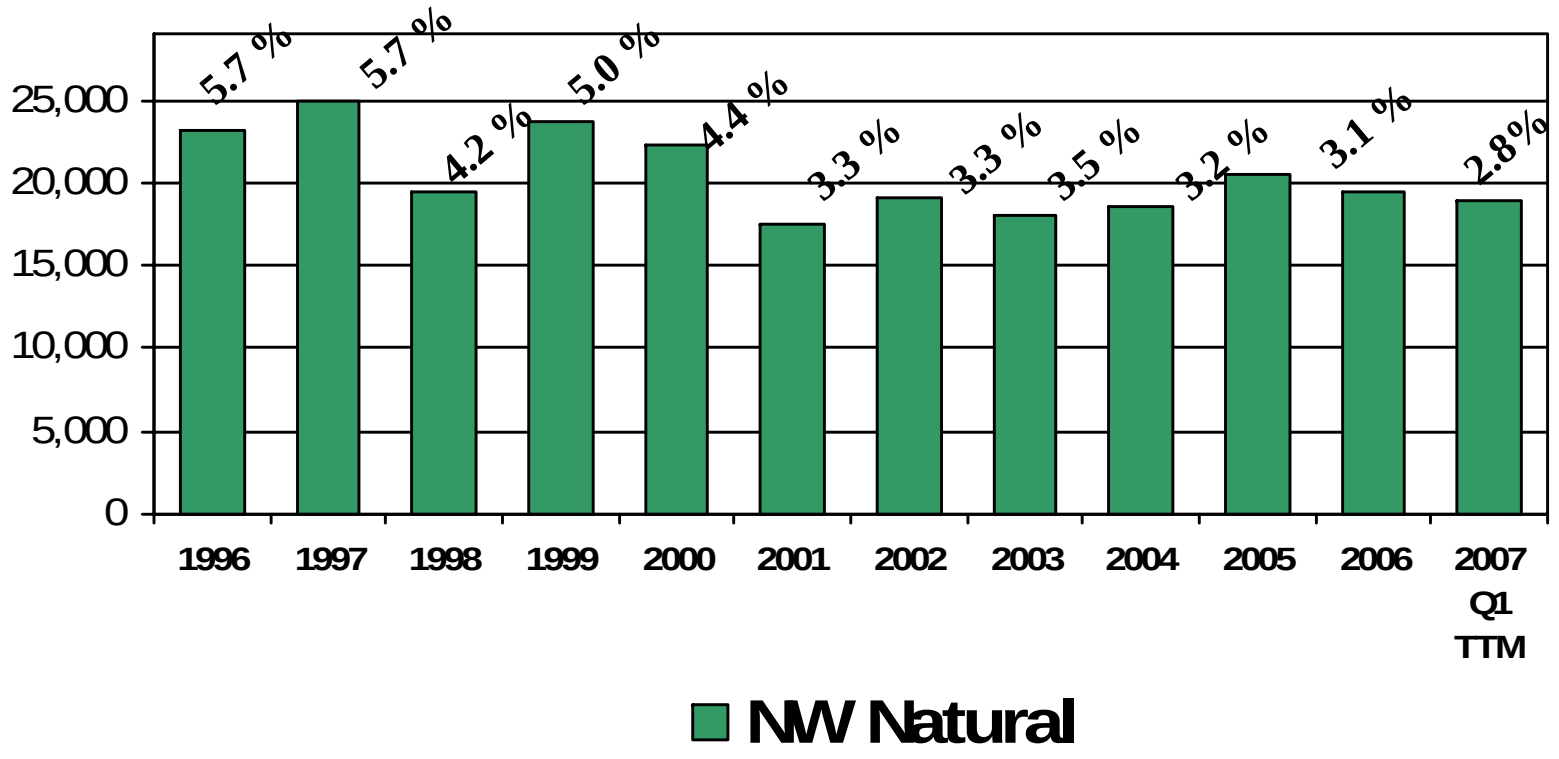
Net Customer Gains and Annual Growth %



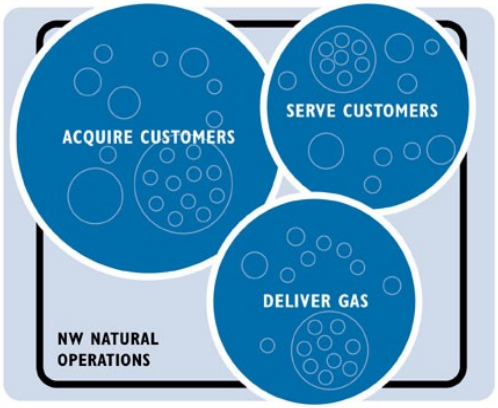
Operations Business Model Review

Vision:

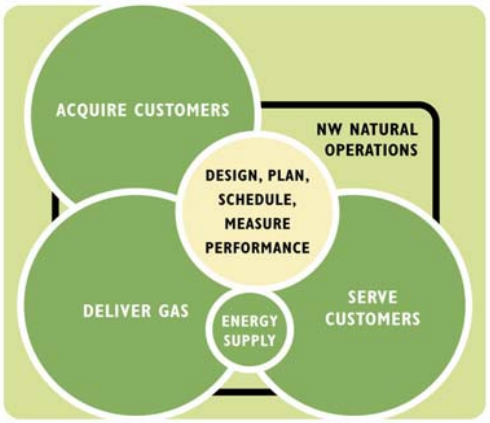
- Be one of the “Best in Class” LDCs in the country based on industry benchmarking
- Structure the organization around key business processes and be operationally excellent
- Provide the right resources, with the right skilled employees, on the right jobs, at the right time

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 80 in 2006 and totaling 100-200 over next several years

Natural Gas Storage

- Separate business segment
  - Interstate storage services
  - 3rd party optimization of assets
- Key utility resource at Mist (OR) – 14.0 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
- Further expansion planned in 2007 & new well successfully drilled, adding 1 Bcf



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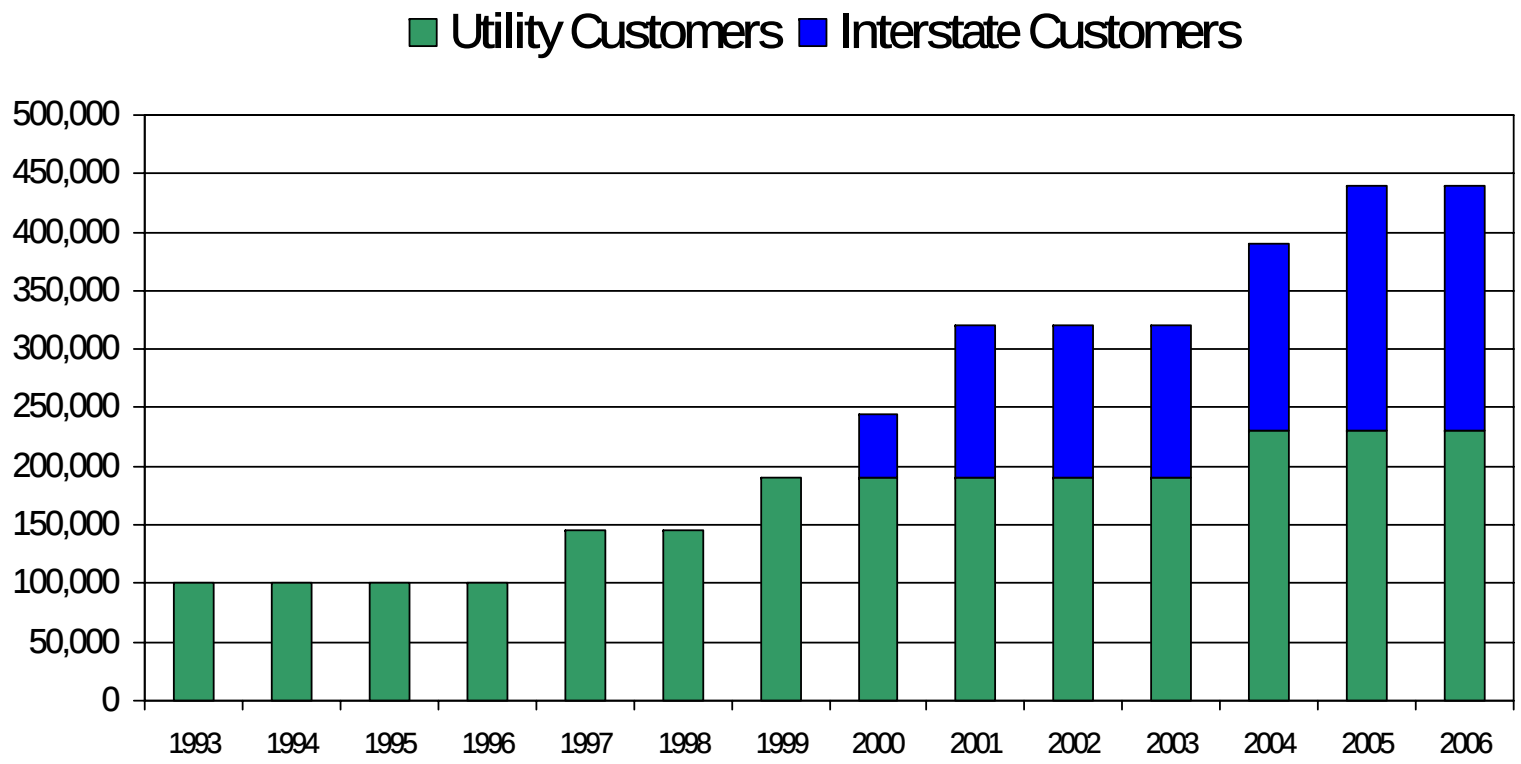
Historic Mist Integrated Development

(Deliverability/Dtherms)



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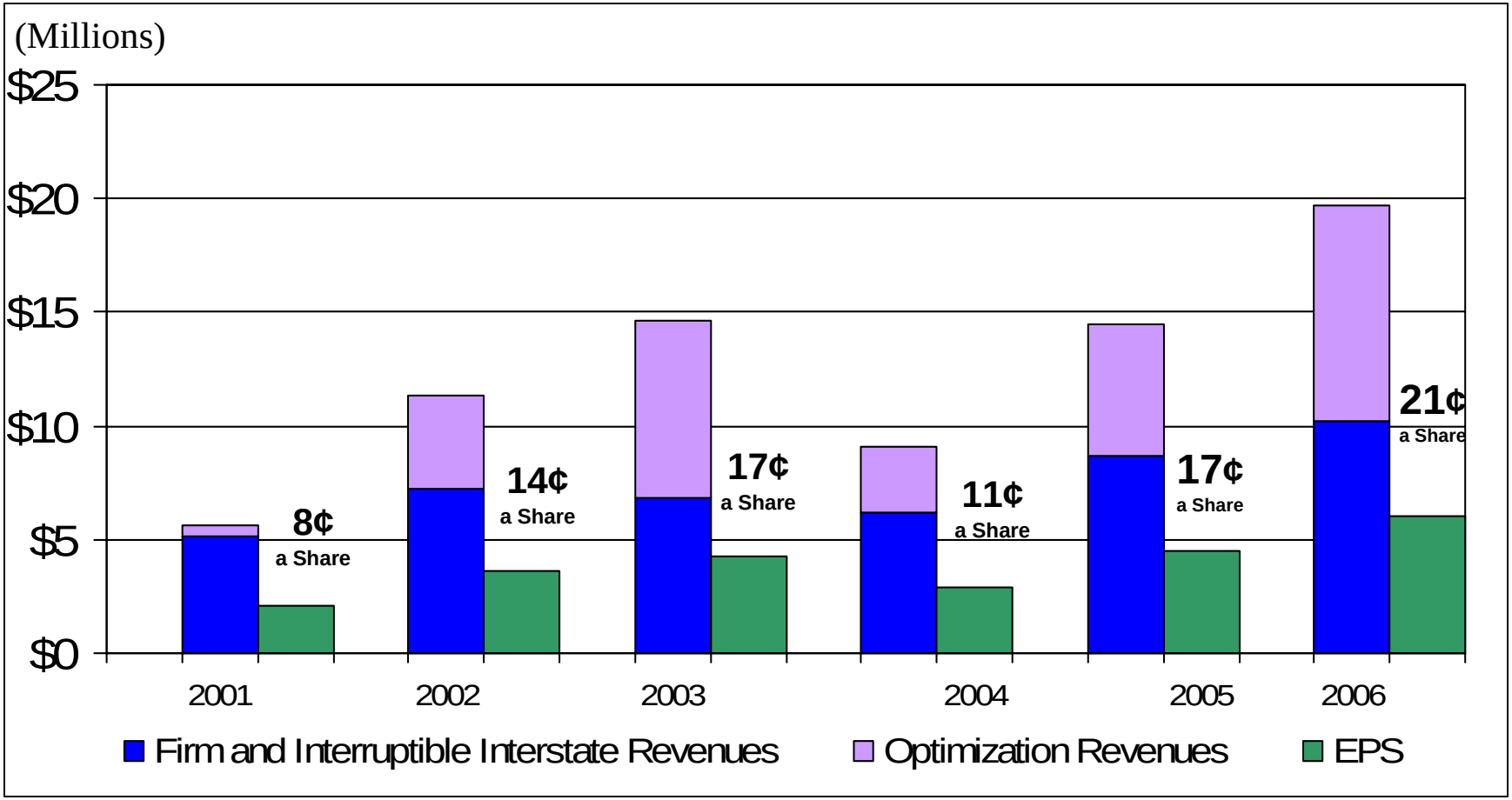
Interstate Gas Storage Revenues & EPS



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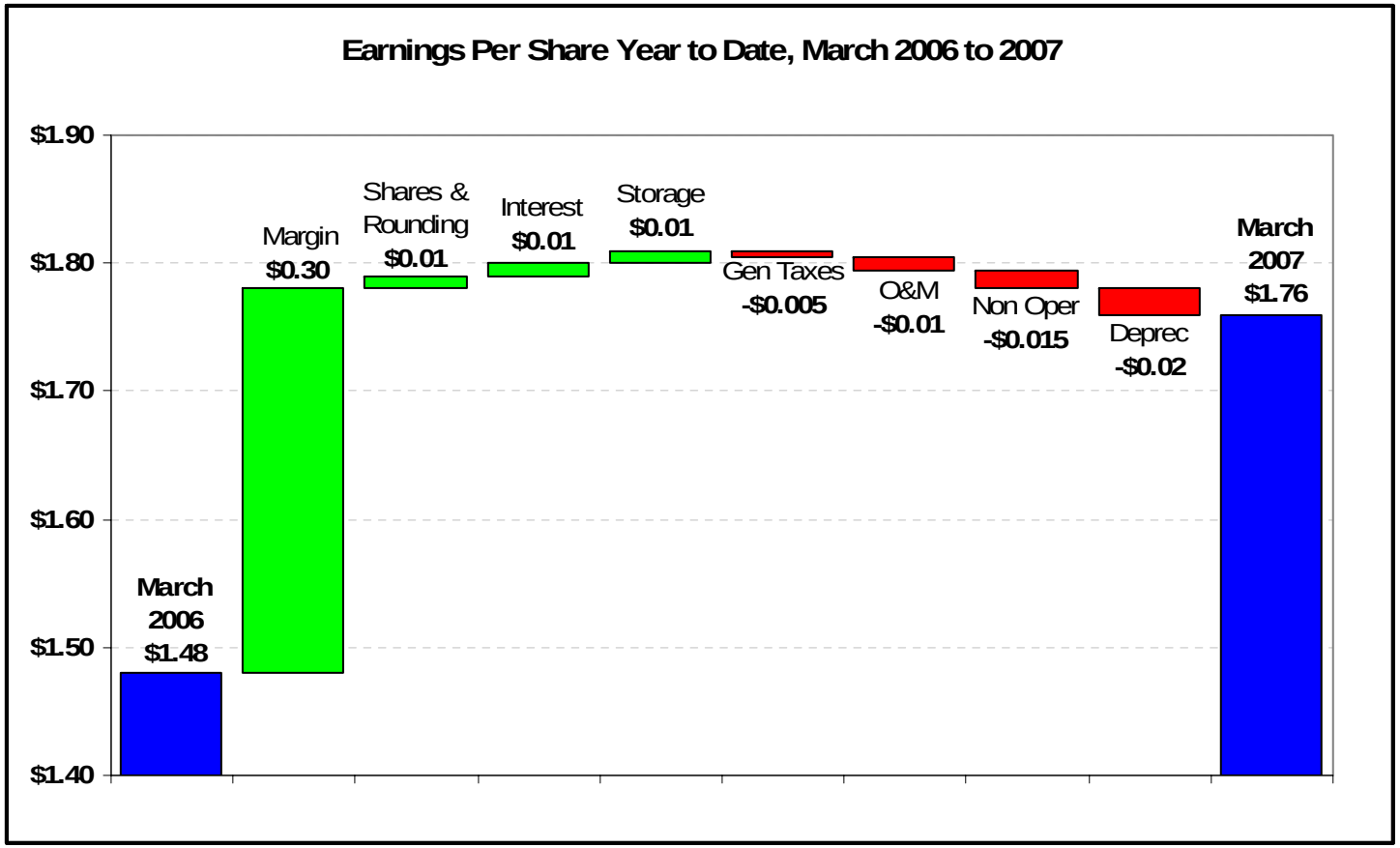
Q1 2007 EPS Variance



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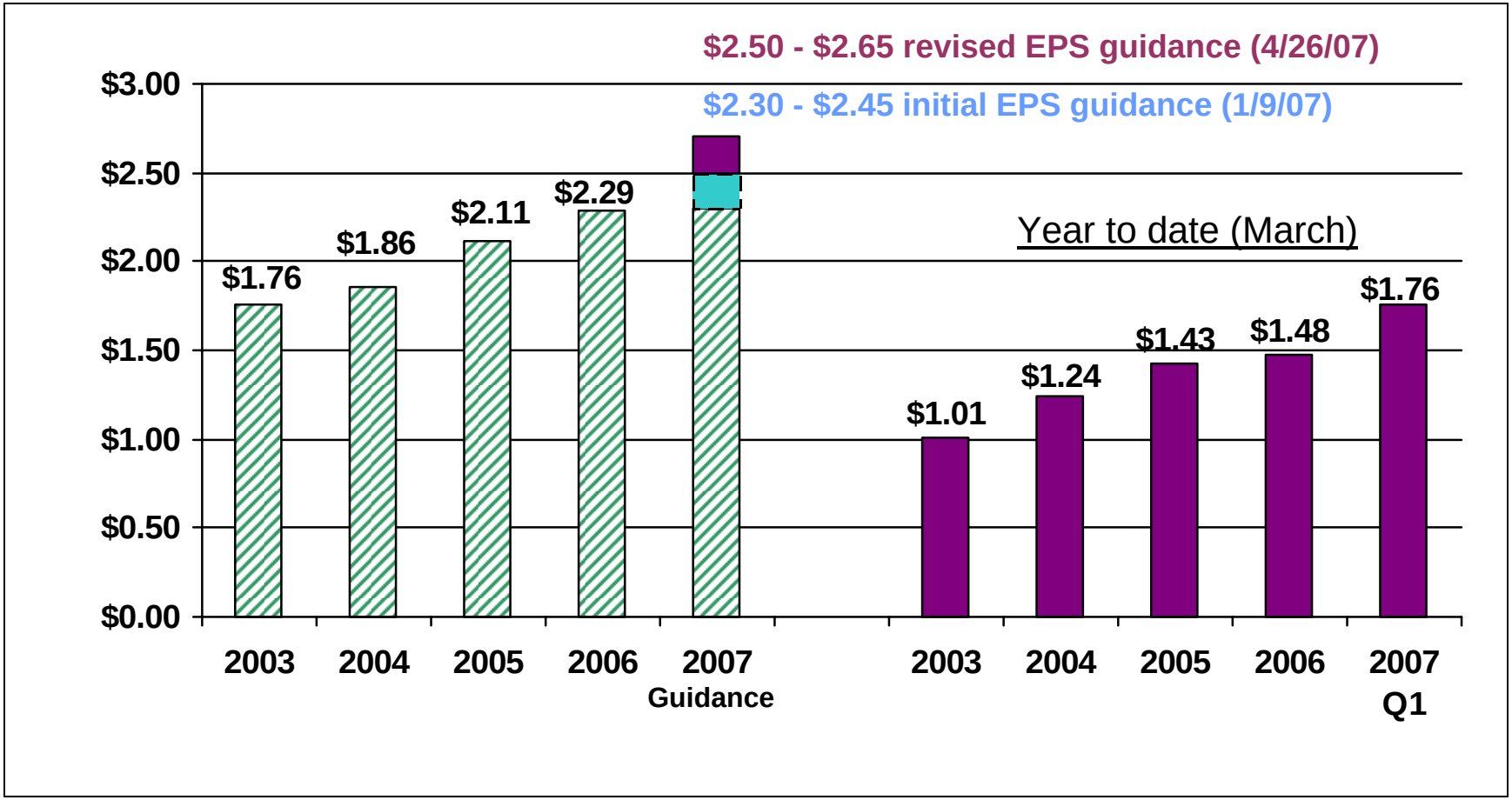
Earnings Per Share Growth



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Proposed Palomar Project



- Continuing to study and evaluate potential
- Results known in mid- to late-2007
- Potential 50/50 JV
- Utilizes NW Natural and TransCanada GTN System capabilities
- LNG potential on Columbia River – best site near NWN gas storage facility

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Conclusion

- Strong year financially and operationally in 2006 – EPS up 9%
  - Strong customer growth and improving operating results from utility *and* gas storage
  - Net income of $63.4 million and positive free cash flow (~$20 million)
- Good Q1 results and 2007 guidance raised to $2.50-2.65 per share
- Increasingly predictable earnings stream and internally funded cash flow adequate to fund ’07 capex
- Sound regulatory relationships continuing
- Regulatory framework provides effective treatment of commodity costs
- Non-utility opportunities from gas storage
- 51-year history of dividend increases & 60-70% payout target
- 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)

Question & Answer



Addendum

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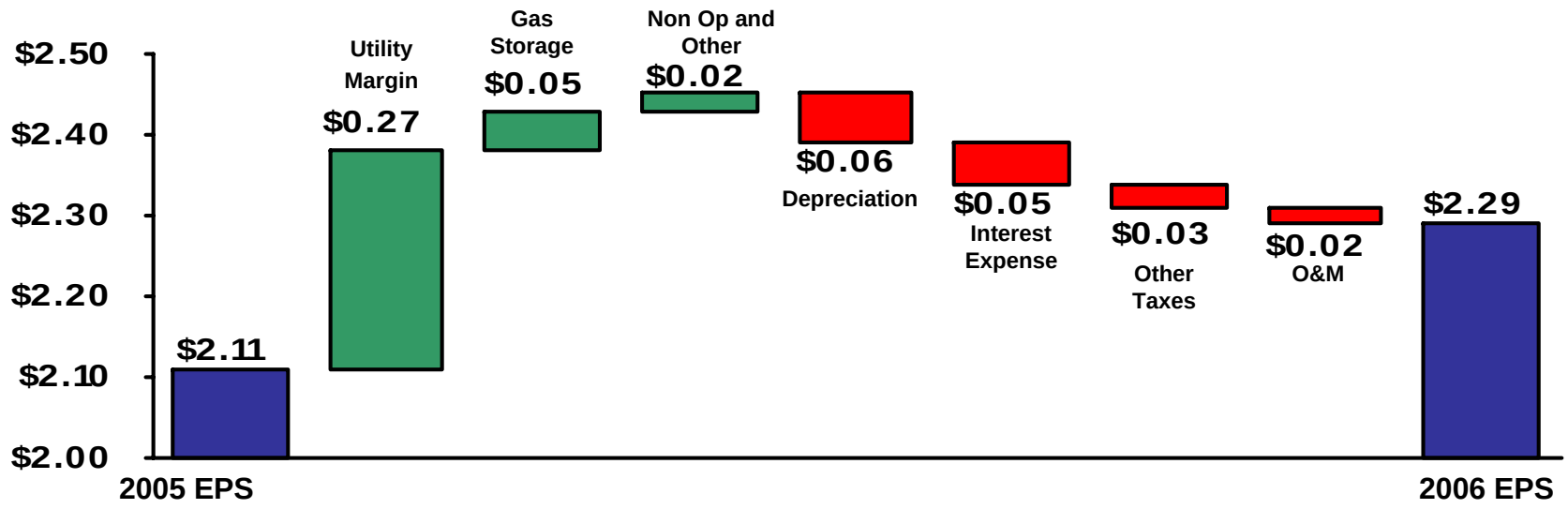
2006 Earnings Per Share Highlights



- EPS increased 9% in 2006, and EPS growth rate averaged 9% over last 3 yrs
- Utility margin increased 4%, driven by customer growth and gas cost savings
- Gas storage contributed $6 million to earnings, on top of $7 million ratepayer benefit
- O&M held to 1% increase, including higher incentive bonuses and severance costs
- EBITDA increased 7% to $203 million, and CFFO increased 88% to $149 million

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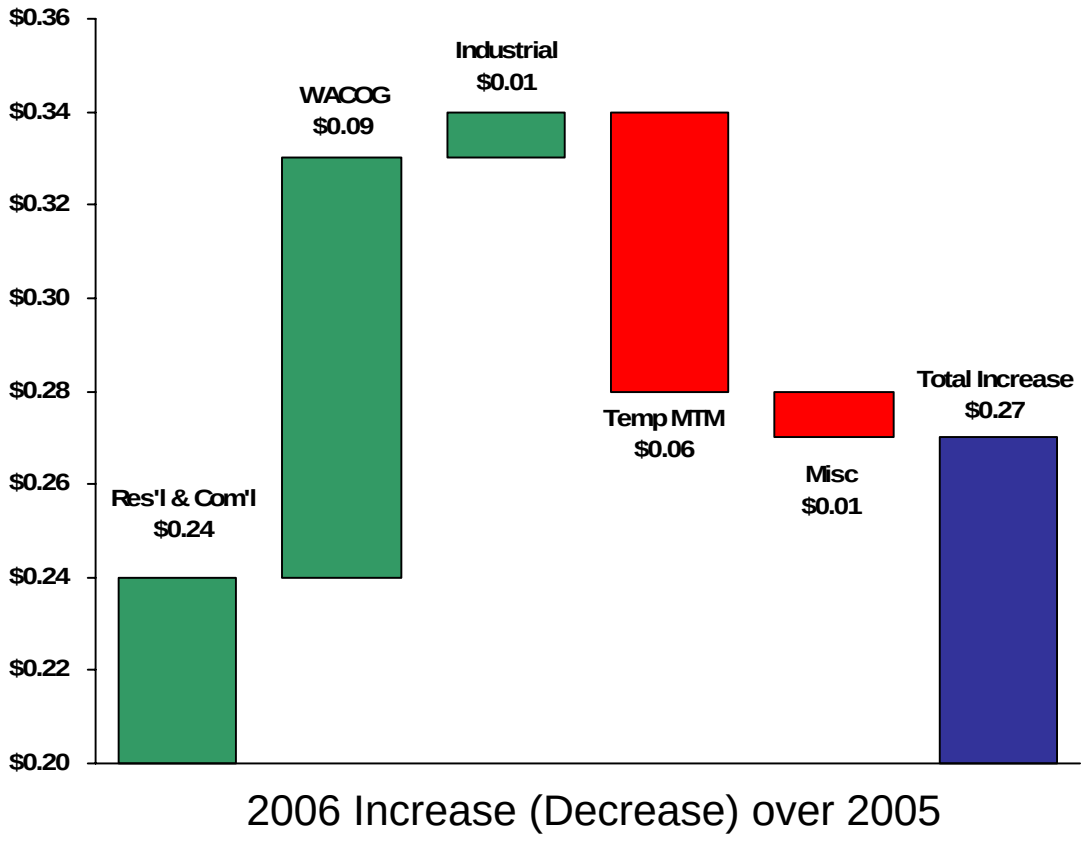
2006 Utility Margin Variance

- 4% increase to $327 million total utility margin
- 3.1% customer growth, 20th consecutive year over 3% growth
- 3% warmer than avg weather, offset by weather normalization
- 2-3% consumption decline, offset by conservation adjustment
- $6 million in gas cost savings from incentive sharing, plus $7 million to PGA deferral
- $3 million in temporary MTM loss from post-PGA commodity hedges



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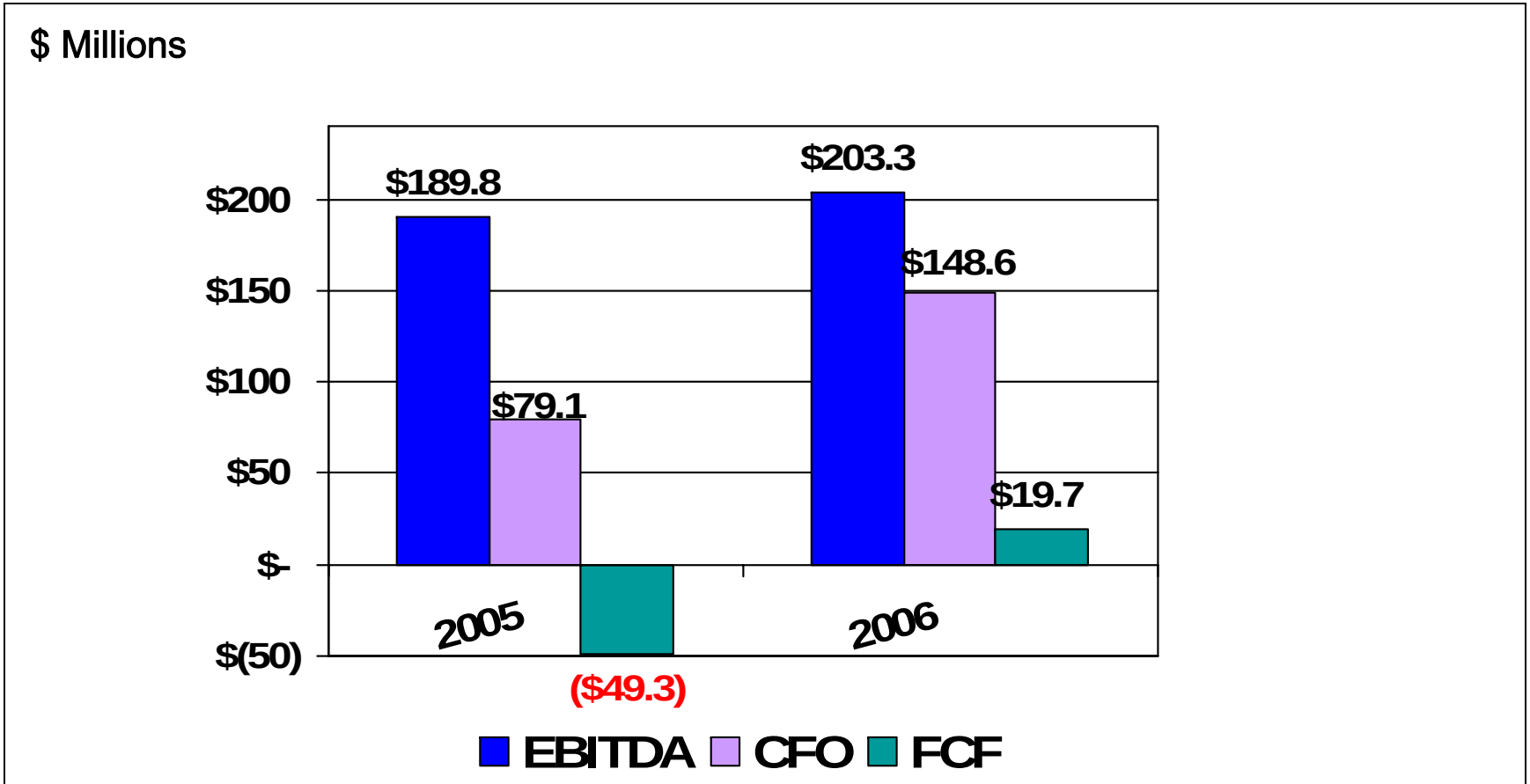
2006 EBITDA & Cash Flow

(December 31, 2005 & 2006)



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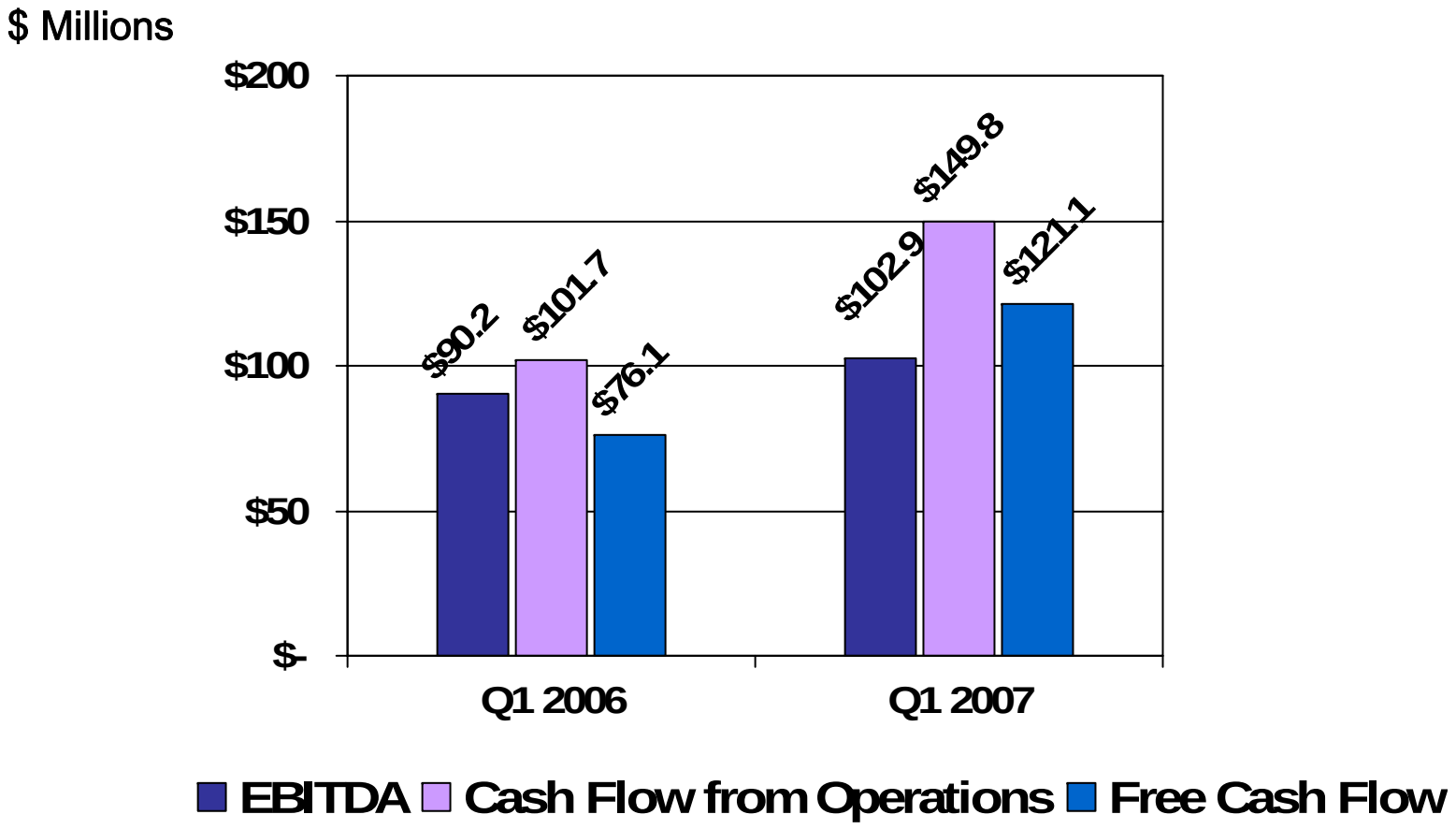
Q1 EBITDA & Cash Flow

(March 31, 2006 & 2007)



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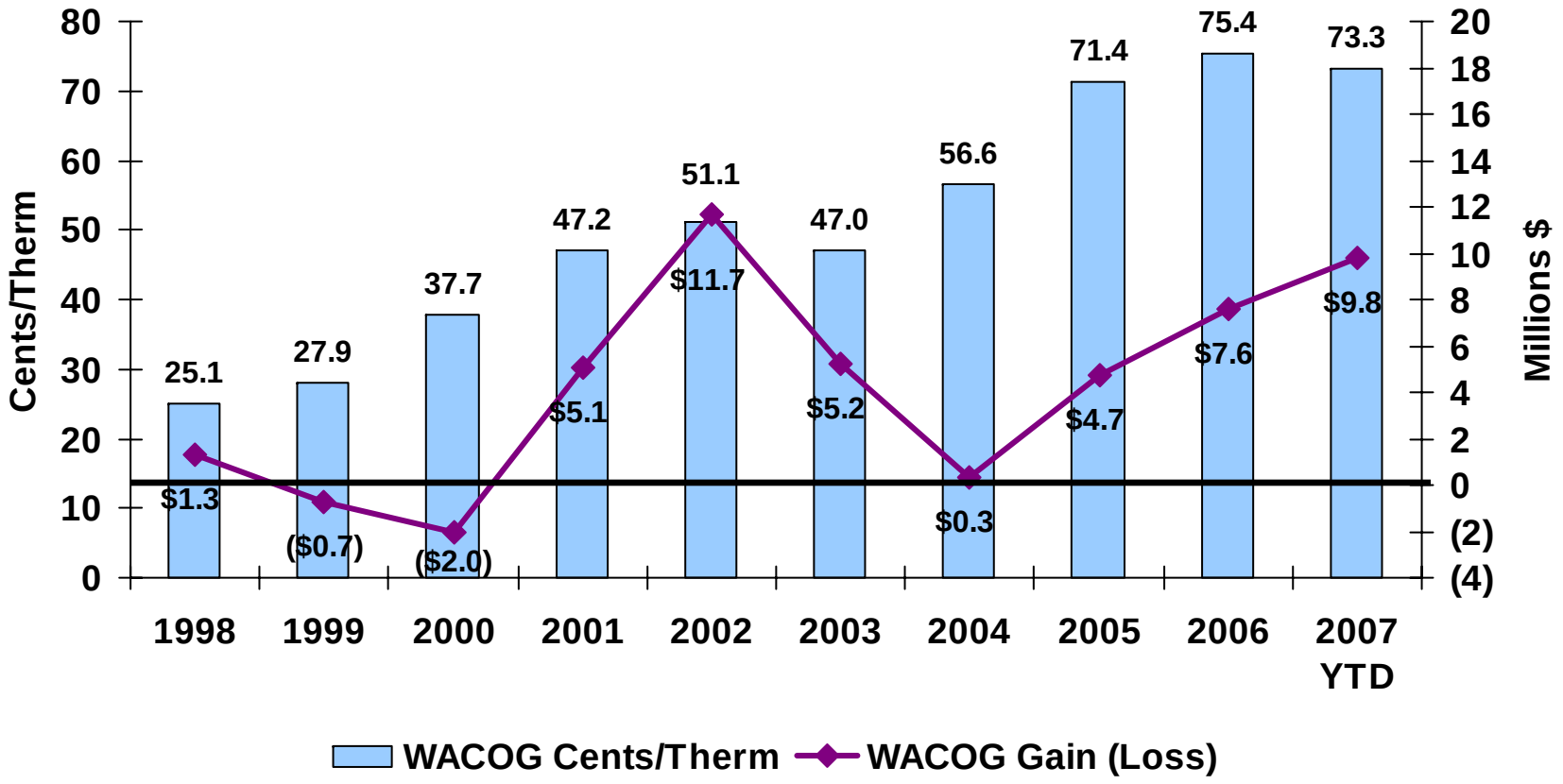
Avg Gas Purchase Cost vs WACOG Gain (Loss)



Includes Upstream Sales Gains (Losses)

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 single- and multi-family construction
- Urban Growth Boundary – organic growth opportunities



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Core Business Growth Potential

Residential multi-family market

- Large number of new multi-family developments in Portland
- Regional desire for fireplaces, gas in kitchens and other amenities
- NWN capturing large percentage of new multi-family market



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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)	165,629	27,618	15,500	**208,747**
Near-main prospects (150-600ft from main)	50,475	13,604	19,350	**83,429**
Off-main prospects (>600ft from main)	155,718	15,652	23,512	**194,882**
TOTAL	**371,822**	**56,874**	**58,362**	**487,058**

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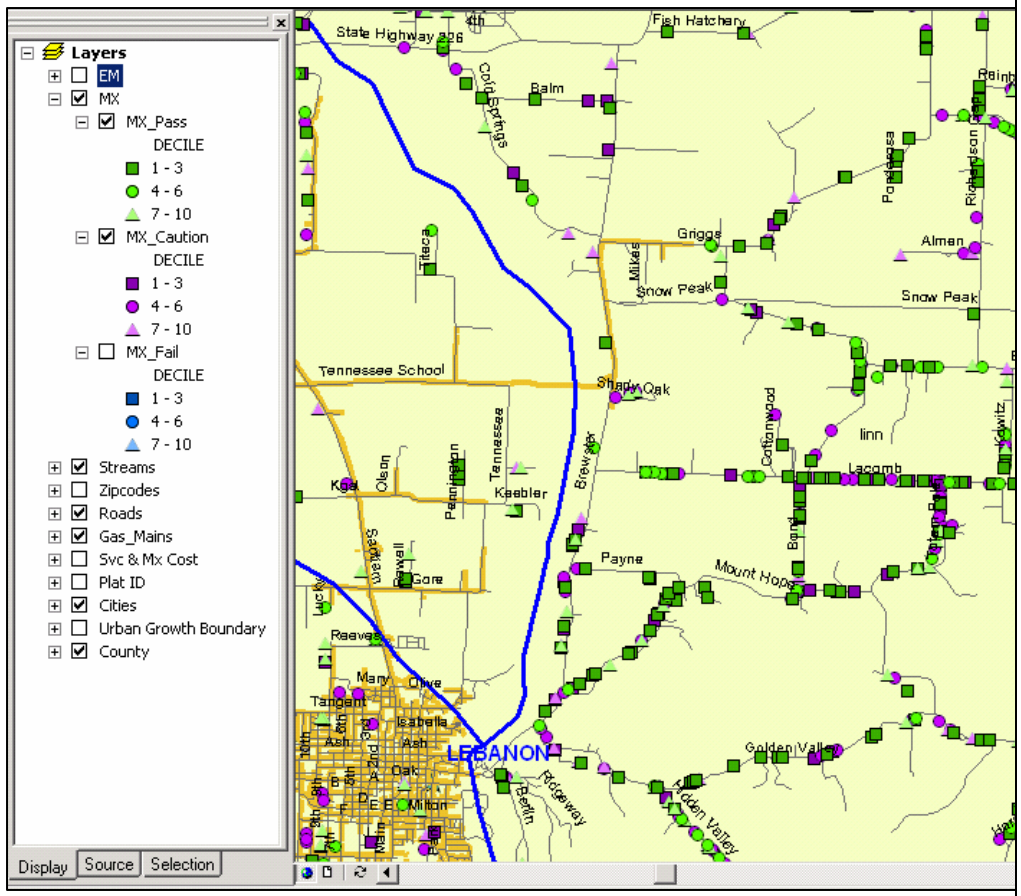
AROE – Main Mapping



- 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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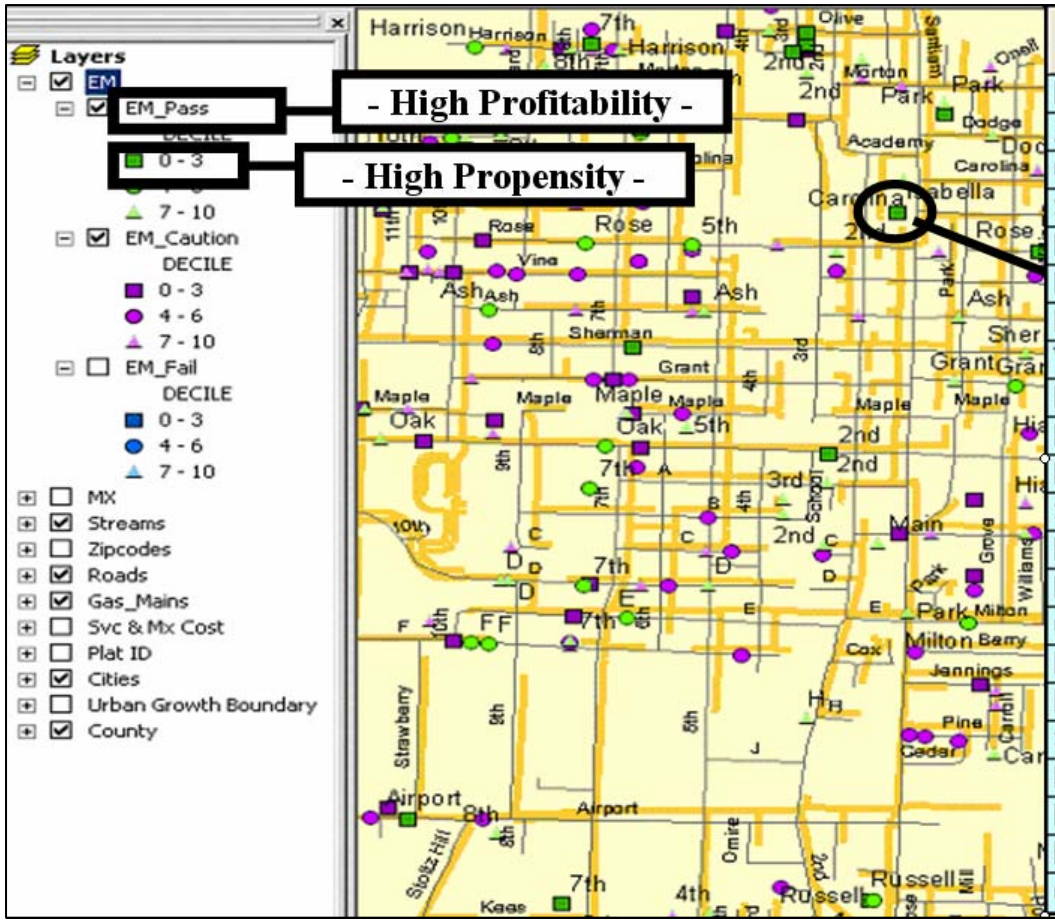
Example of a “Pass” Conversion



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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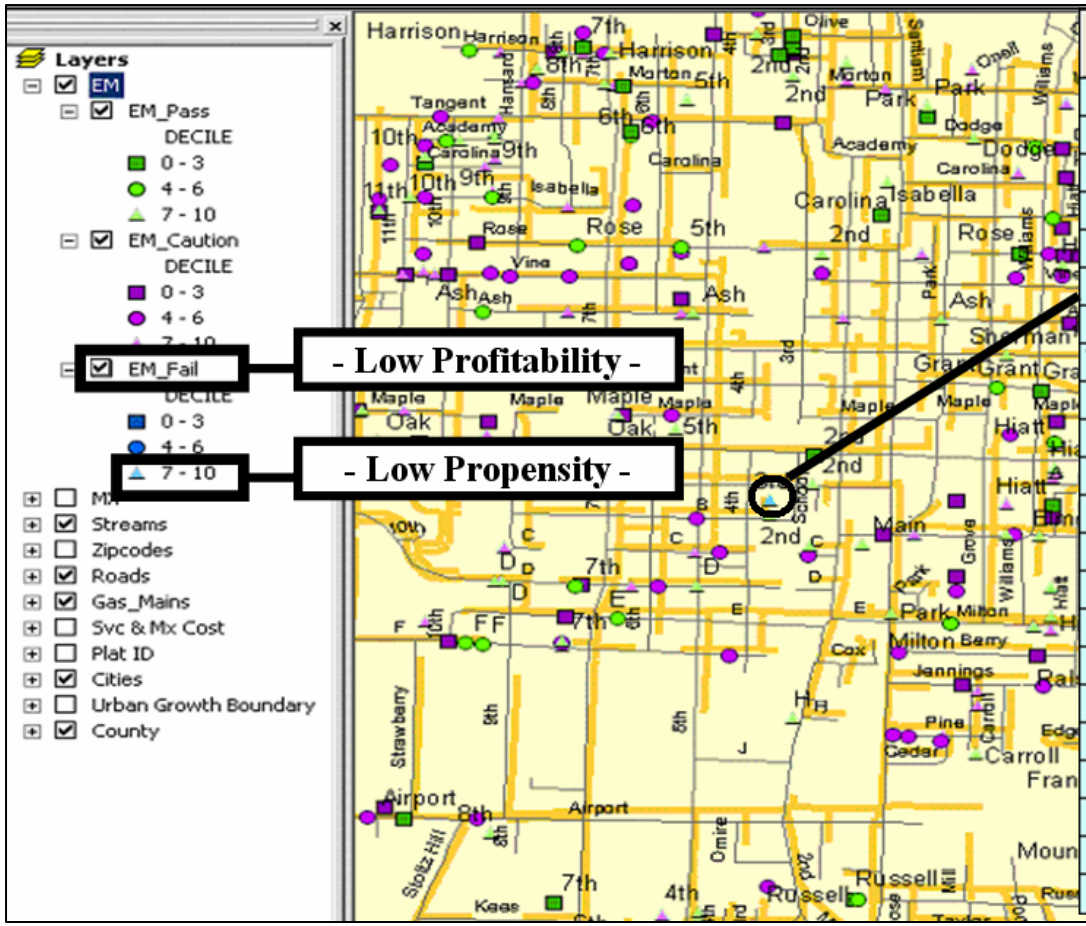
Example of a “Fail” Conversion



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

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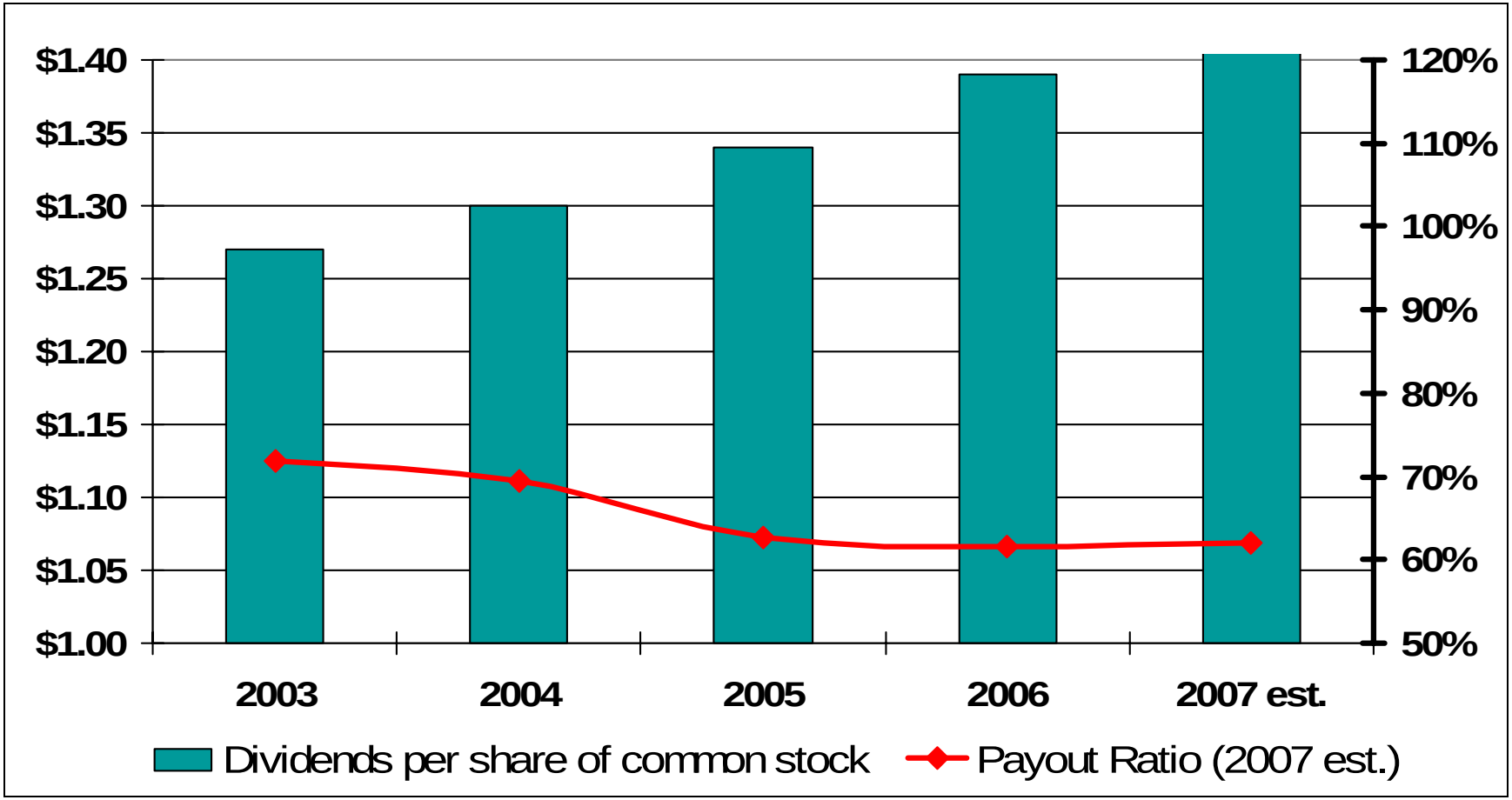
Dividend History



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:	2006 Y/E	2005 Y/E	2004 Y/E
Total Customers	636,584	617,163	596,635
Total Common Equity (000)	$599,545	$586,931	$566,517
Avg Shares of Common Stock Outstanding (000)	27,579	27,564	27,016
Number of Registered Common Shareholders	8,958	9,136	9,359
Institutional Ownership	52%	49%	47%
Annual Dividends (ttm)	$1.40	$1.32	$1.30
Diluted Earnings per Share	$2.29	$2.11	$1.86
Book Value per Share	$21.74	$21.28	$20.64

COMPOSITION OF UTILITY REVENUE:	2006	2005	2004
Residential	54%	53%	55%
Commercial	29%	27%	29%
Industrial & Transportation	17%	20%	16%

CURRENT BOND RATINGS:		Moody's	S&P
Long-Term Debt		A2	AA-
Commercial Paper		P1	A-1+

Stock Exchange: NYSE

Ticker: NWN

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