NW Natural®

We grew up here.



Investor Presentation

October 2007

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 640,000 customers in OR & WA
- A distribution and transmission system totaling 13,474 miles
- Customer growth ahead of the national average
- 16 billion cubic feet gas storage capacity with further growth potential
- Constructive regulatory environment
- Strong balance sheet & cash flows
- Financial & operational discipline to control costs
- Experienced management team
- Among 100 “most respected” companies in America – 7th consecutive year
- JD Power Customer Satisfaction – 2nd Best in United States & Best in West
- Dividend increase for 52nd year in a row



2007 YTD Highlights

First Half-2007 Highlights

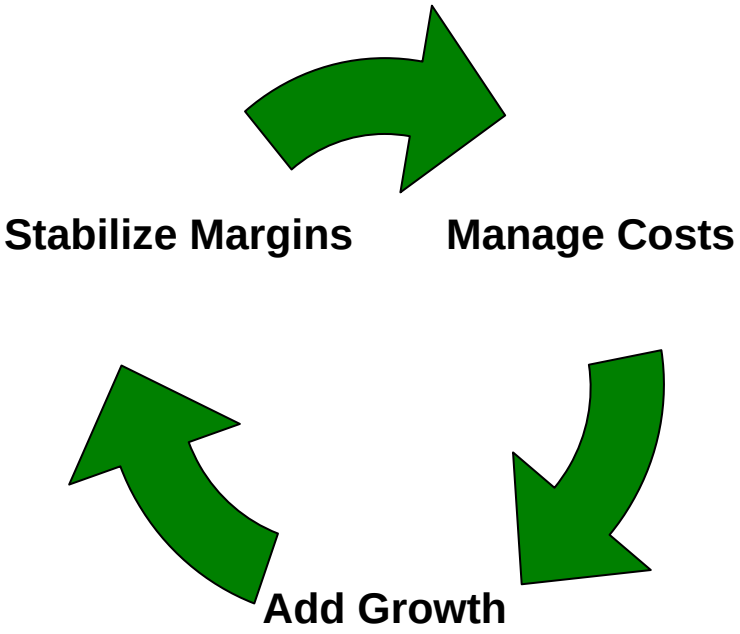
- H1 results up 19% to $1.86 per share on net income of $50.7 million
- Announced Palomar JV with TransCanada
- Successfully drilled an additional well at Mist underground gas field that raised reserves by 1.7 Bcf to 16 Bcf
- Completed a $250m syndicated credit facility

Recent Highlights

- Gill Ranch – 20 Bcf gas storage project proposed near Fresno, CA
- Smart Energy tariff in Oregon – first mover in LDC sector
- Decoupling and WARM tariffs extended to 2012 by OPUC
  - No general rate case in Oregon until 2011
- Dividend increased to 37.5 cents per share per quarter, up 5.6%

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
- 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 filed in OR (5.7%) and WA (7.4%) – 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
- Forward treatment for pipeline integrity & bare steel

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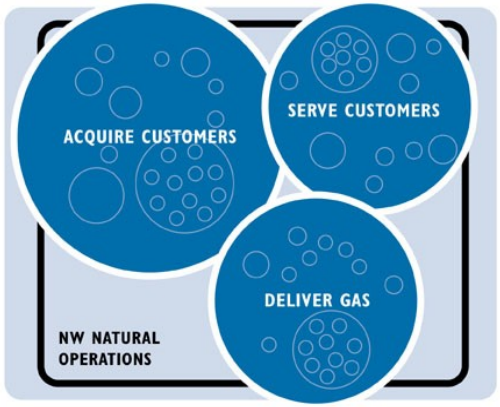
Sustainable Growth

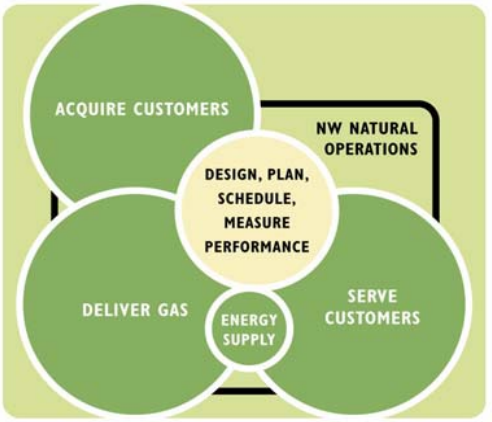
- New residential construction – continuing to capture majority of the market
  - Targeted marketing communications and programs with construction partners to maintain momentum
- Cost control measures in place to achieve targeted results – efficiency improvements
- Opportunities for expansion in gas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

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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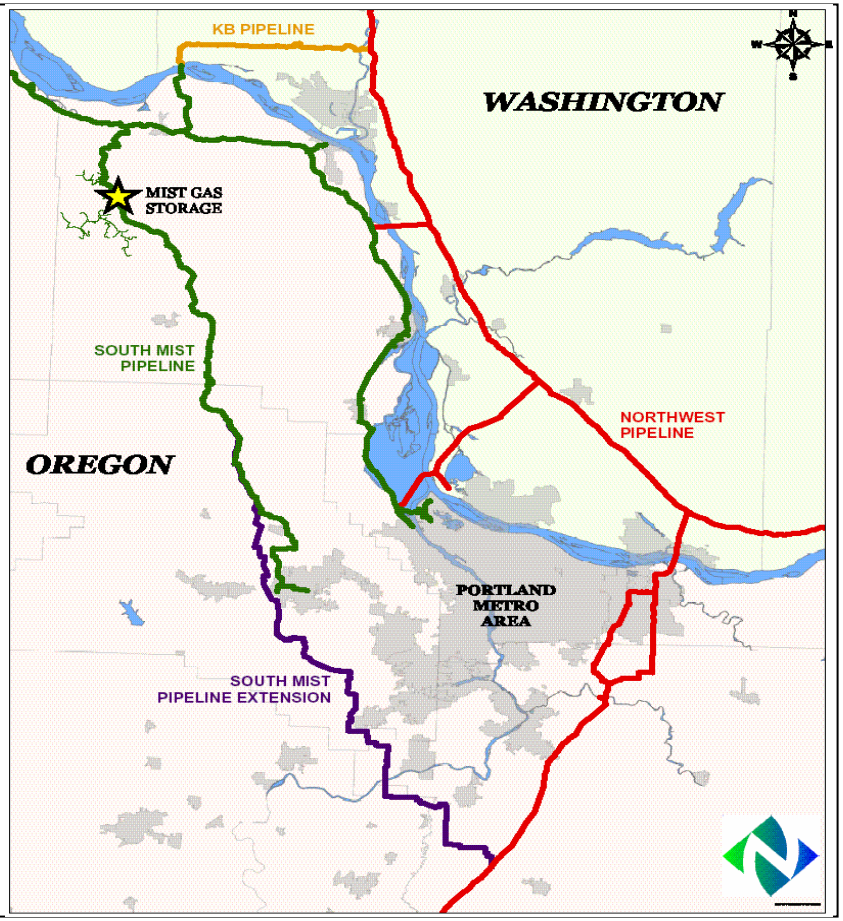
Operations Business Model Review

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** totaling 100-200 over several years – already at >10% reduction (more than 100 employees)

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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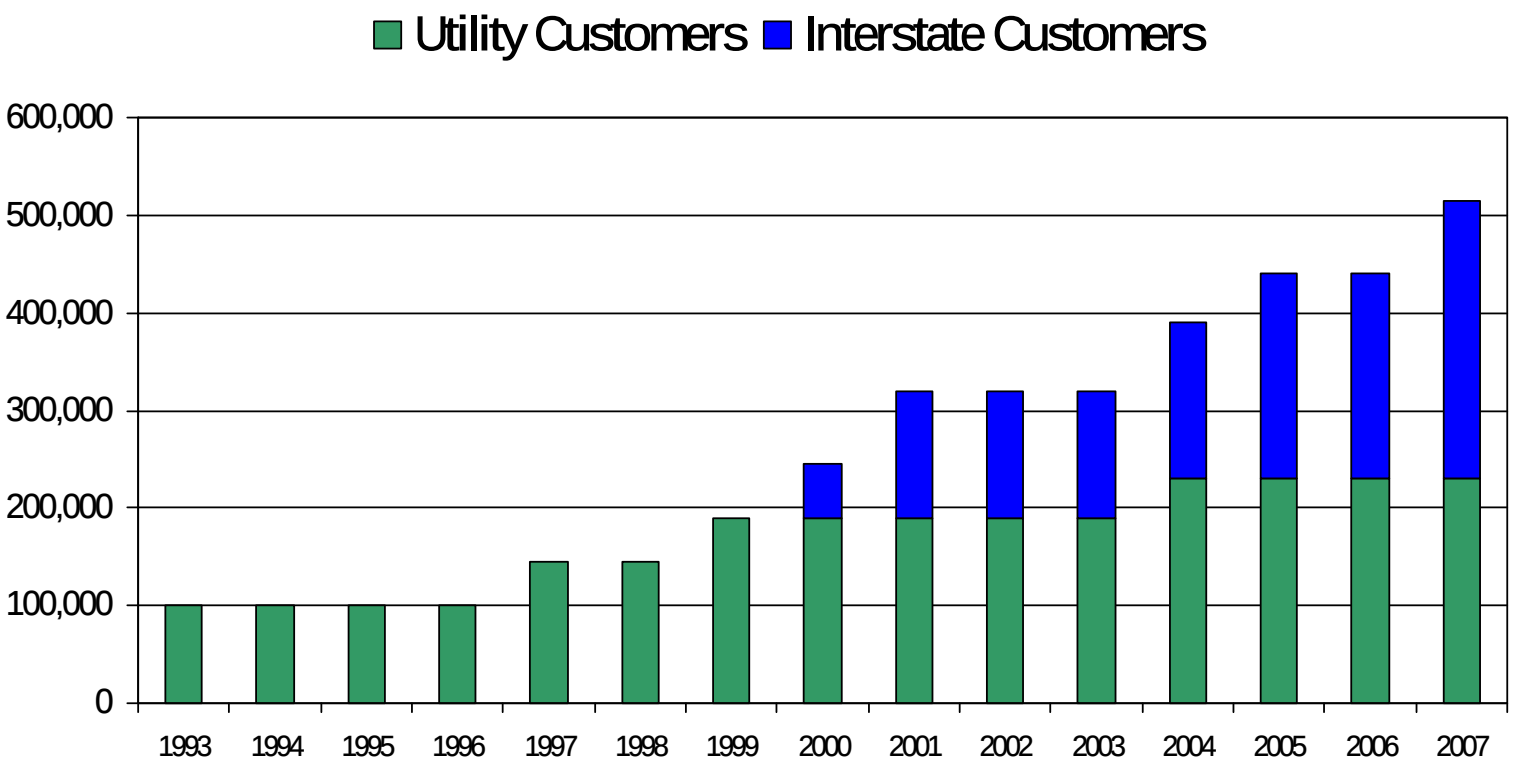
Historic Mist Integrated Development

(Deliverability/Dtherms)



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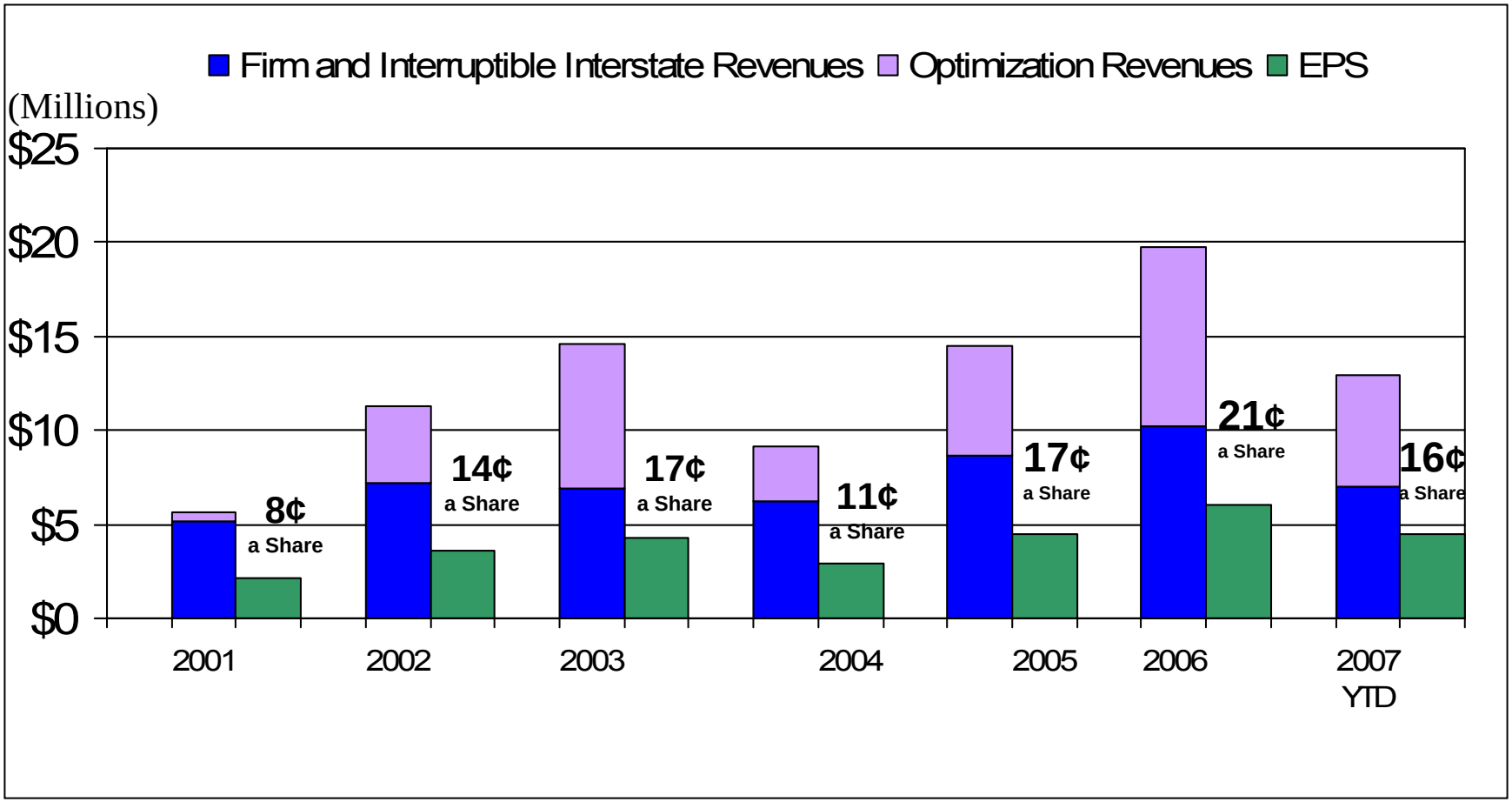
Interstate Gas Storage Revenues & EPS

(Through June 30, 2007)



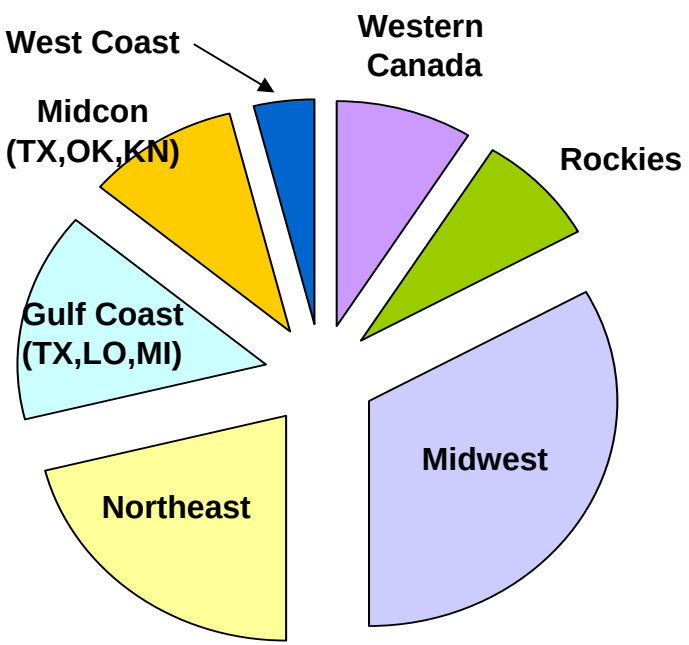
Gill Ranch Project Overview

- 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
- MOU with PG&E for joint development – 75% NWW, 25% PG&E

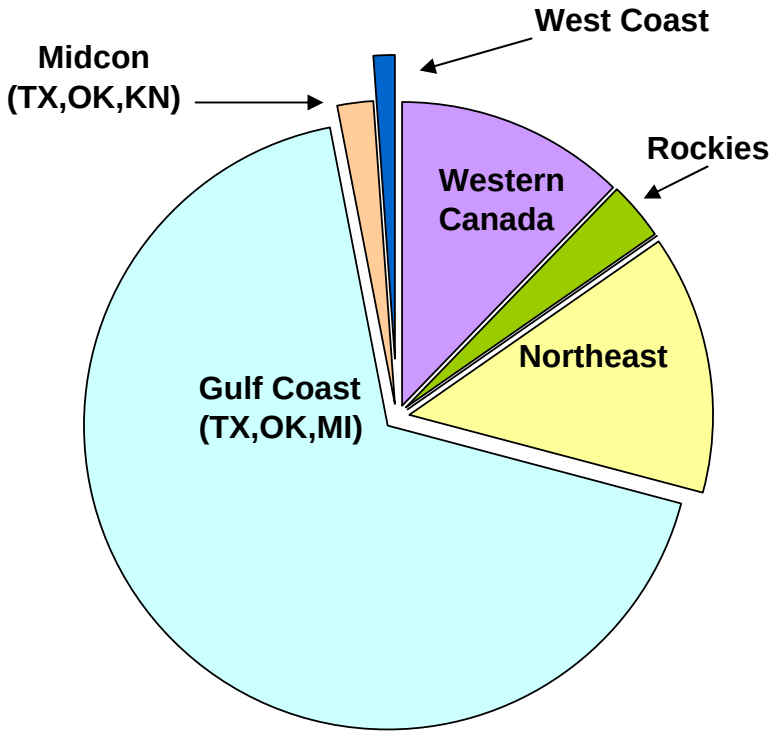


Need for Additional Storage in West

Existing Storage (4,395 Bcf)



Proposed Storage (403 Bcf)



Palomar Pipeline Project Overview



Project Review

- 50/50 JV with TransCanada
- Planned 2011 in-service date
- 36” pipe; 220 miles at full build-out for both phases
- 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

Bradwood Landing Project Details



Site Advantages

- Located on remote site zoned "Marine Industrial"
- Site is 20 miles upstream from Astoria
- Columbia River channel allows large LNG carriers
- Minimal dredging – no breakwater system required



Terminal Capacity

- Base capacity: 1.0 Bcfd
- Peak capacity: 1.3 Bcfd
- Over 6.0 Bcf of on-site LNG storage capacity

Bradwood Landing Advantages

- Most advanced project on the U.S. West Coast
- Low cost project in region
  - Low terminal, port preparation and construction costs provide competitive terminal tariff
  - Significant pipeline interconnection cost and access advantage vs. competing LNG projects
- Potential to phase terminal and pipeline construction to reduce initial capital obligations, and maintain construction timing and capital efficiency
- Alliance with established U.S. market gas buyer(s) enables Bradwood to represent long-term AA credit market to LNG suppliers
- Exploring alliance with major Asian LNG importers and LNG terminal operators
  - Operational capability and supply diversions

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Bradwood Landing Status Checklist

Most Advanced Project on the US West Coast

☑	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)	4Q 2007
☐	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	2011/12

[Schedule forecast as of 10/1/07]

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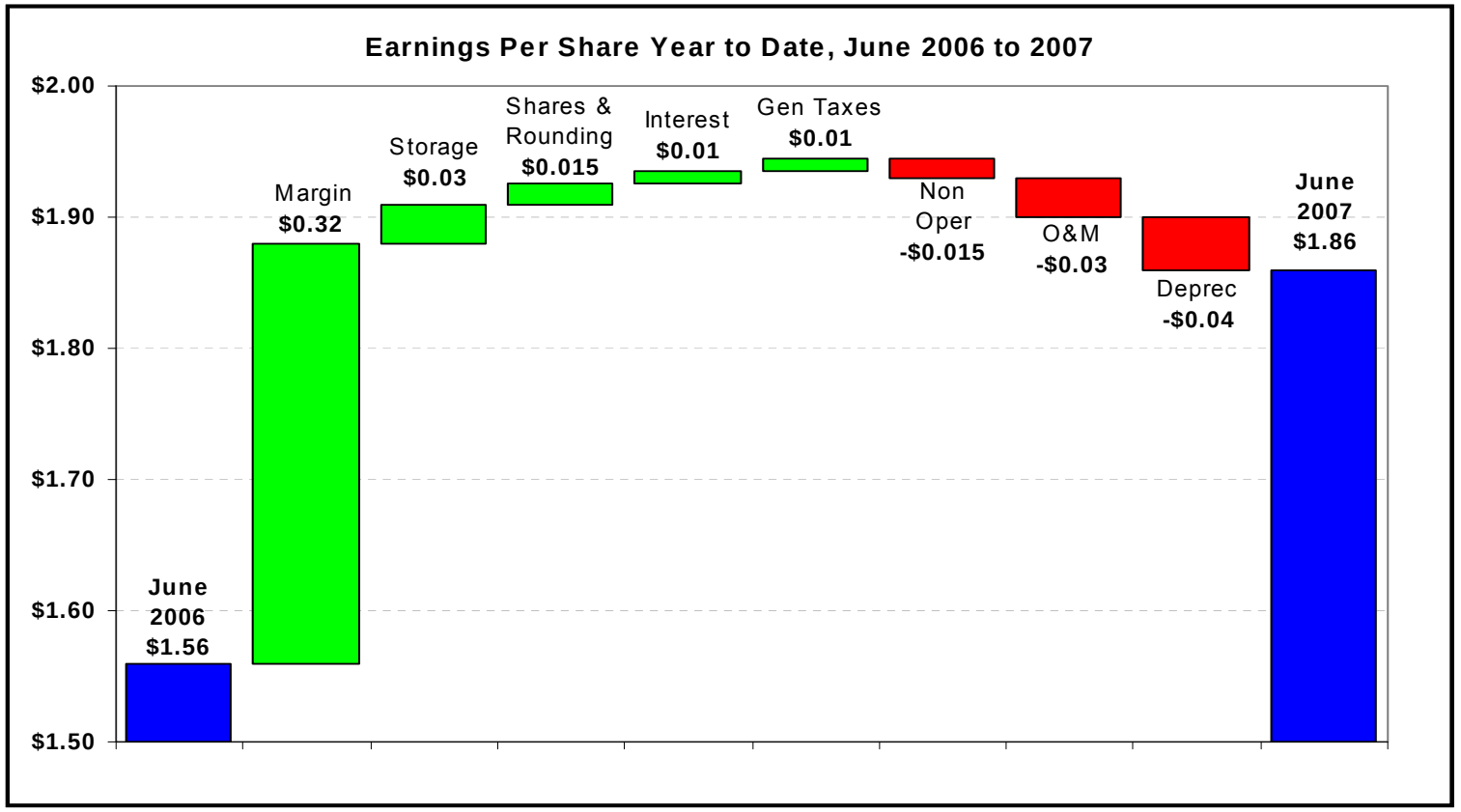
2007 EPS Variance

(June 06 to June 07)



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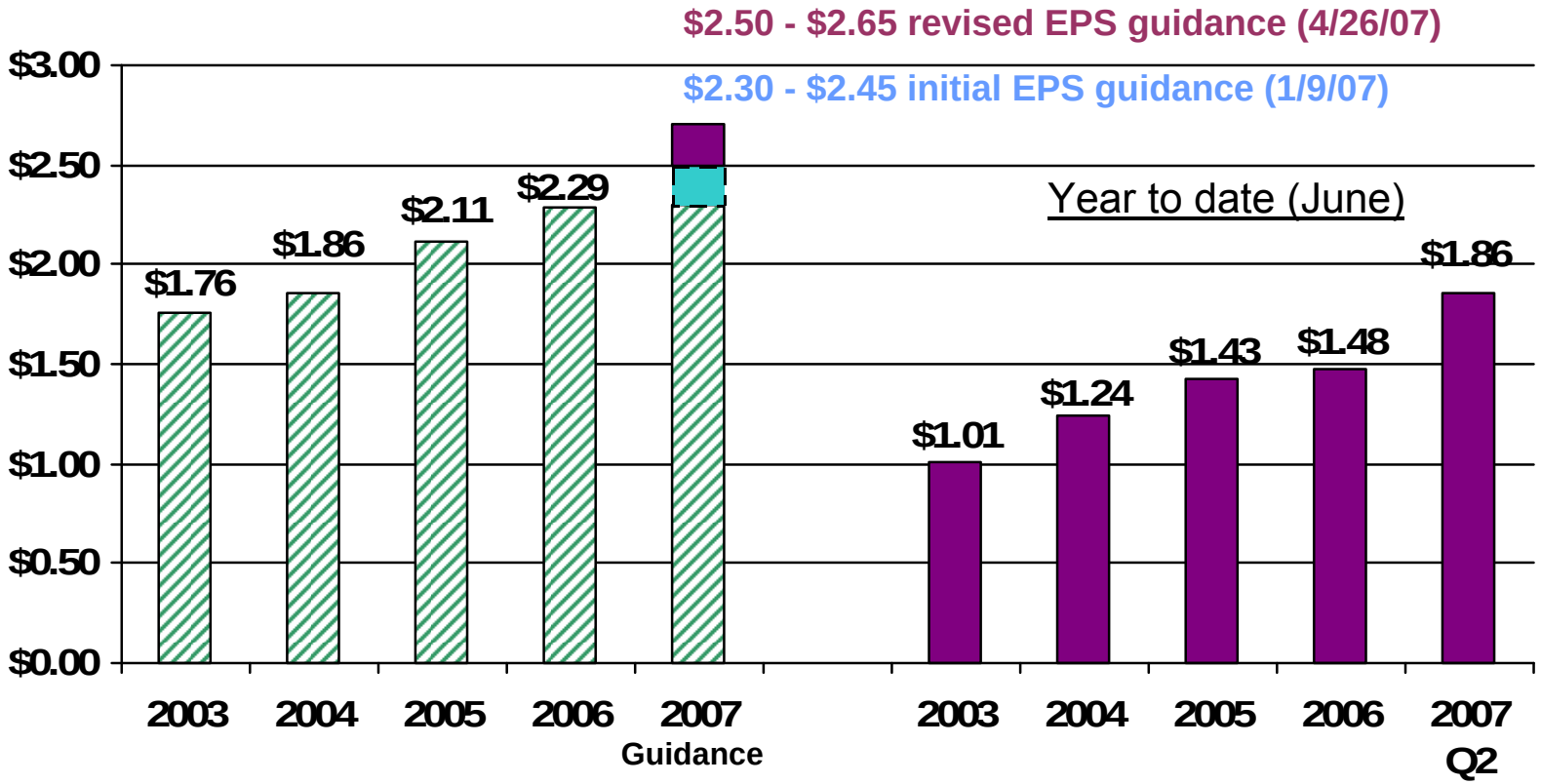
Earnings Per Share Growth



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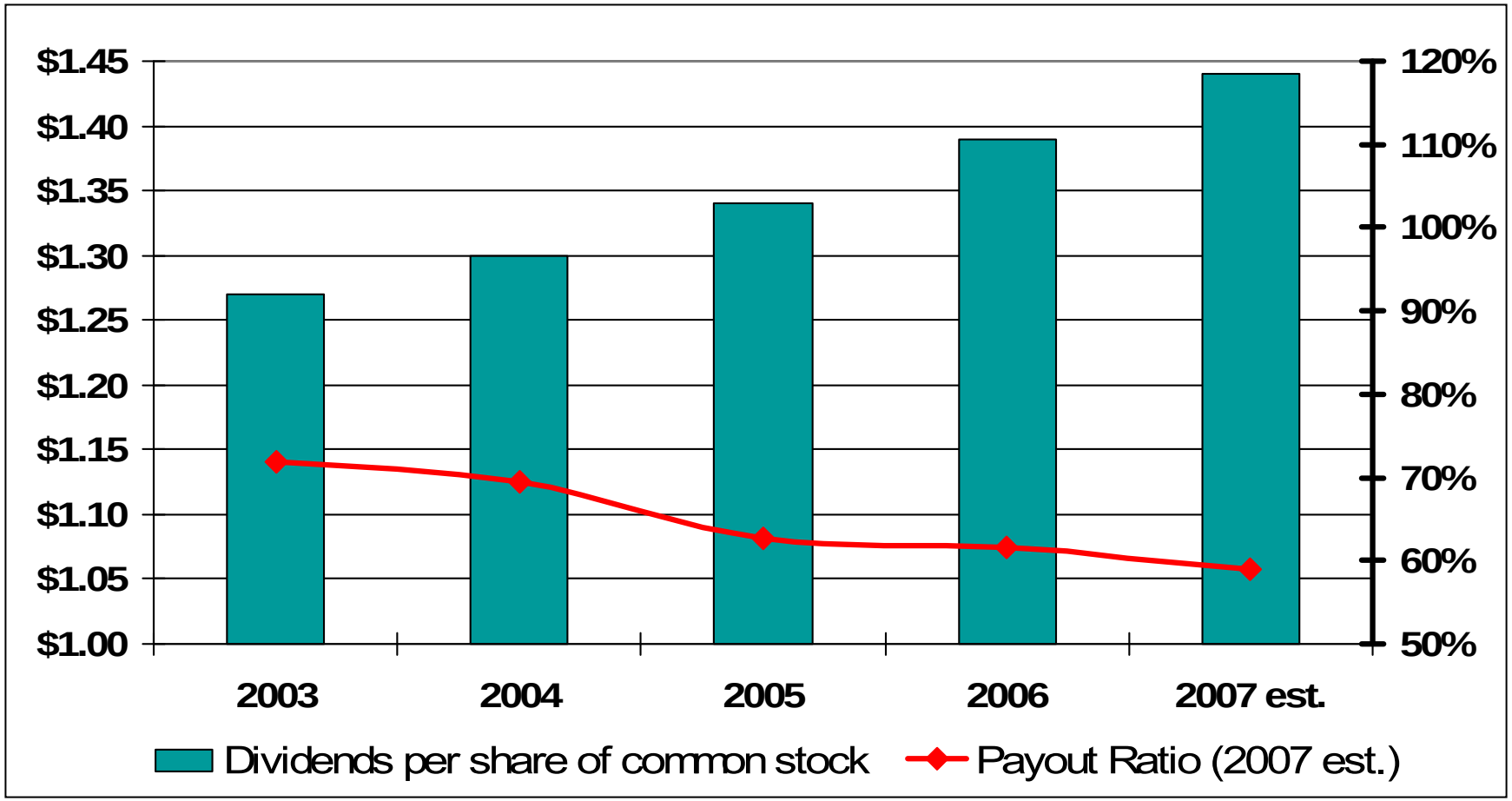
Dividend History



Conclusion

- Good H1 results – financially and strategically
- 2007 guidance reaffirmed at Q2 of $2.50-2.65 per share (Nov. 8 scheduled for Q3 earnings announcement)
- Increasingly predictable earnings stream and internally funded cash flow adequate to fund ’07 capex
- Sound regulatory relationships continuing – expansion of mechanisms through late 2012
- Regulatory framework provides effective treatment of commodity costs
- Non-utility opportunities from Palomar pipeline & Gill Ranch storage
- 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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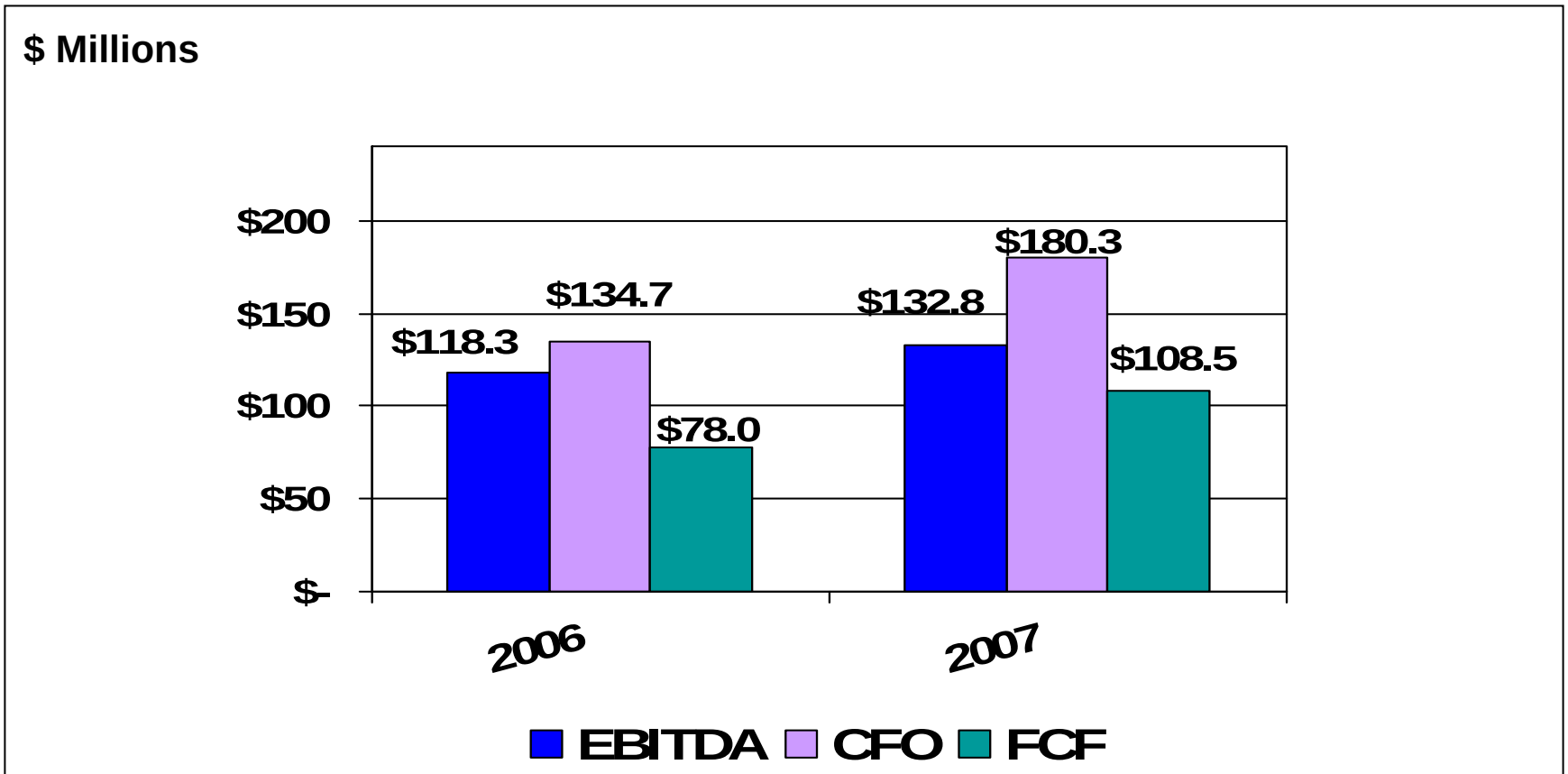
EBITDA & Cash Flow

(Six months ended June 30)



Portland's Urban Growth Boundary

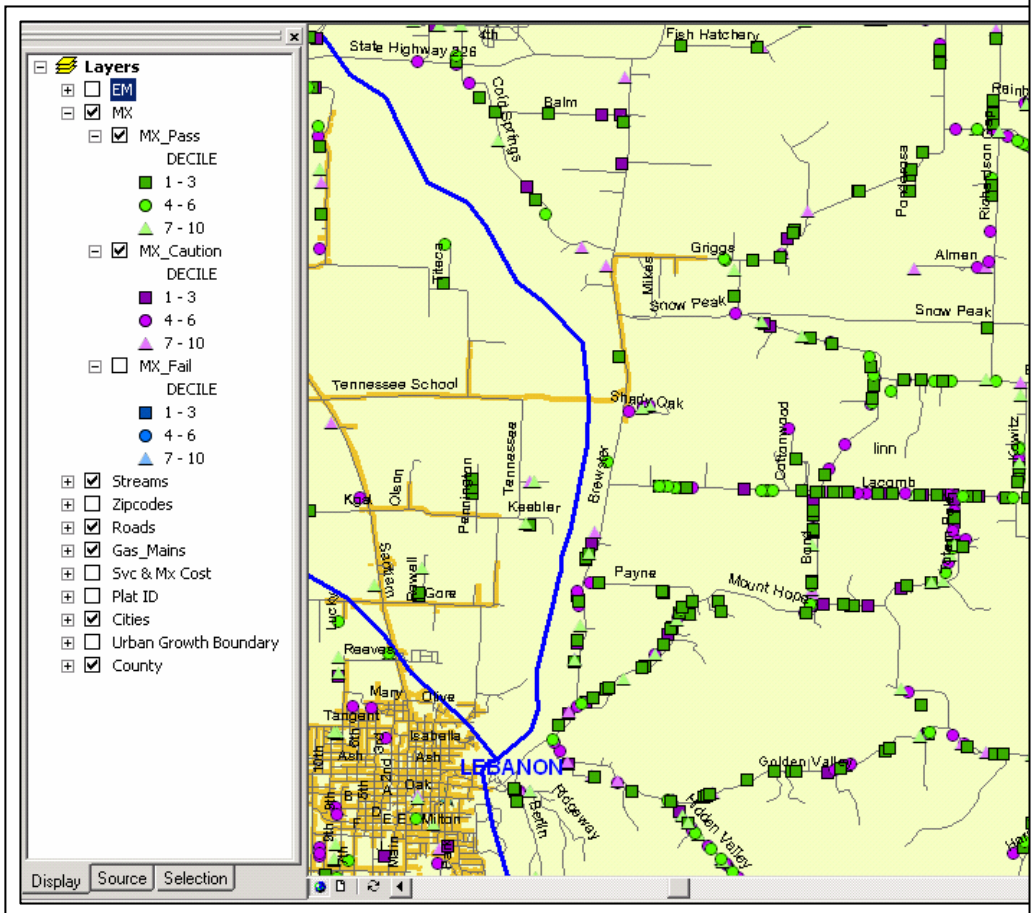
- Coordinated by a regional governmental body (Metro)
- Boundary has been moved three dozen times since late 1970s
- Encourages efficient land use and higher density within the boundary
- Expansion on eastern side of Portland now underway
- Last major expansion in 2002 (19,000 acres)



Conversion Opportunities

Estimated Market Potential	Single-Family	Multi-Family	Non-Residential	Total
On-main and Near-main prospects (0–150ft from main)	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**

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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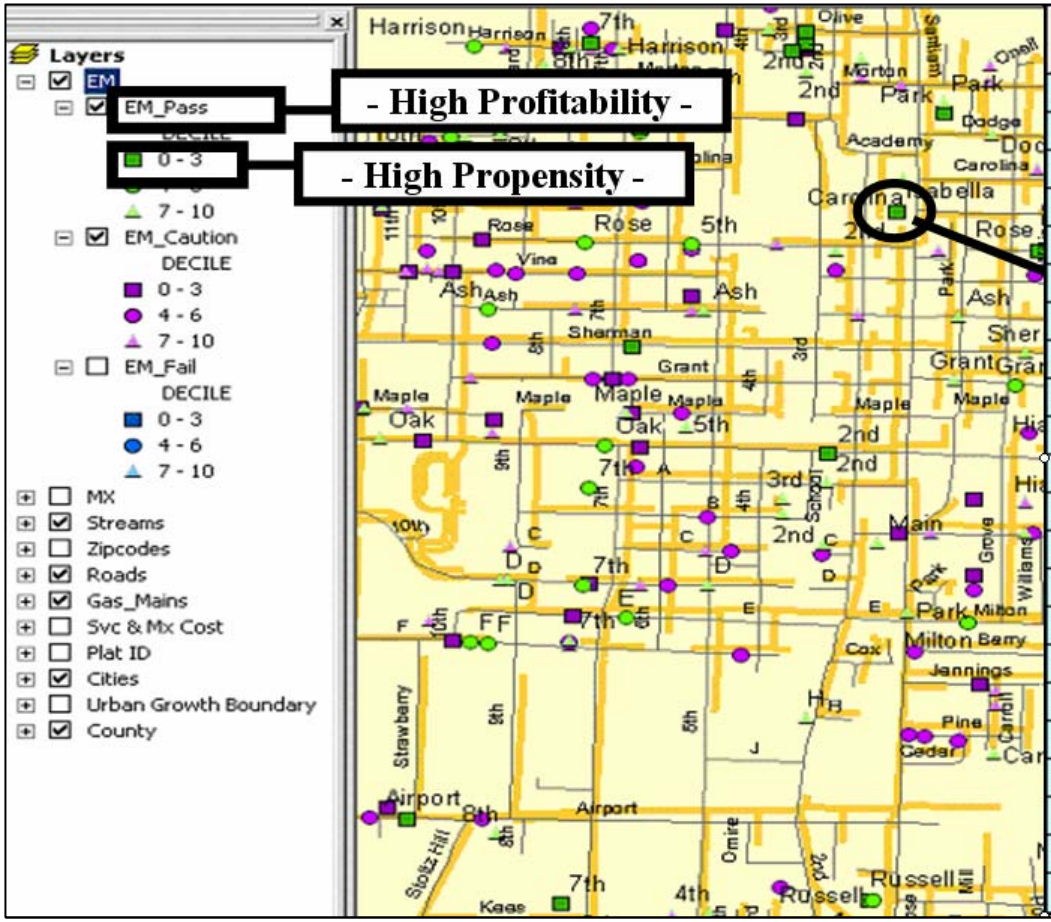
Example of a “Pass” Conversion



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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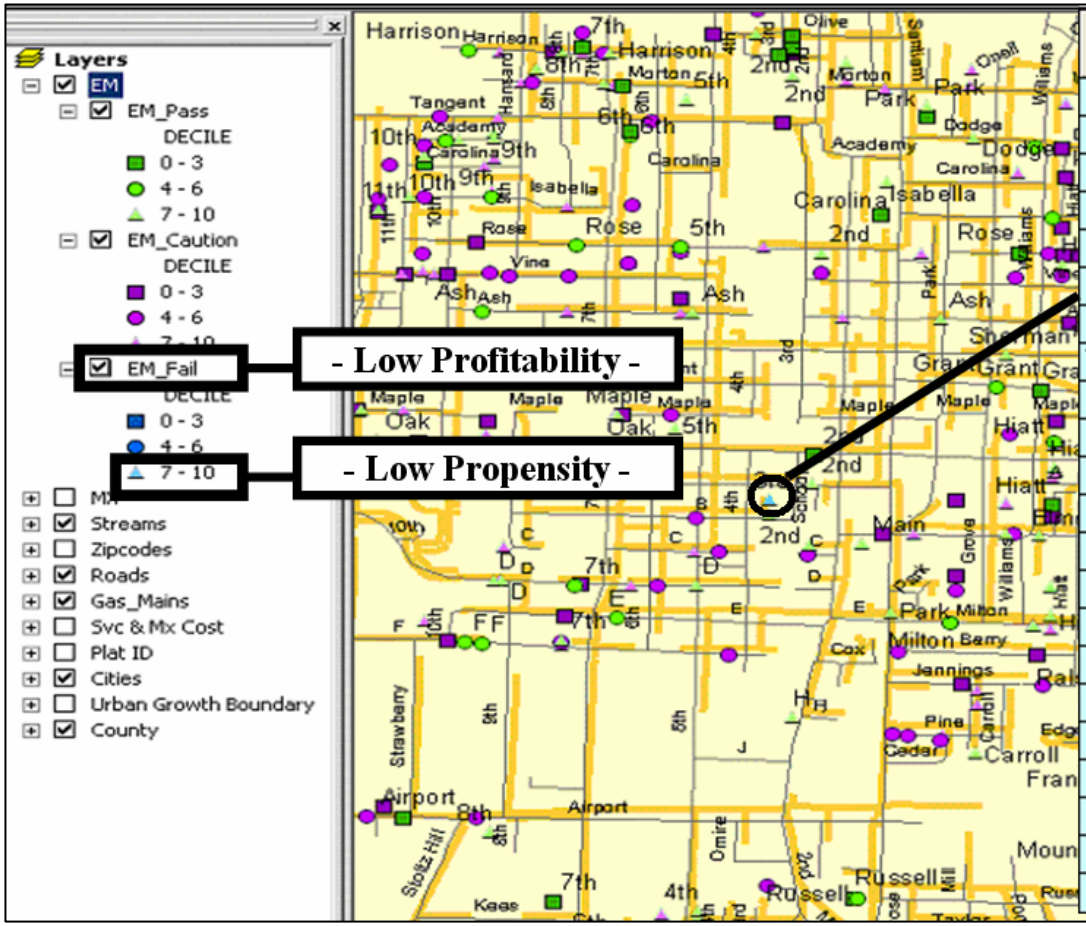
Example of a “Fail” Conversion



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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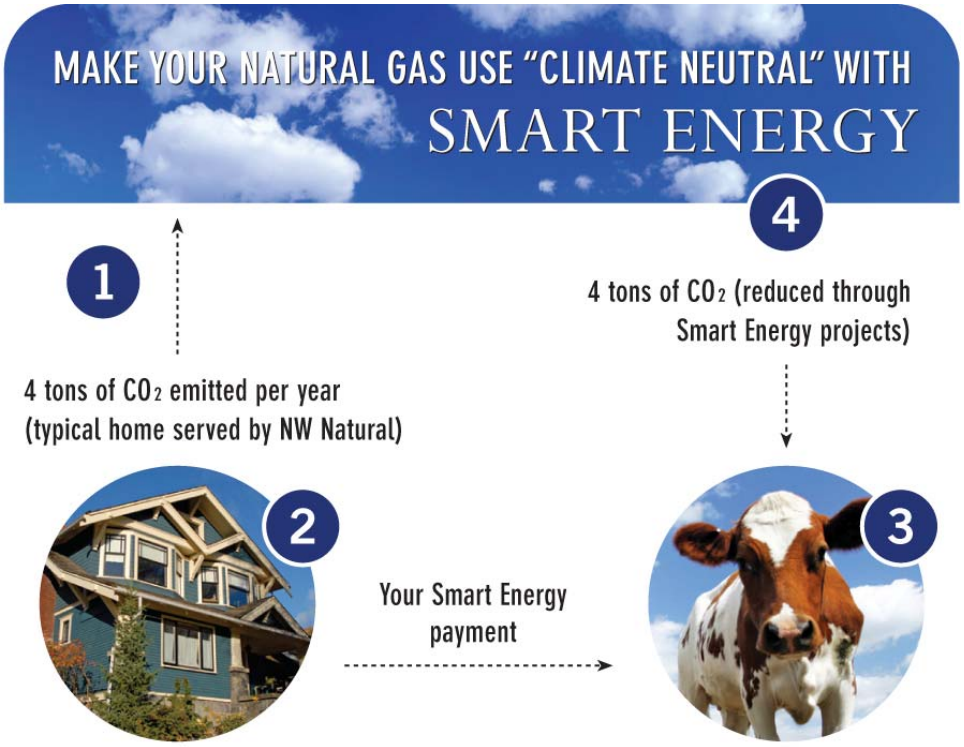
Overview Of Smart Energy Program

- 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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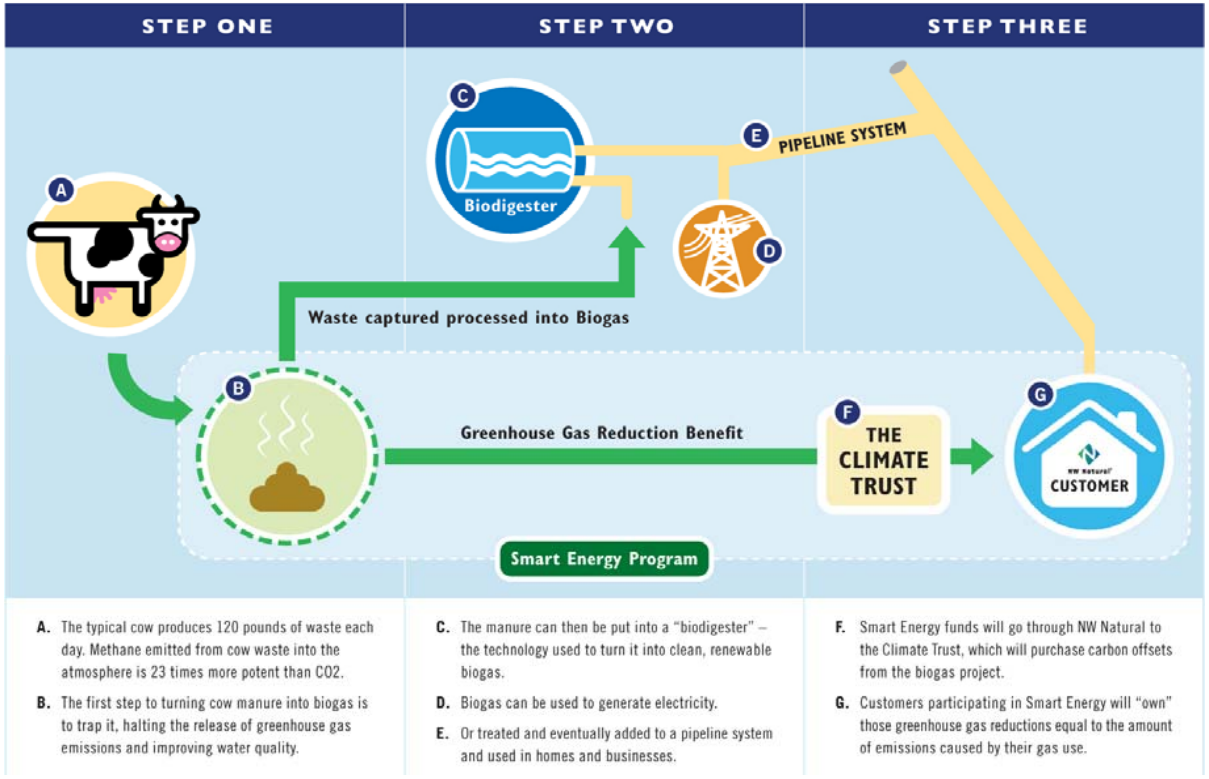
Smart Energy and Biogas



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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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