NW Natural®

We grew up here.



Brean Murray, Carret & Co.

Investor Presentation

June 11, 2008

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 657,000 customers
- 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
  - WA general rate case underway
- Strong balance sheet & cash flows
- Financial & operational discipline to control costs
- Shareholder-focused strategy
- Experienced management team
- JD Power Customer Satisfaction – #2 in U.S. and #1 in the West
- Non-utility growth projects underway – Palomar Pipeline and Gill Ranch Gas Storage



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2007 Highlights & Q1 2008

2007 Highlights

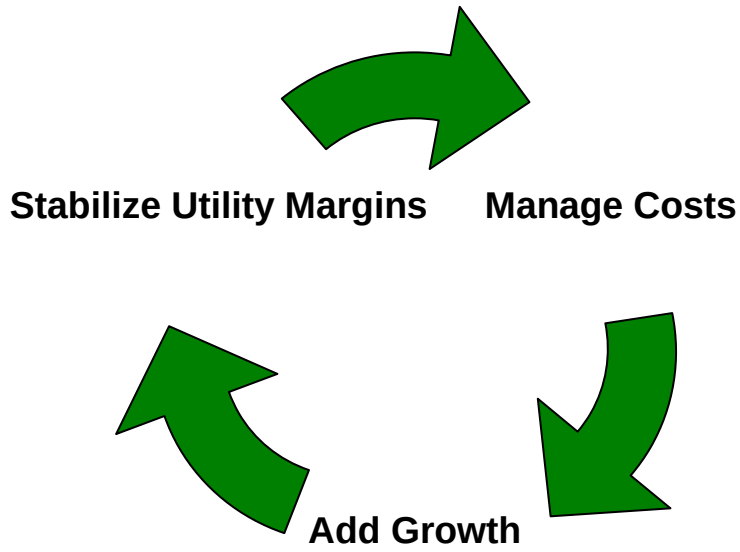
- Increased 2007 EPS to $2.76 per share on net income of $74.5 million – a 21% increase in EPS and 17% increase in net income
- Improved overall residential customer rating among gas utilities to #1 in the West and #2 nationally by J.D. Power
- Decoupling & WARM tariffs extended to 2012 in Oregon
- Added 1.8 Bcf to reserves at Mist field in Oregon for a total of 16 Bcf
- Conducted successful open season at Gill Ranch gas storage project in California and announced Palomar Pipeline JV with TransCanada

2008 Q1 Highlights

- Q1 results of $1.63 per share on net income of $43.2 million. Results ahead of budget, but 7% lower than Q1 2007 due mainly to lower commodity cost impact year-over-year (commodity cost sharing is *not* included in earnings guidance)
- Filed for a general rate case and carbon offset program in Washington
- Sold last non-core asset in April
- 2008 earnings guidance established at $2.48-2.63 per share on Feb. 14, 2008 & reaffirmed on May 2, 2008 with Q1 earnings announcement

NWN Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
  - Filed for rate case 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
  - Palomar, Gill Ranch



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Constructive Regulation

- Purchased Gas Adjustment (PGA) price decreases approved in OR (~8%) and WA (~10%) – implemented in November
  - October and November weather now covered in Oregon through 2012
- 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 further AMR & pipeline integrity management and extraordinary events
- Smart Energy program approved in Oregon – first for an LDC
- Filed Washington GRC (4.8% general rate increase) and filed for Smart Energy in Washington in March

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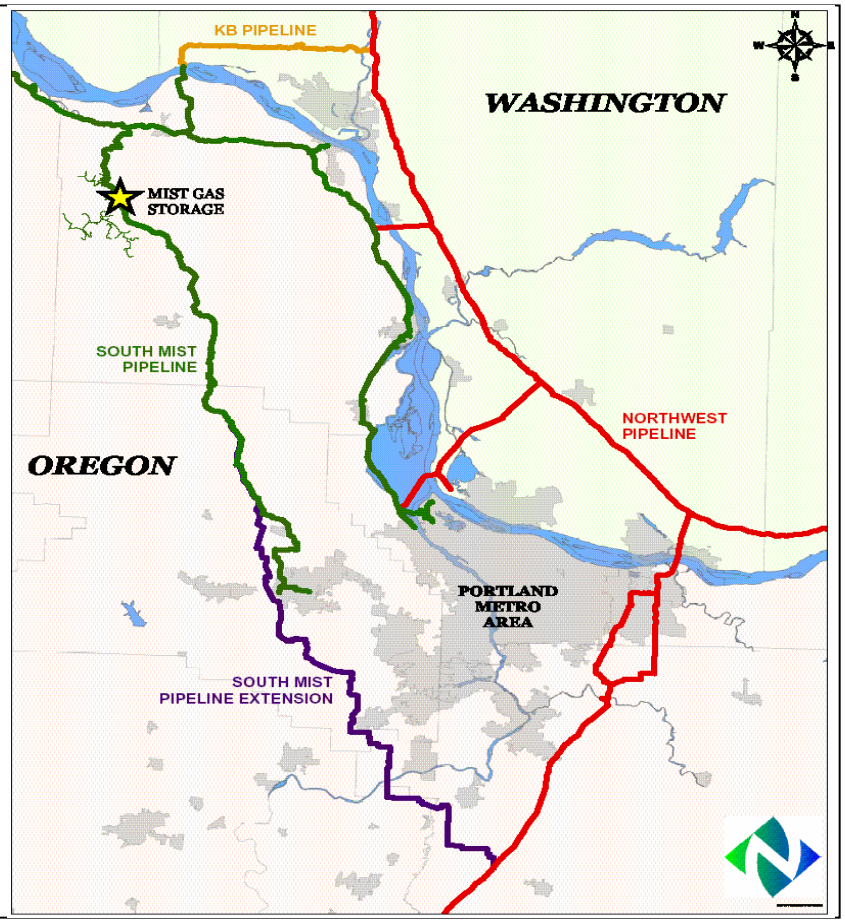
Sustainable Growth

- New residential construction – continuing to capture majority of the market
  - Targeted marketing communications and programs with construction partners to maintain momentum
  - 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



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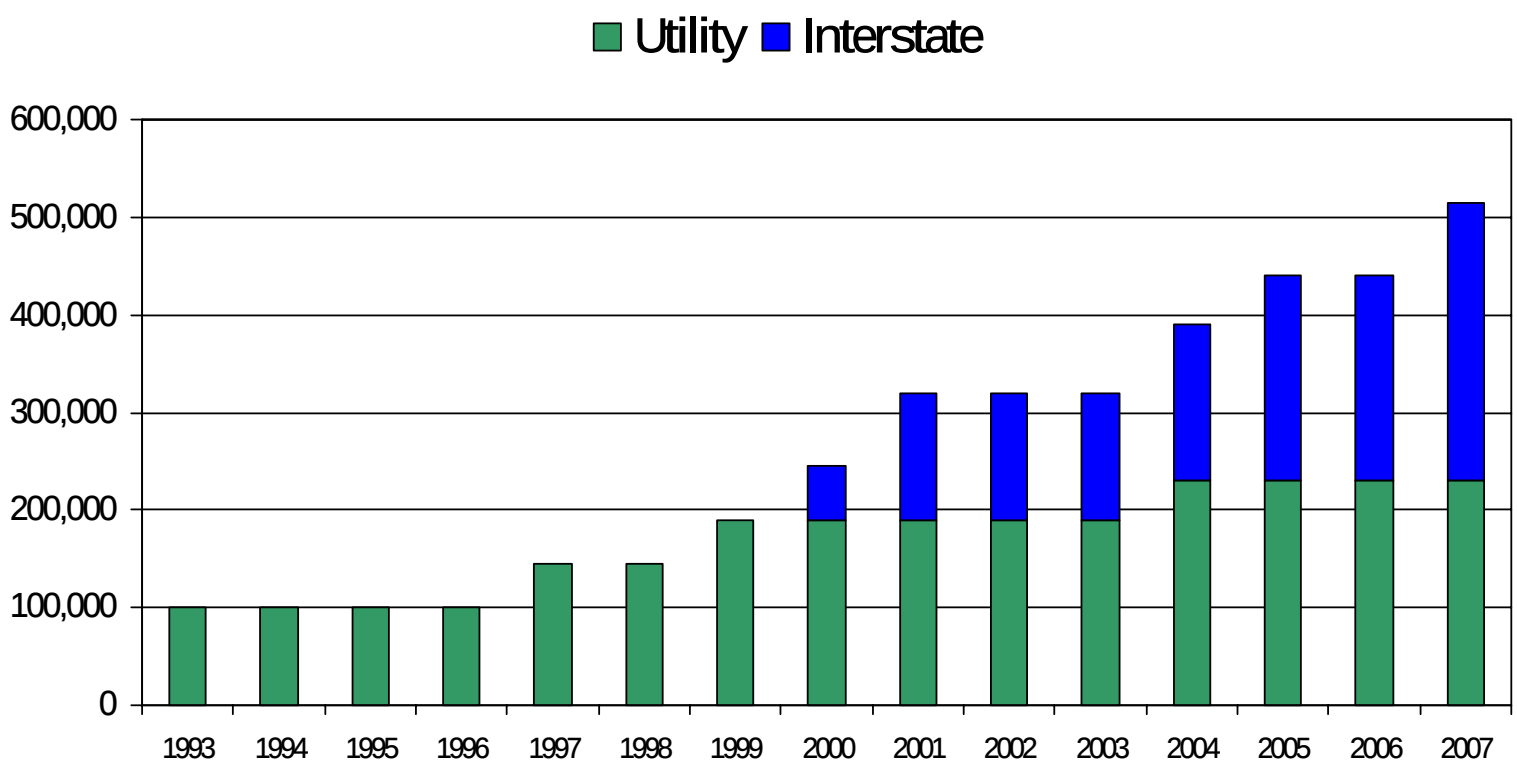
Historic Mist Integrated Development

(Deliverability/Dtherms)



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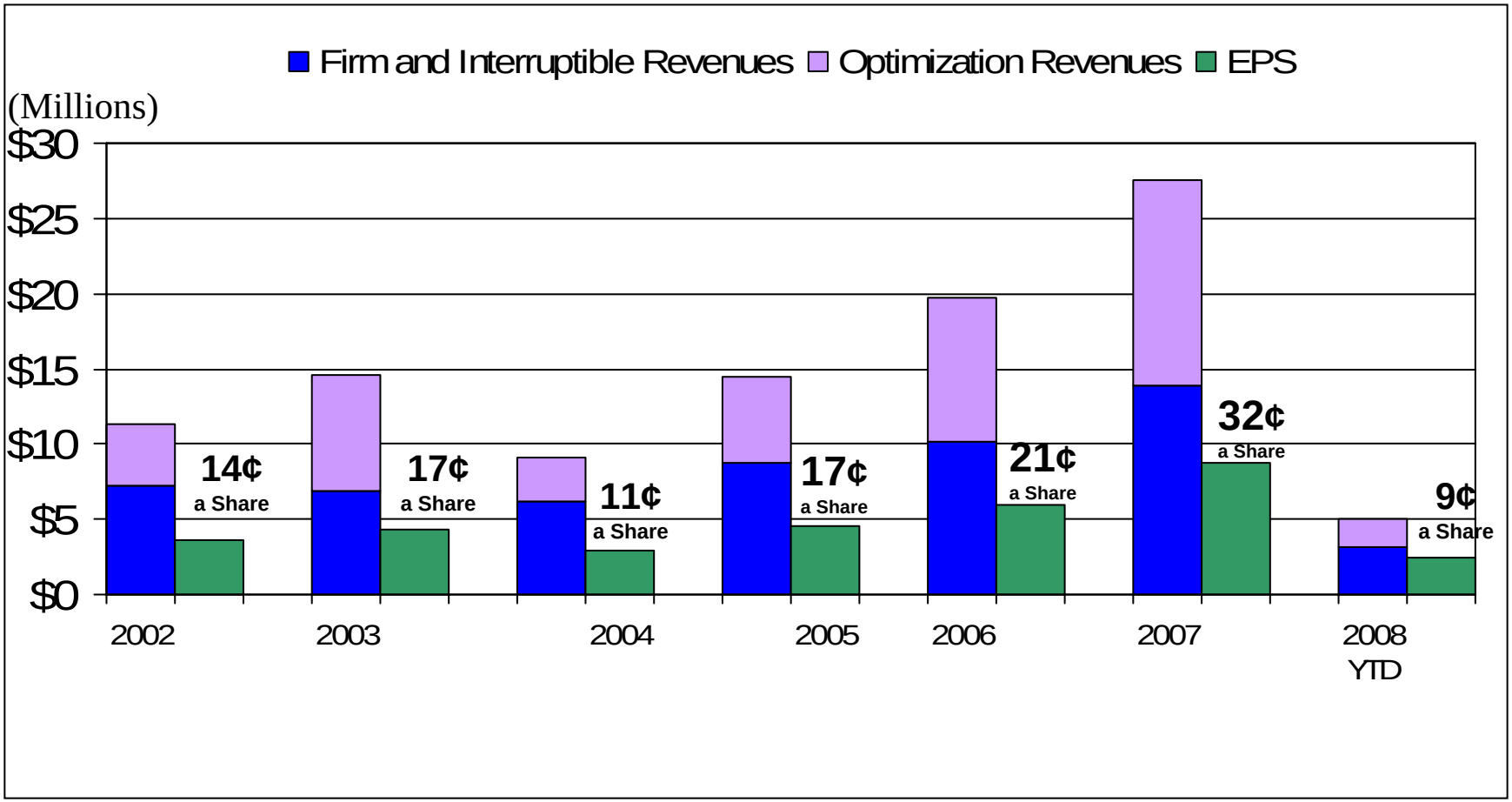
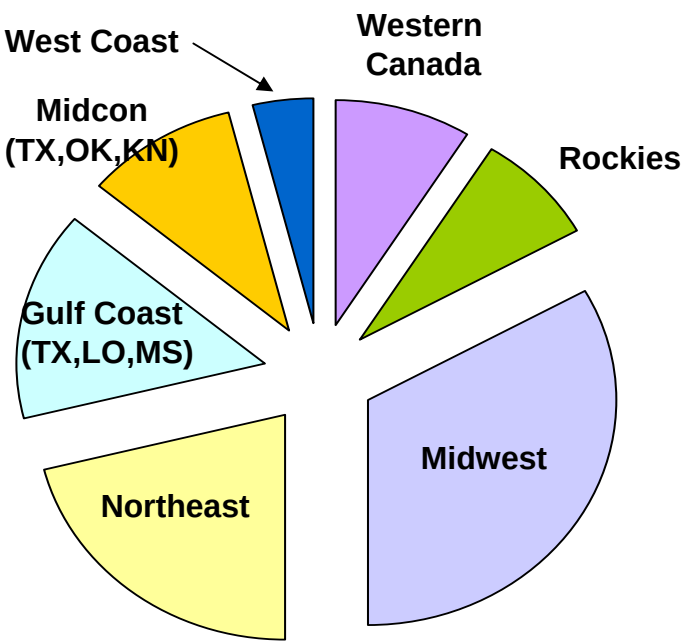
Gas Storage Revenues & EPS

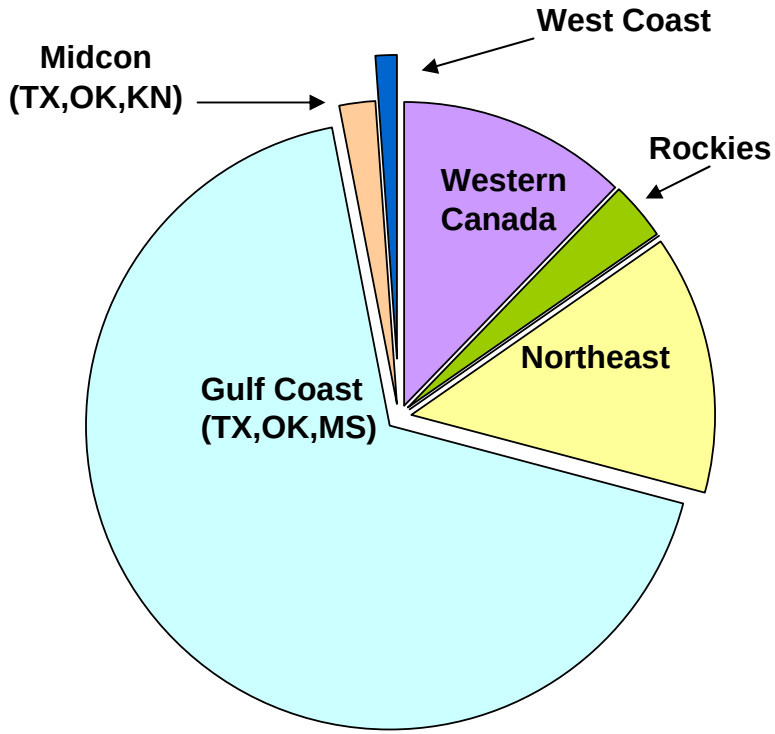


Need for Additional Storage in West

Existing Storage (4,395 Bcf)



Proposed Storage (403 Bcf)



Source: EIA

Gill Ranch Project Overview

- Market area storage at prime location on PG&E system
- Under CPUC jurisdiction
- Depleted gas reservoirs
- Phased development
  - 20 Bcf to start
- Planned 2010 in-service
- Successful “open season” results
- 75/25 venture with PG&E
- ~$160m development costs (NWN portion)



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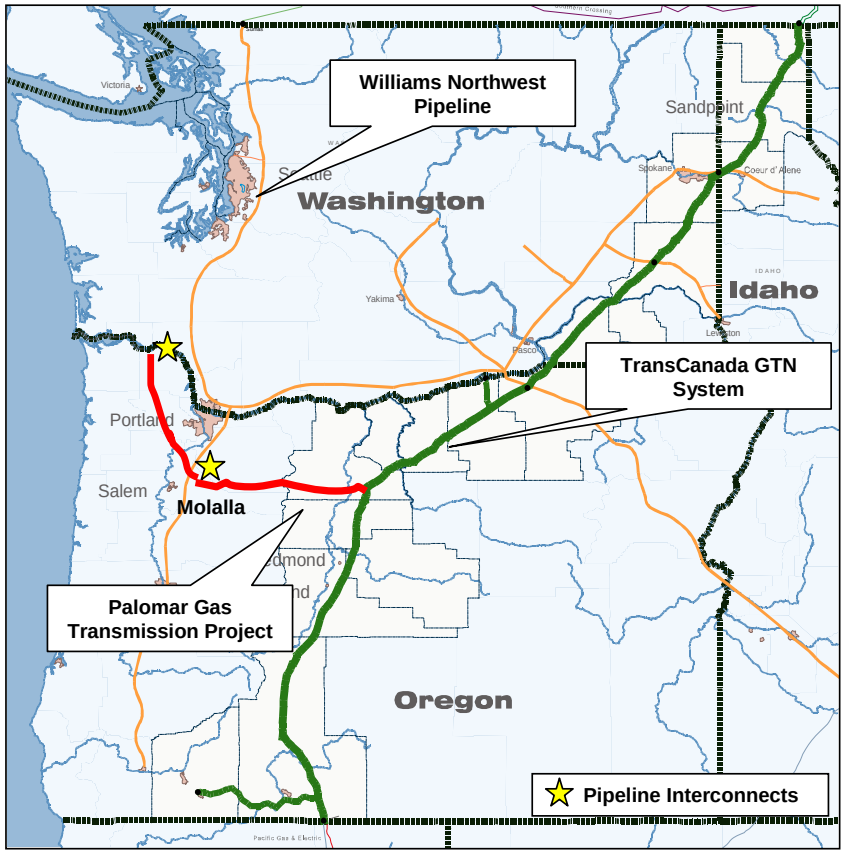
Palomar Pipeline Project Overview



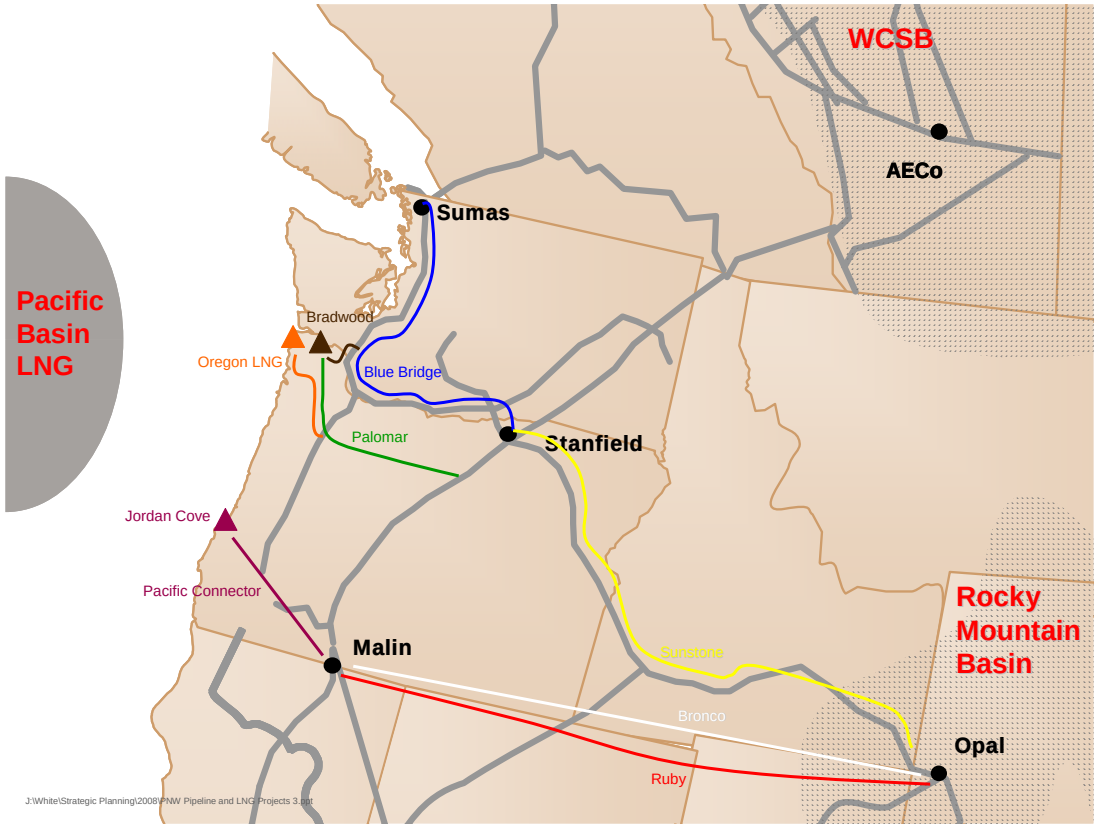
Project Review

- 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
- $650-700 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)
5. Sunstone (Williams, TransCanada)
6. Blue Bridge (Williams, Puget Energy)

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LNG Outlook

Bradwood Landing project continues to make headway

☑	Pre-filed with FERC	2Q 2005
☑	Completed technical design	2Q 2006
☑	Submitted Application to FERC (terminal & pipeline)	2Q 2006
☑	Submitted Joint Permit Application to Oregon Authorities	4Q 2006
☑	Issued biological assessment to FERC/NOAA	4Q 2006
☑	Submission of Coastal Zone Management Association	4Q 2006
☑	Release of Waterway Suitability Report (WSR) from USCG	1Q 2007
☑	Release of Biological Assessment from FERC	1Q 2007
☑	Planning Commission Decision	3Q 2007
☑	Issuance of Draft Environmental Impact Statement (EIS)	3Q 2007
☑	Local Planning Commission Recommendation	3Q 2007
☑	Local County Commission Board Decision (Land Use)	1Q 2008
☐	FERC Issuance of Final EIS	2Q 2008
☐	FERC Order authorizing Terminal/Pipeline	2/3Q 2008
☐	Receive all other necessary permits	2/3Q 2008
☐	Commencement of Construction possible	3Q 2008
☐	Possible Commercial Operation Date	1Q 2012

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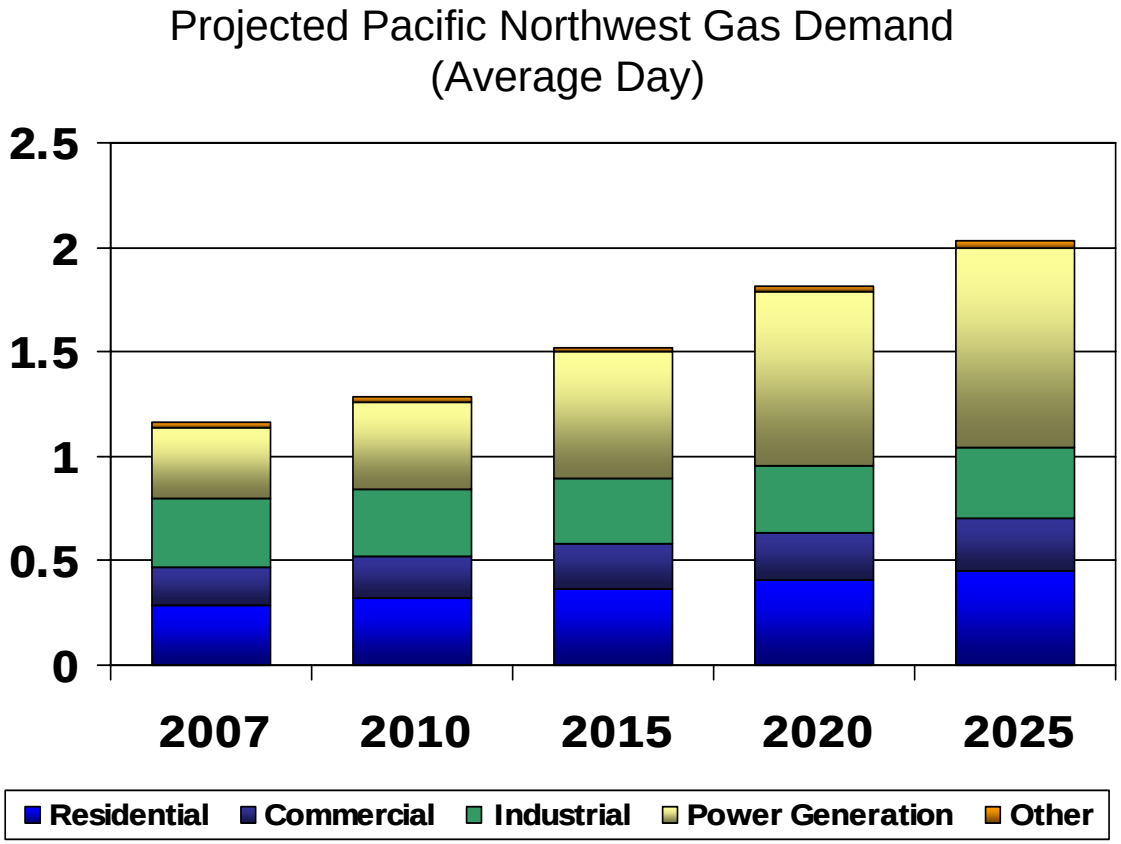
Need for Gas Infrastructure



Source: ICF International Report for State of Washington Energy Facility Site Evaluation Council, Nov. 2007

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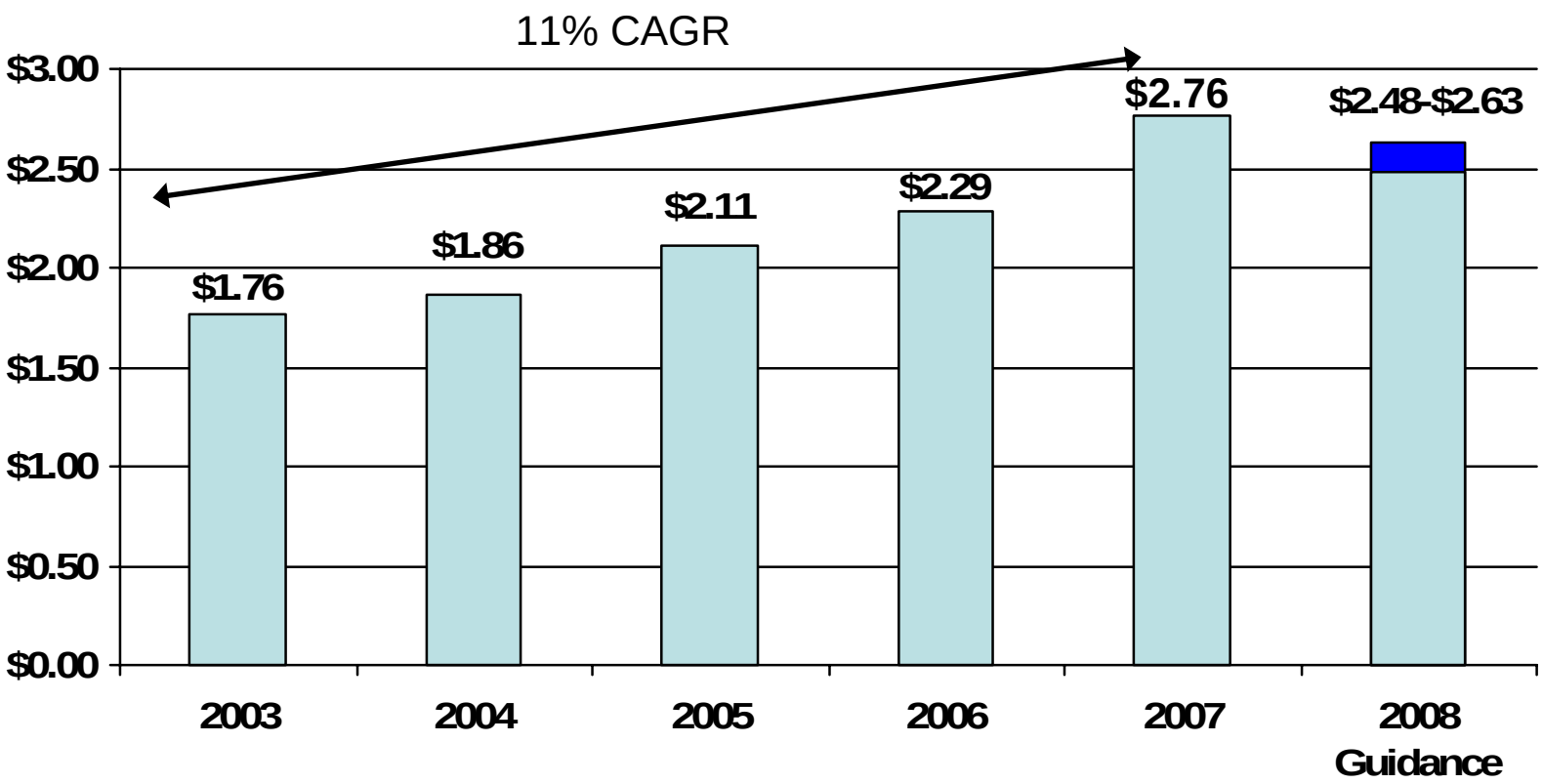
Earnings Per Share Growth



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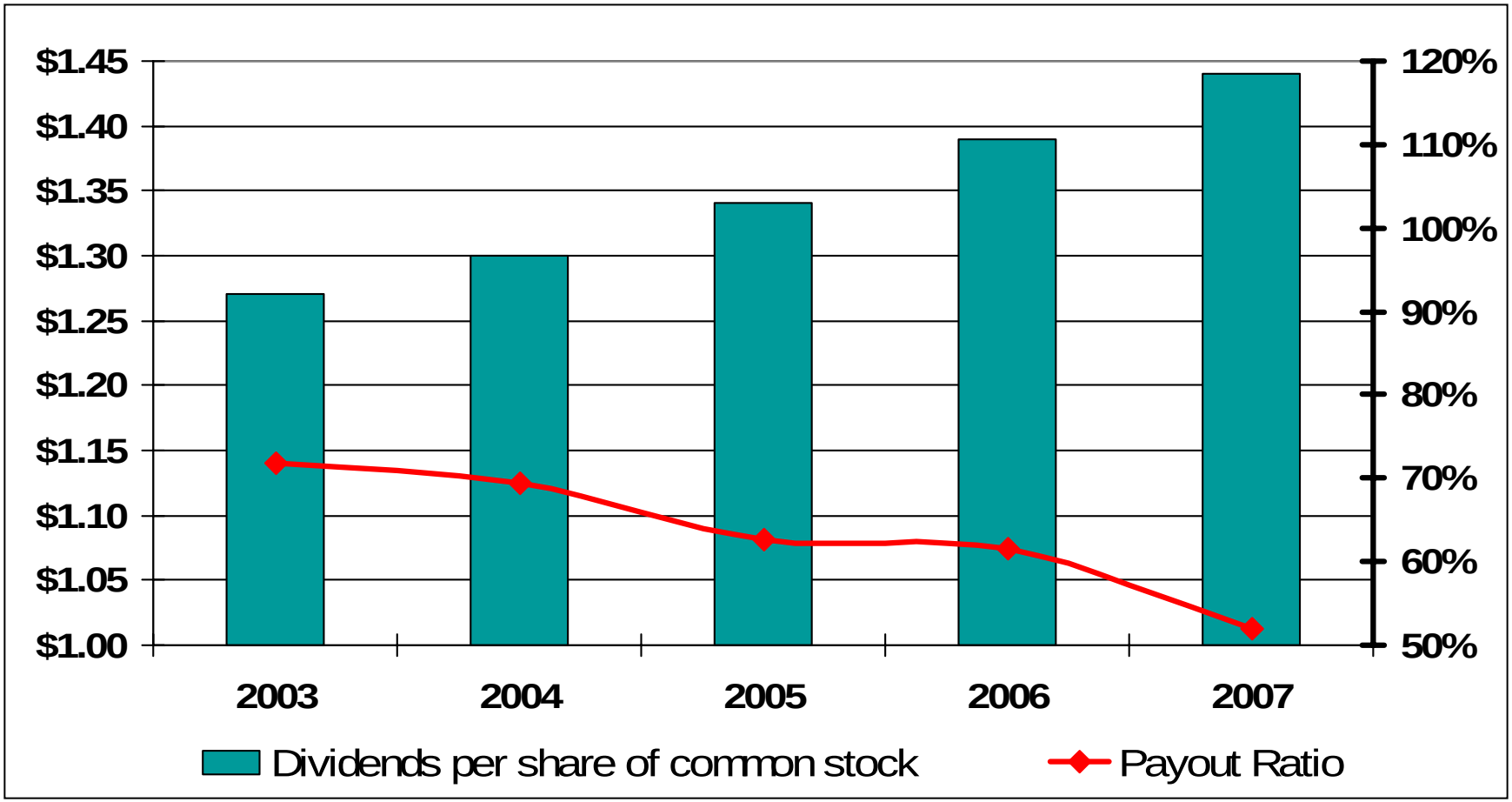
Dividend History



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Conclusion

- Exceptional 2007 results – financially and strategically
- 2008 earnings guidance of $2.48-2.63 per share established Feb. 14
- Q1 results on target and as expected – $1.63 per share
- Increasingly predictable earnings stream and internally funded cash flow adequate to fund ’08 capex
- Sound regulatory relationships continuing – expansion of mechanisms in Oregon through late 2012
- Washington rate case filed in March – 10% of customer base
- Non-utility opportunities from Gill Ranch storage & Palomar Pipeline
- 52-year+ history of dividend increases and 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)

Addendum



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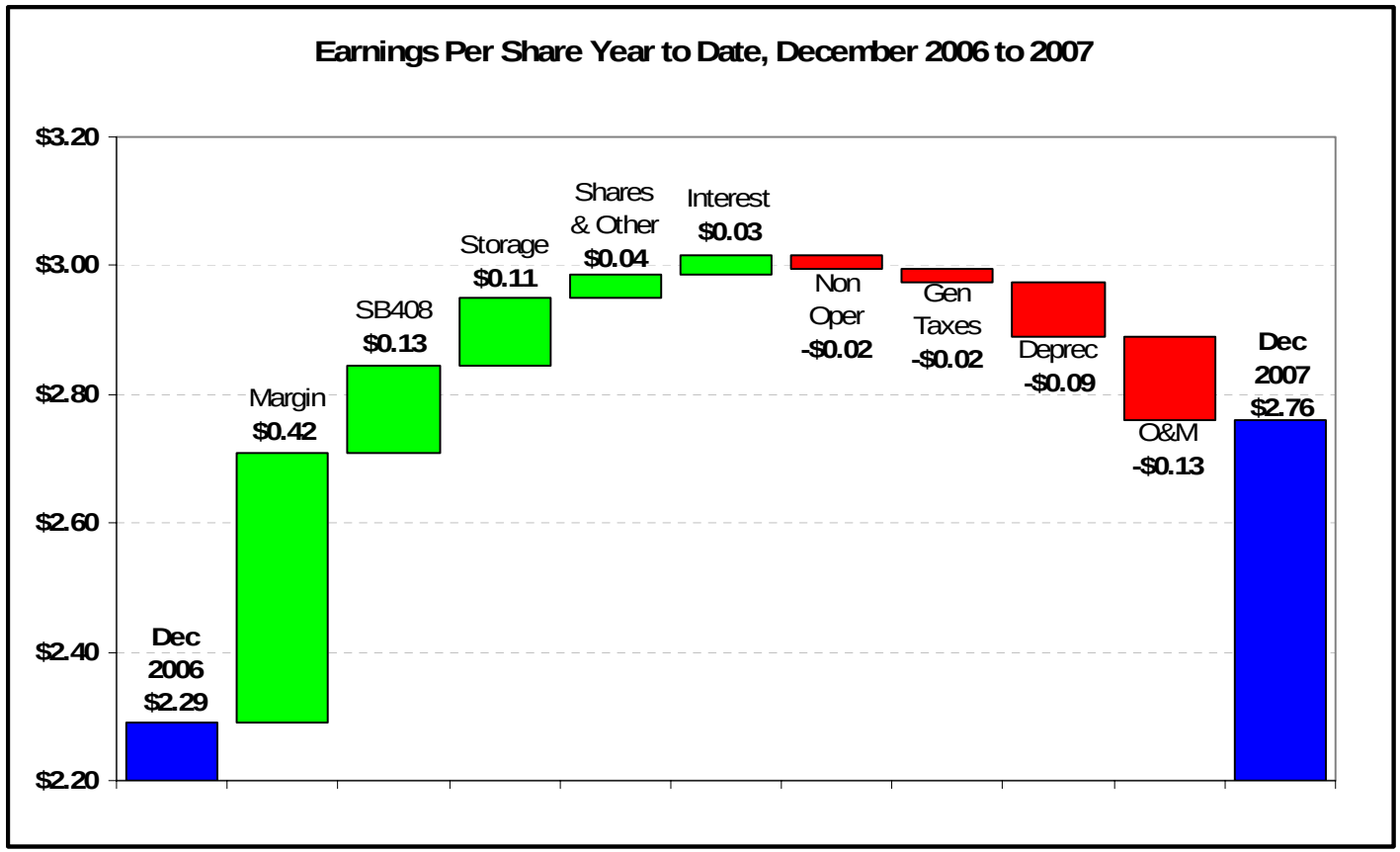
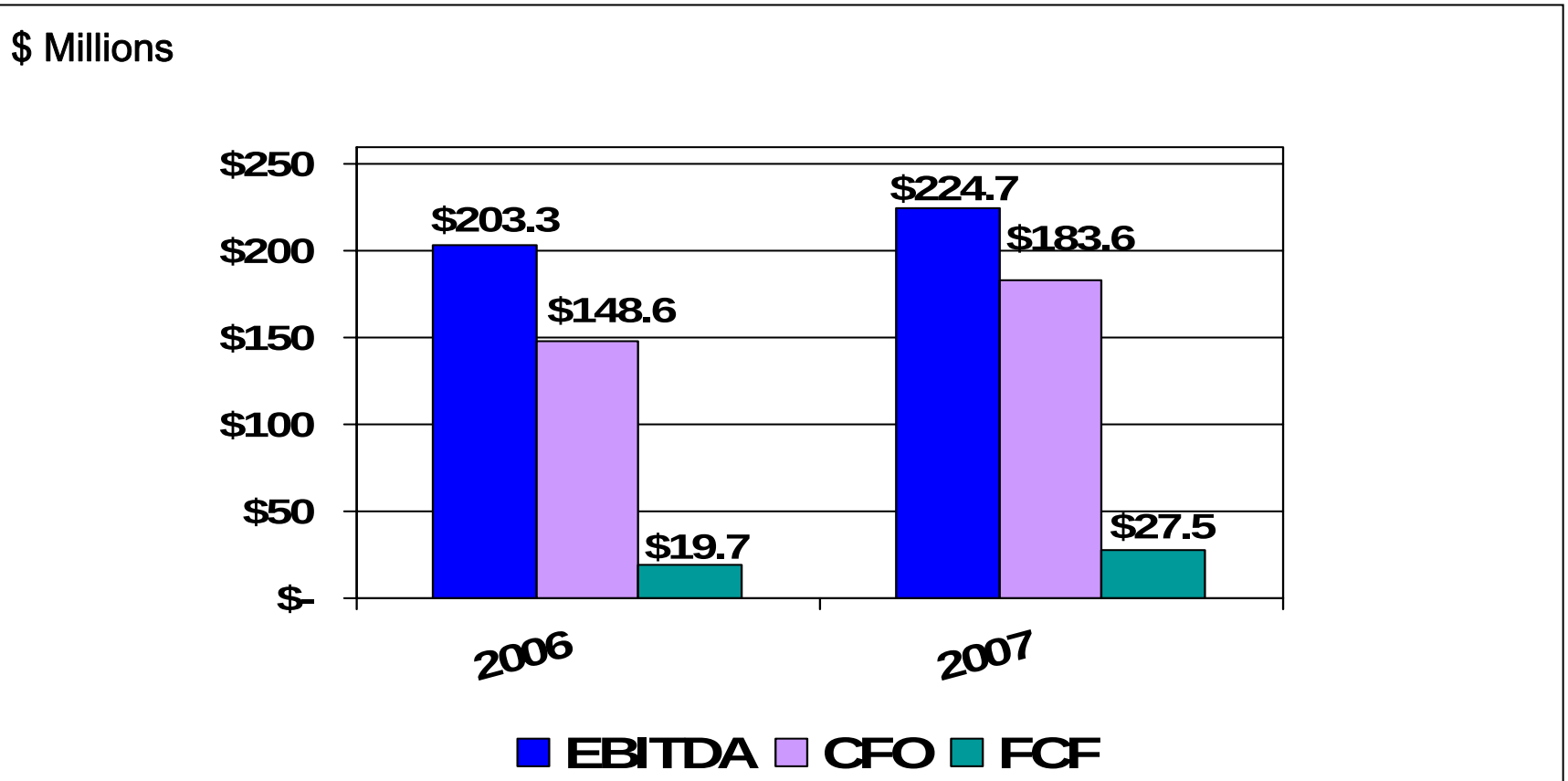
2007 EPS Variance



EBITDA & Cash Flow

(12 months ended December 31st)



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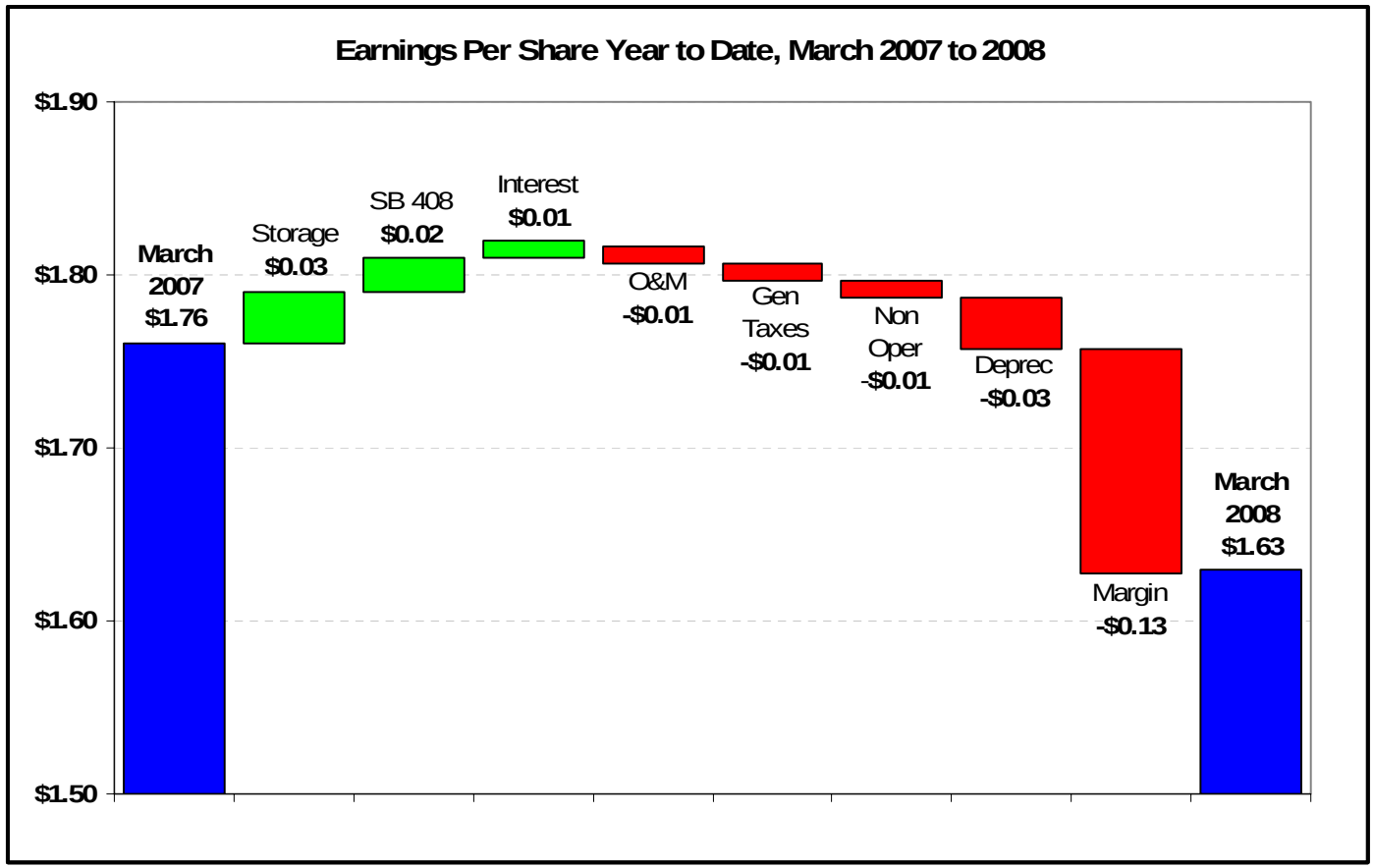
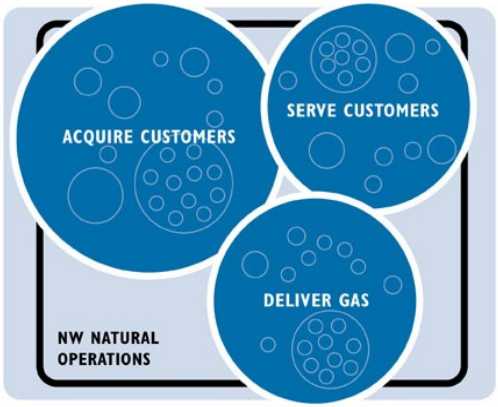
Q1 EPS Variance

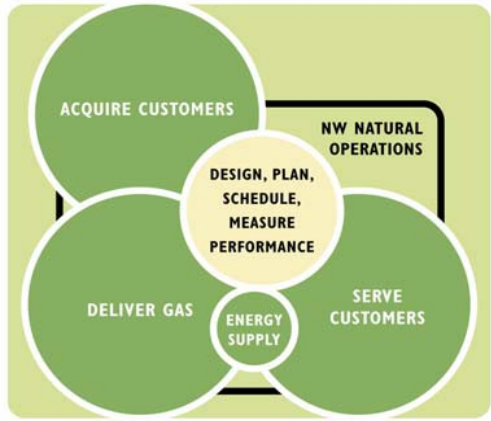


Operations Business Model Review

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

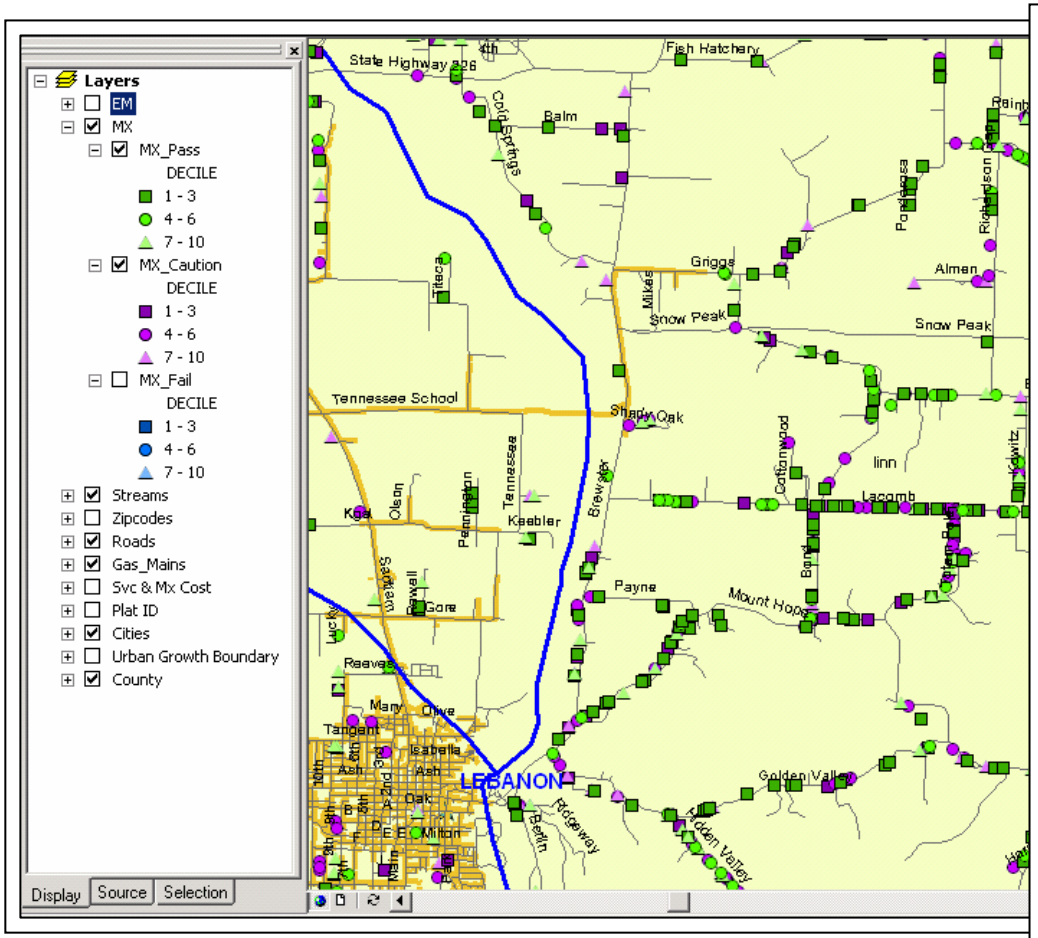
- Coordinated by a regional governmental body (Metro)
- Boundary has been moved three dozen times since late 1970s
- Encourages efficient land use and higher density within the boundary
- Expansion on eastern side of Portland now underway
- Last major expansion in 2002 (19,000 acres)



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**

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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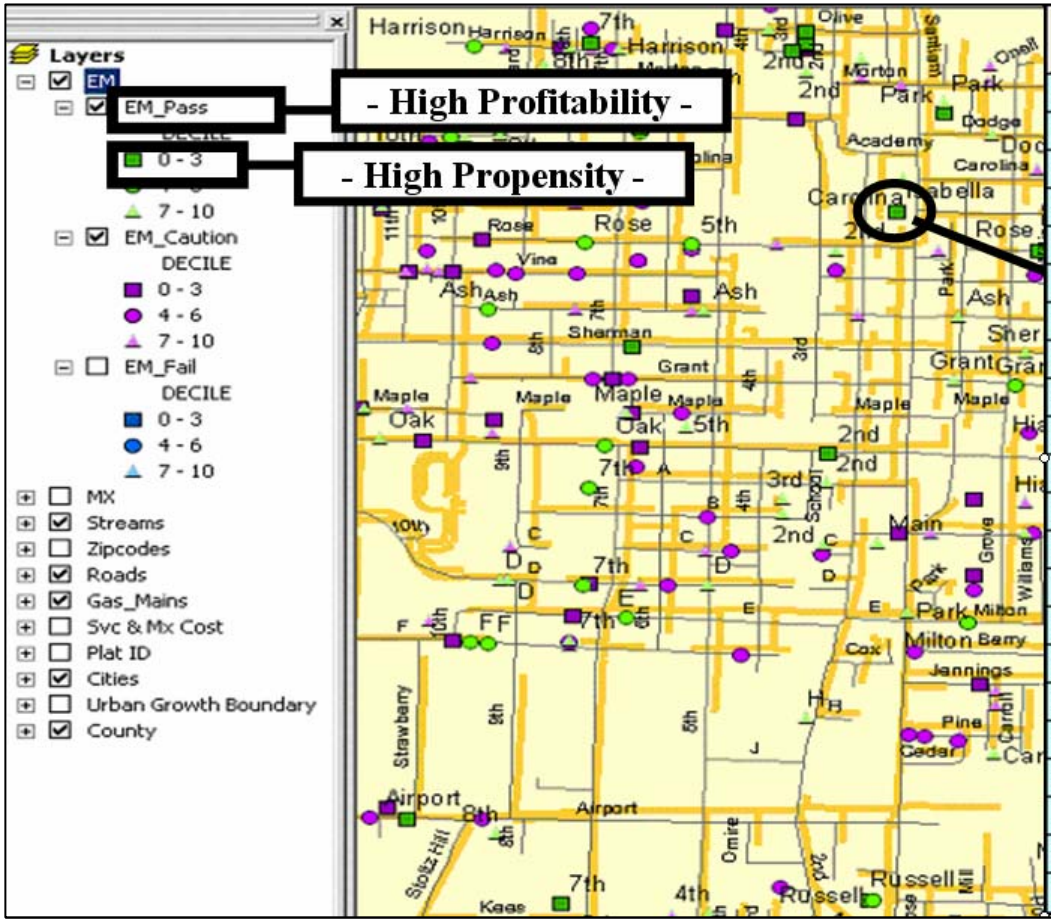
Example of a “Pass” Conversion



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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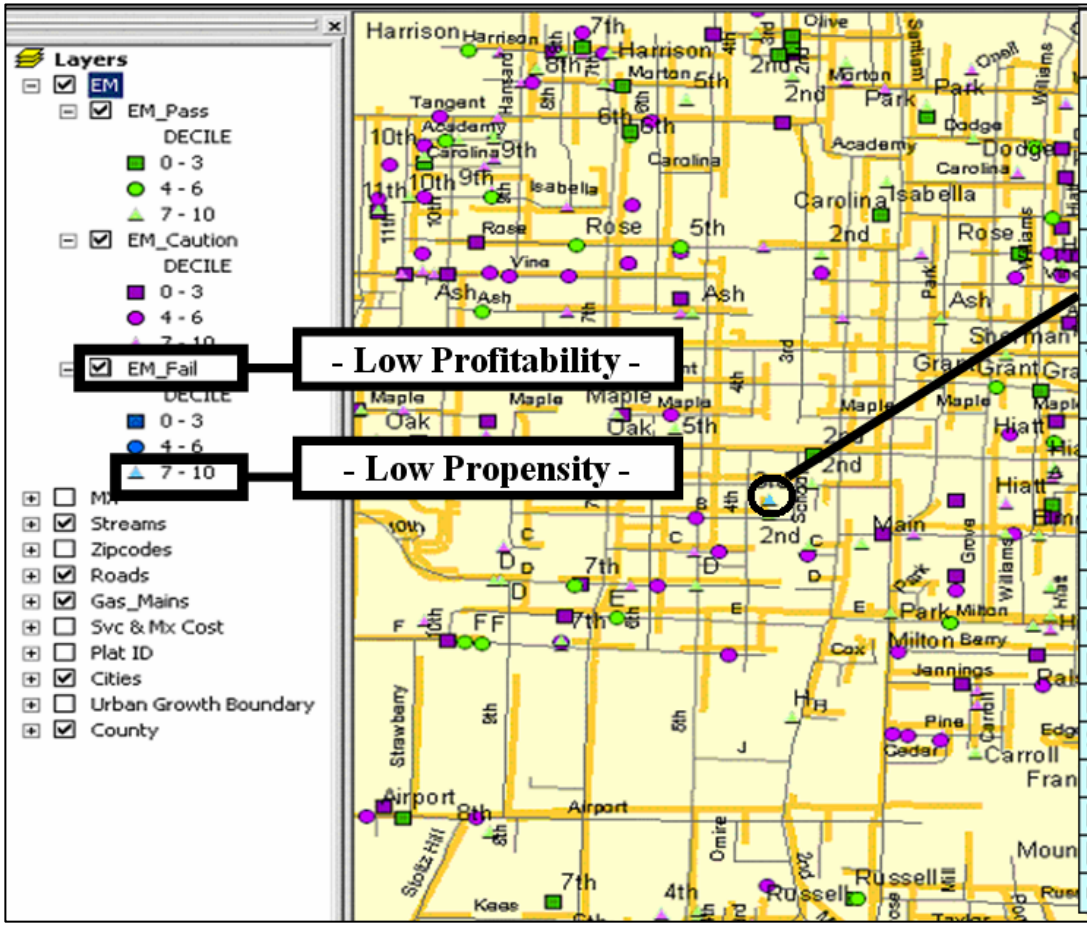
Example of a “Fail” Conversion



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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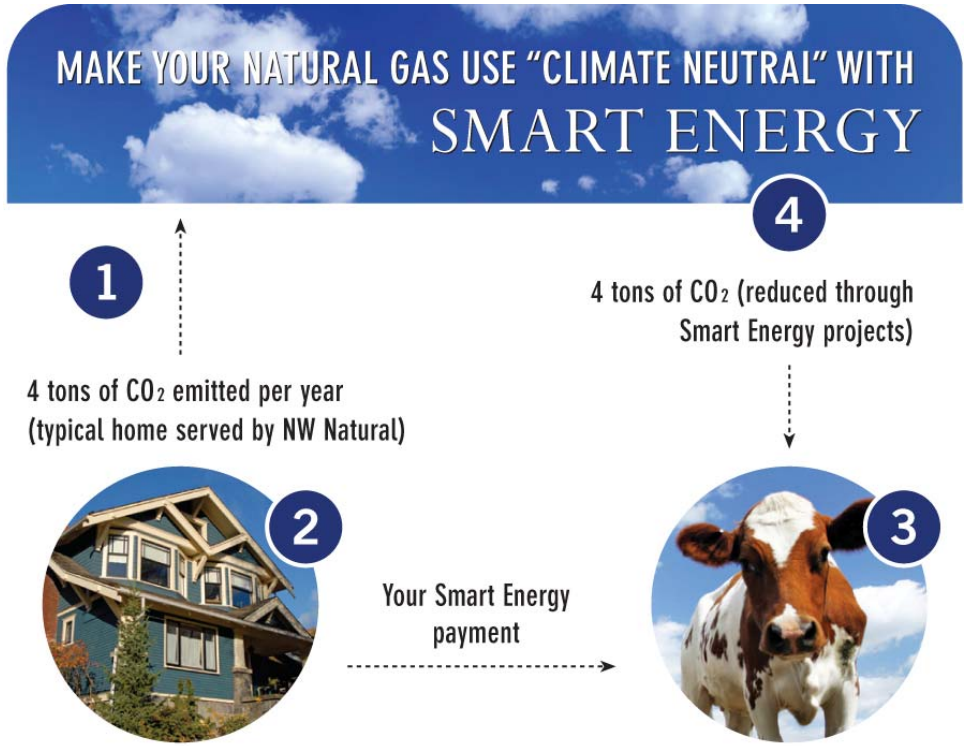
Overview Of Smart Energy Program

- 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

How Does Smart Energy Work?



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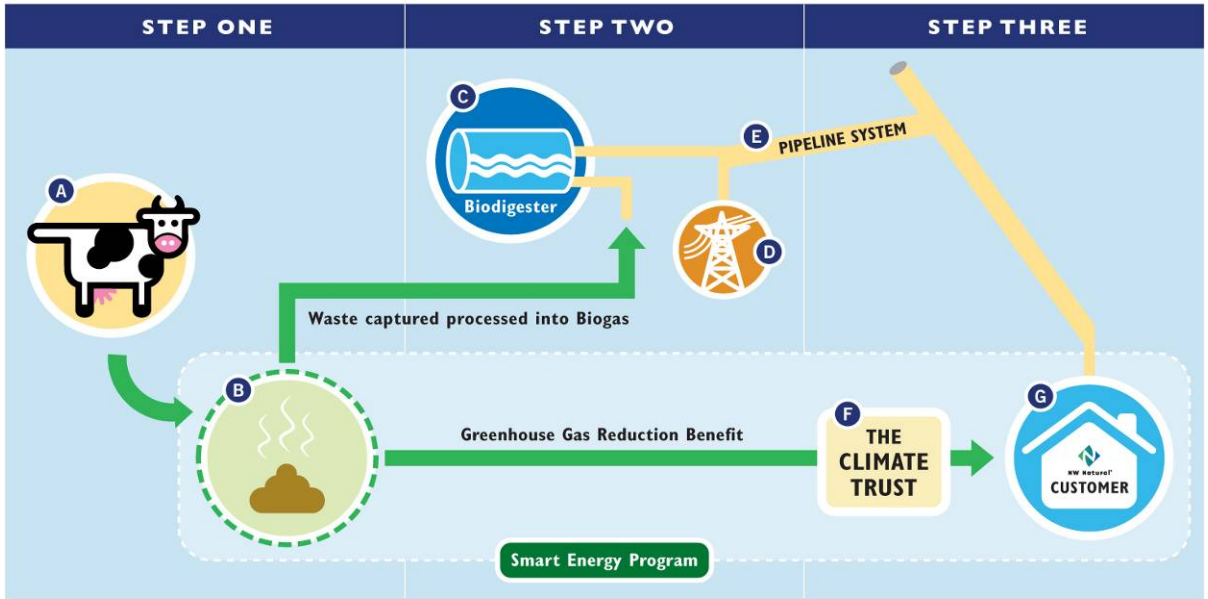
Smart Energy and Biogas



A. The typical cow produces 120 pounds of waste each day. Methane emitted from cow waste into the atmosphere is 23 times more potent than CO2.

B. The first step to turning cow manure into biogas is to trap it, halting the release of greenhouse gas emissions and improving water quality.

C. The manure can then be put into a "biodigester" – the technology used to turn it into clean, renewable biogas.

D. Biogas can be used to generate electricity.

E. Or treated and eventually added to a pipeline system and used in homes and businesses.

F. Smart Energy funds will go through NW Natural to the Climate Trust, which will purchase carbon offsets from the biogas project.

G. Customers participating in Smart Energy will "own" those greenhouse gas reductions equal to the amount of emissions caused by their gas use.

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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:	2008 YTD	2007 Y/E	2006 Y/E
Total Customers	657,415	652,012	636,584
Total Common Equity	$629,265	$594,751	$599,545
Avg Shares of Common Stock Outstanding	26412	26,821	27,540
Number of Registered Common Shareholders	7,081	7,863	8,958
Institutional Ownership	65%	62%	52%
Annual Dividends (ttm)	$1.46	$1.44	$1.40
Diluted Earnings per Share	$1.63	$2.76	$2.29
Book Value per Share	$23.82	$22.52	$21.97

Composition of Utility Revenue:	20008 YTD	2007	2006
Residential	55%	55%	54%
Commercial	29%	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	P1	A-1+

Stock Exchange: NYSE

Ticker: NWN

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