NW Natural®

We grew up here.



Brean Murray
Carret & Co.
Investor Presentation

February 2009

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. 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 at a Glance

- Approximately 662,000 customers in OR & WA
  - 90% Oregon, 10% Washington
- A distribution and transmission system totaling 13,474 miles
- Customer growth above the national average
- 16 billion cubic feet gas storage capacity in NW Oregon with growth potential
- Constructive regulatory environment
  - Washington general rate case settlement delivers $2.7 revenue requirement increase
  - Filing made for gas storage project in California on accelerated schedule
- Strong balance 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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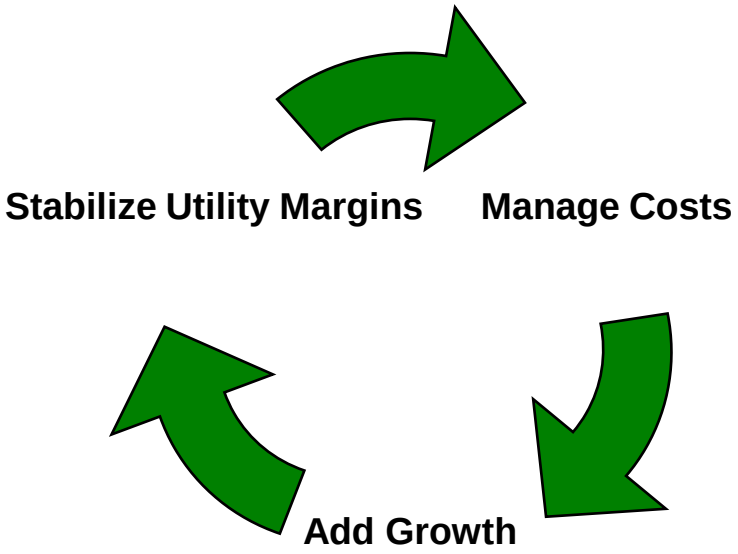
2008 Highlights

- Full year (12 months through Dec. 31, 2008): net income of $69.5 million ($2.61 EPS) vs. $74.5 million ($2.76 EPS) due to record commodity cost sharing in 2007 – but 2008 produced second-best results in company history
- Settled first general rate case filed by NWN in Washington in four years
- Sold last non-core asset in the year in non-operating sector
- Focus on managing costs & long-term growth projects
- Filed the necessary permits as scheduled for 20 Bcf gas storage facility in California on July 29th
- Raised quarterly dividends paid on common stock for the 53rd consecutive year to indicated annual rate of $1.58 per share on Oct. 1 -- a 5.3% increase
- Bad debt expense kept to 0.3% of revenues – among the lowest in the country
- Pipeline Integrity program settlement proposed in Oregon to consolidate several older programs into one coordinated program
- Palomar Pipeline Project filing made with FERC in late 2008
- Established 2009 earnings guidance at $2.55-2.70 per share on Feb. 12, 2009
- Achieved 150 years as a public company in January 2009

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.
- 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



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Constructive Regulation

- Purchased Gas Adjustment (PGA) mechanism
  - Sought better balance risk-reward with customers
  - 80/20 or 90/10 customer-shareholder sharing mechanism implemented
    - Selected 80/20 for 2008-2009 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
- 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 made related to Palomar Pipeline project w/FERC

Sustainable Growth

- New residential construction – continuing to capture majority of the market, but slowing trend in region matches national outlook
  - Growth still above the national average
  - 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

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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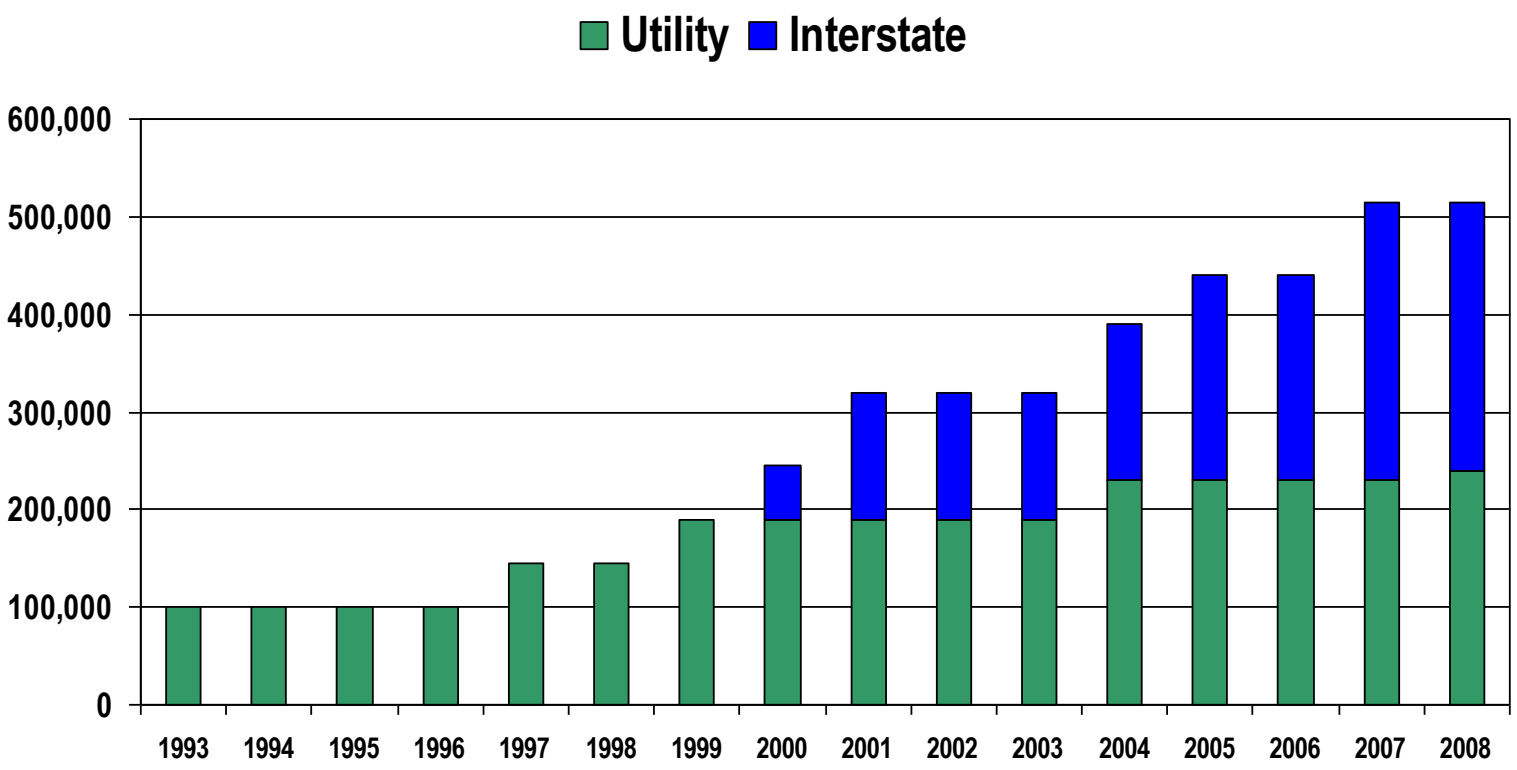
Historic Mist Integrated Development

(Deliverability/Dtherms)



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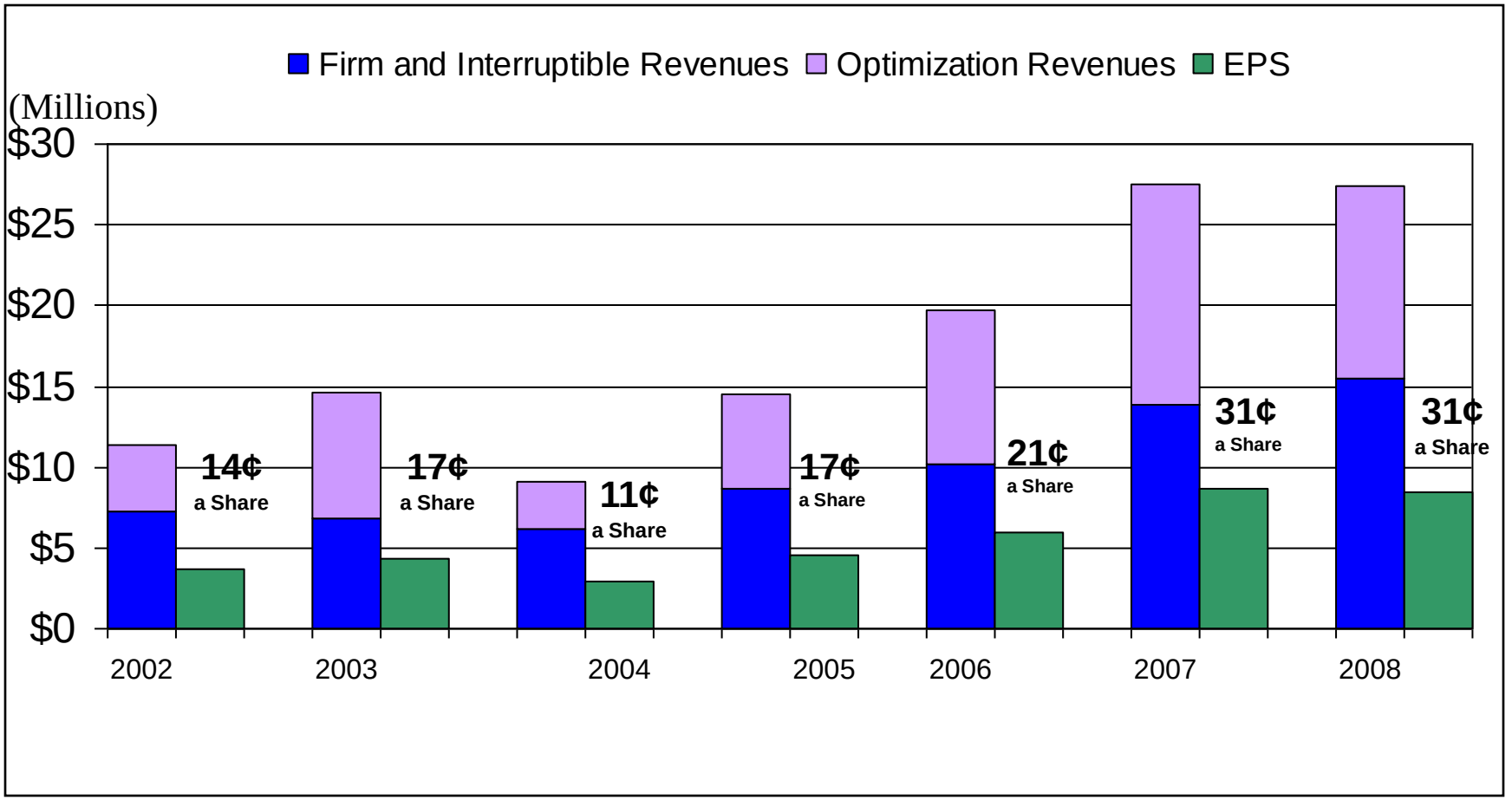
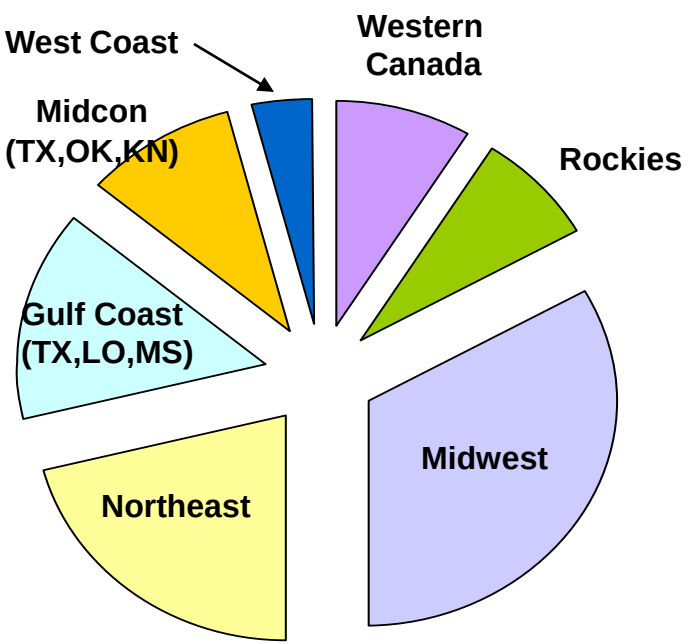
Gas Storage Revenues & EPS

(through December 31, 2008)

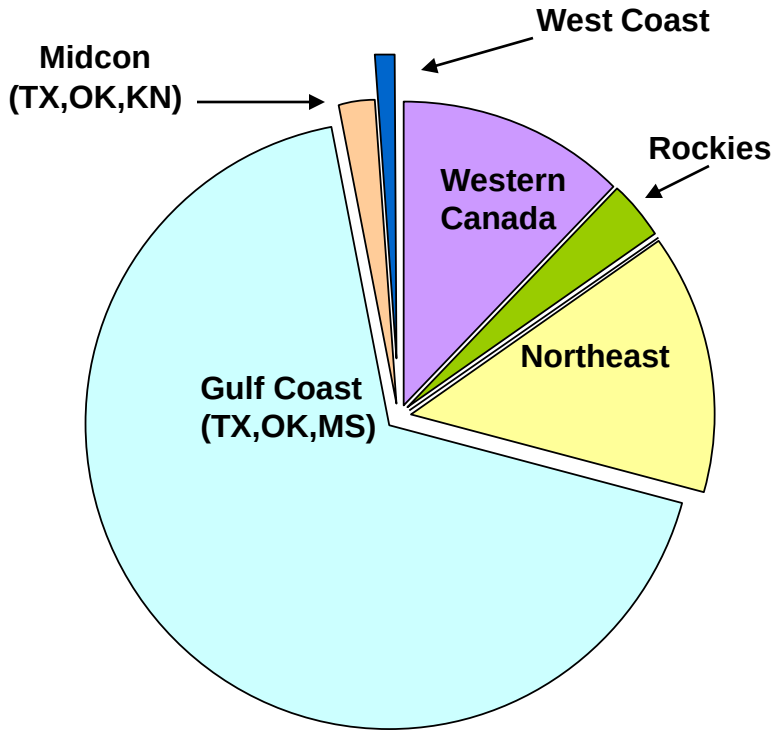


Need for Additional Storage in West

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
  - 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)



Palomar Pipeline Project Overview



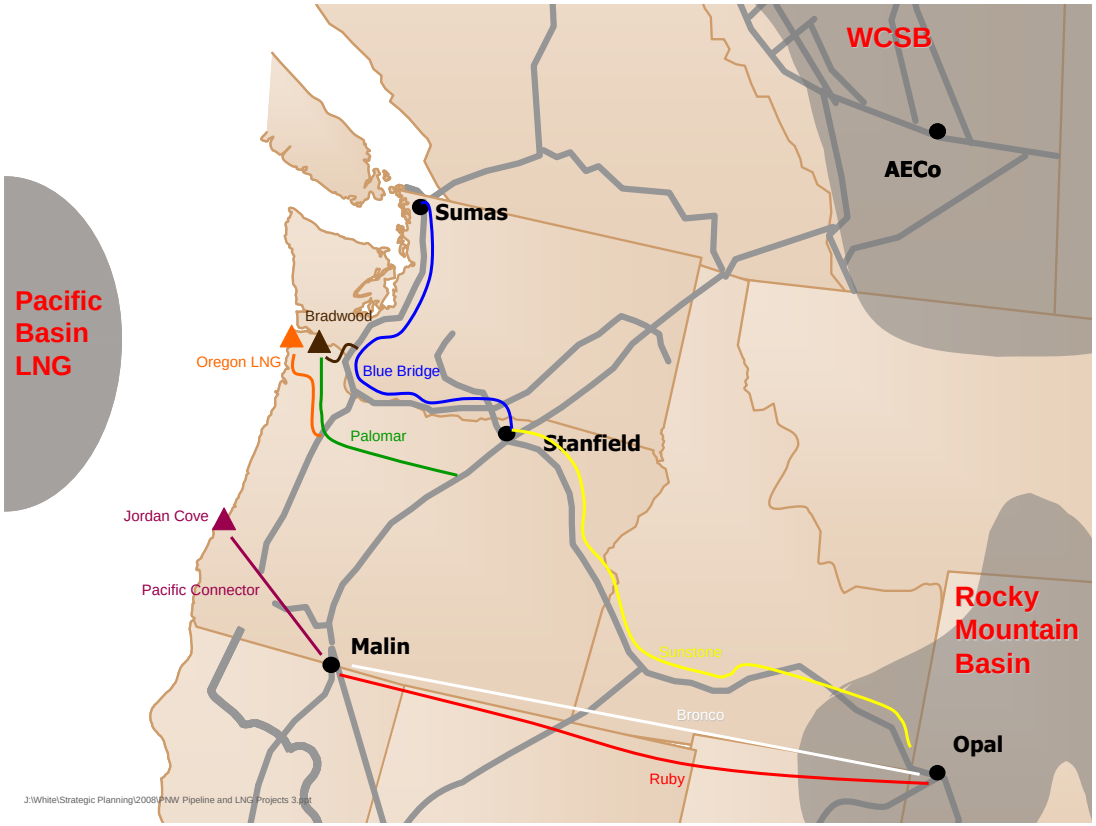
Project Review

- 50/50 JV with TransCanada
- Planned 2011 in-service date
- Late 2008 FERC application filing made on schedule
- 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)

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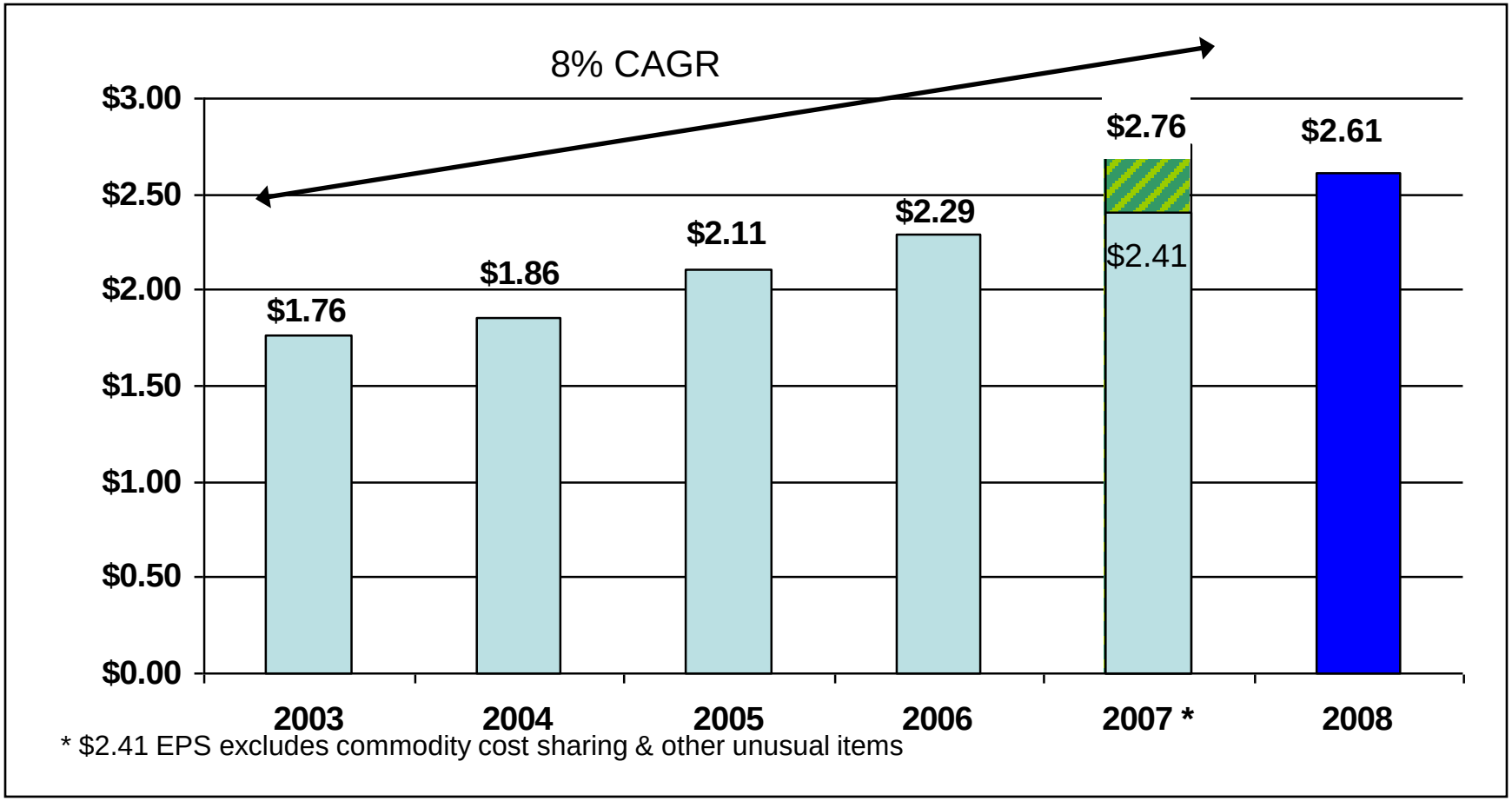
Earnings Per Share Growth



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

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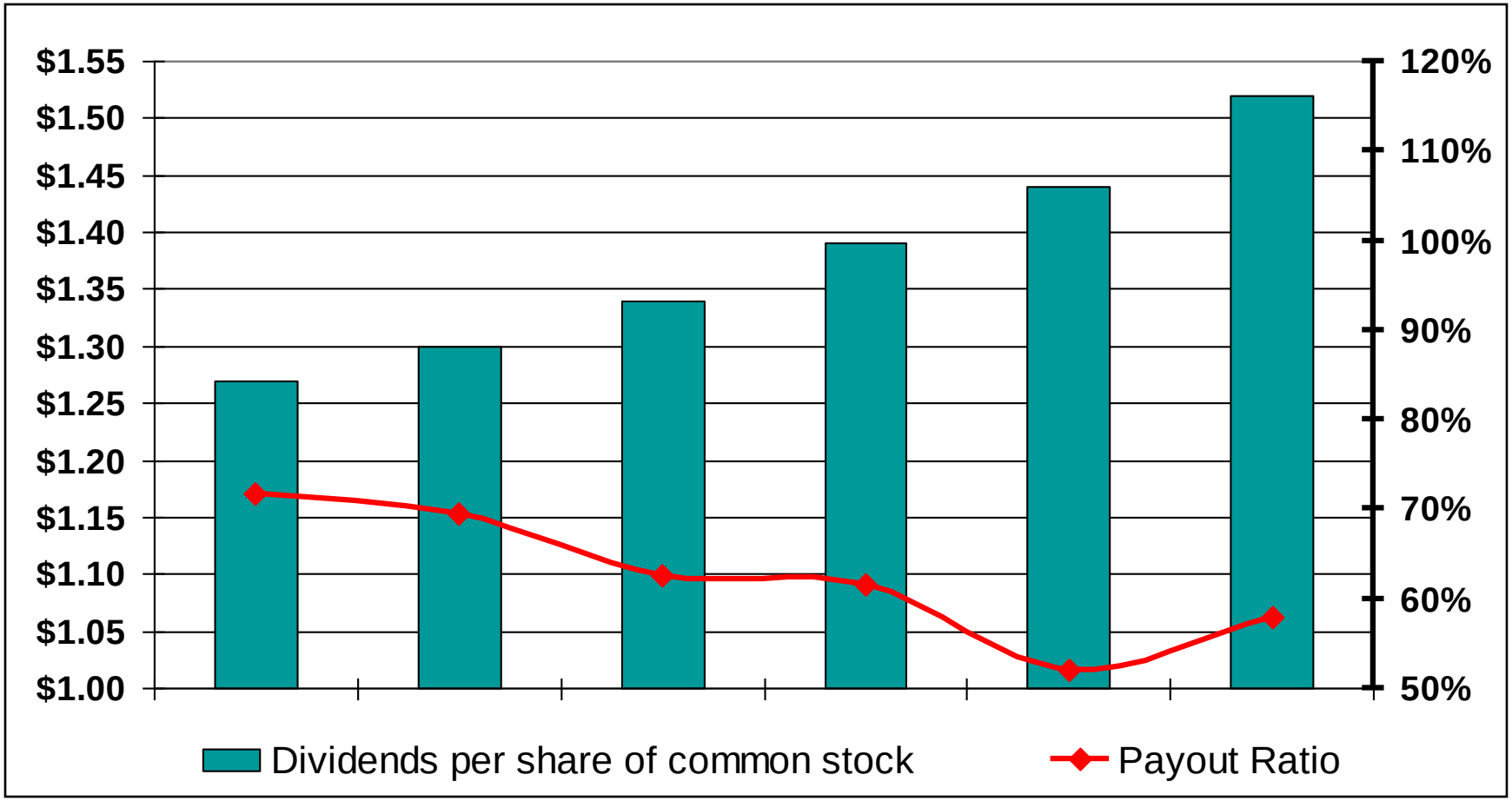
Dividend History



Conclusion

- Strong 2008 results & above expectations – 2nd best in history
- 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 – 80-20% selected for '09
- Washington rate case resolved in December – 10% of customer base – and generated $2.7 million of revenue requirement annually
- Pipeline integrity agreement filed with OPUC & decision expected in late February
- 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

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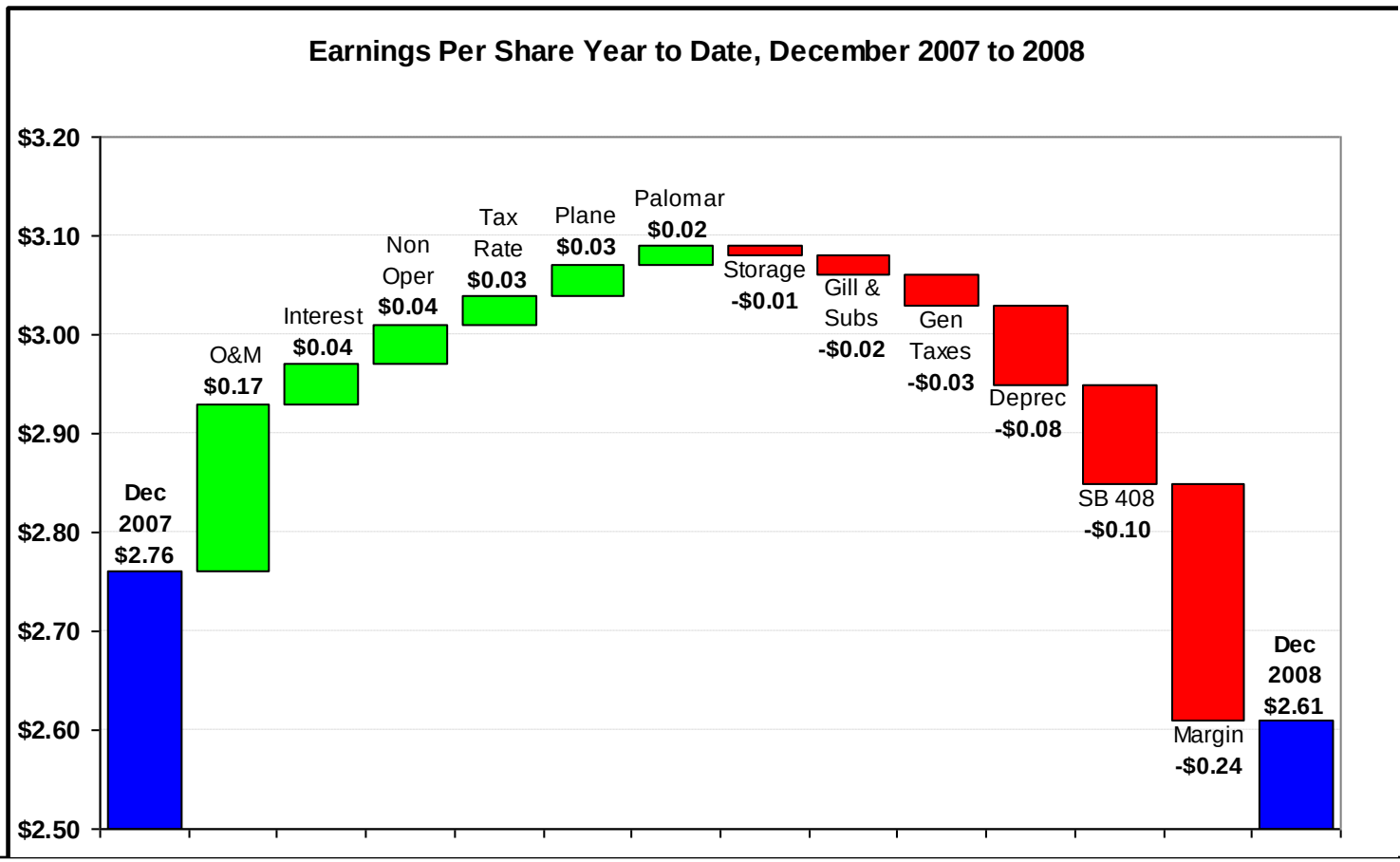
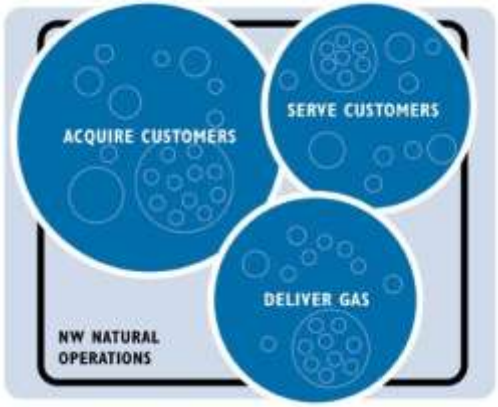
2008 YTD EPS Variance

(through December 31, 2008)

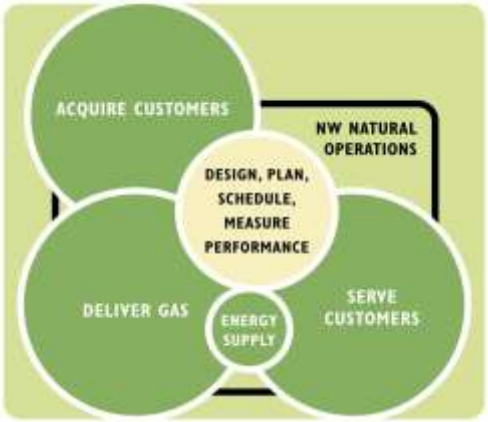


Operations Business Model Review

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

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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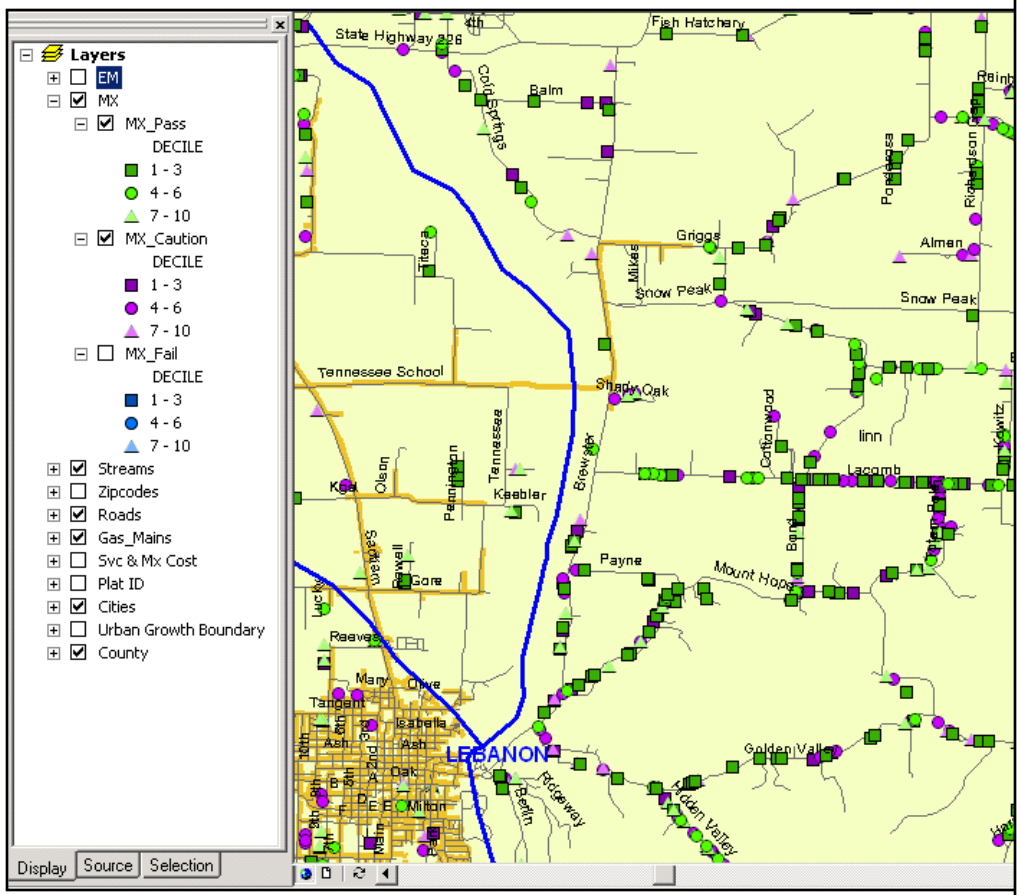
AROE – Main Mapping



- 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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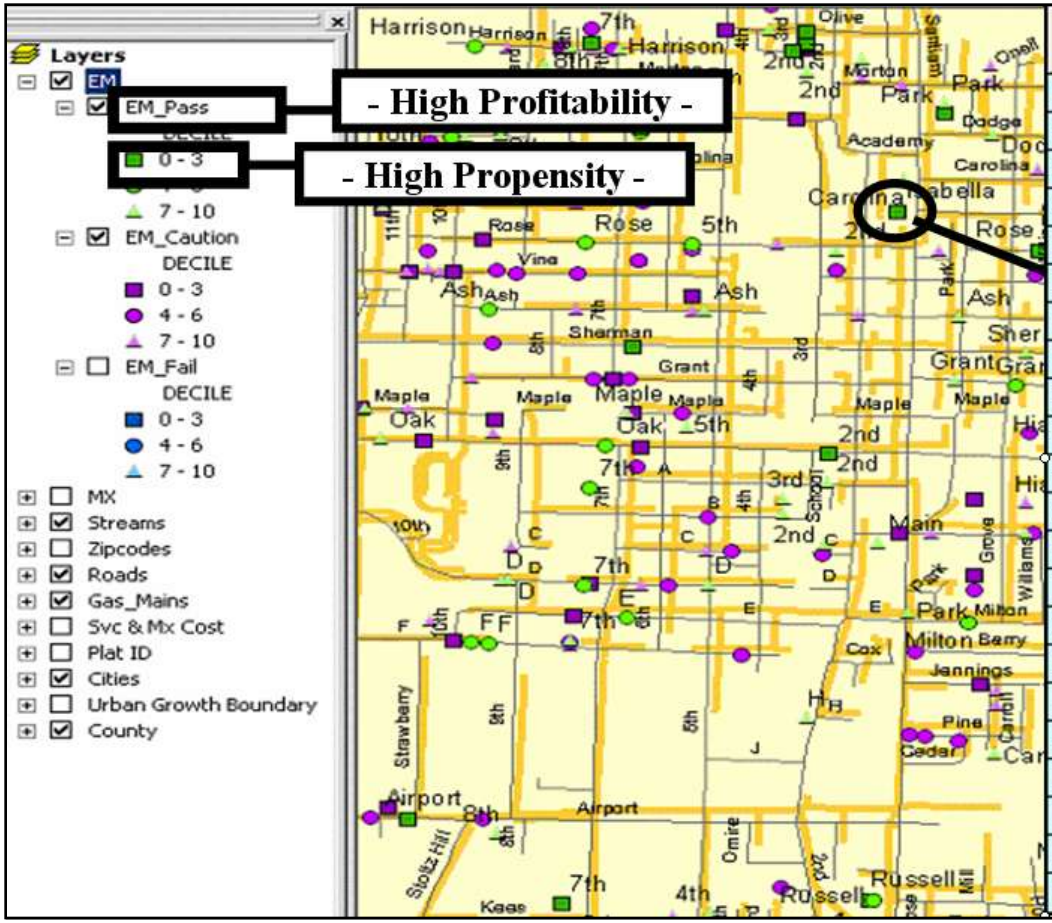
Example of a “Pass” Conversion



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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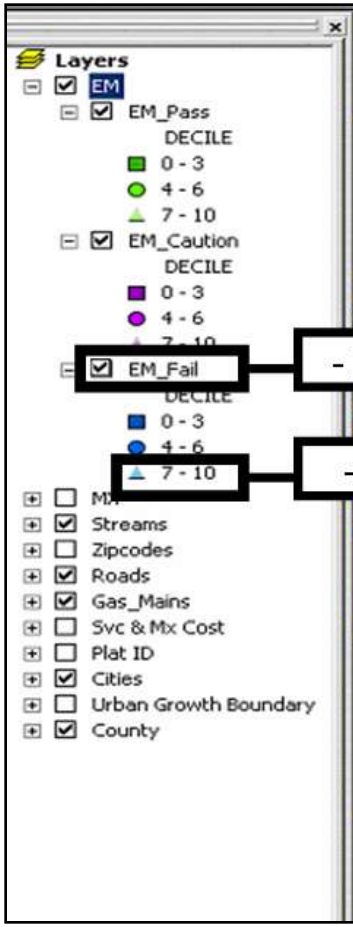
Example of a “Fail” Conversion



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

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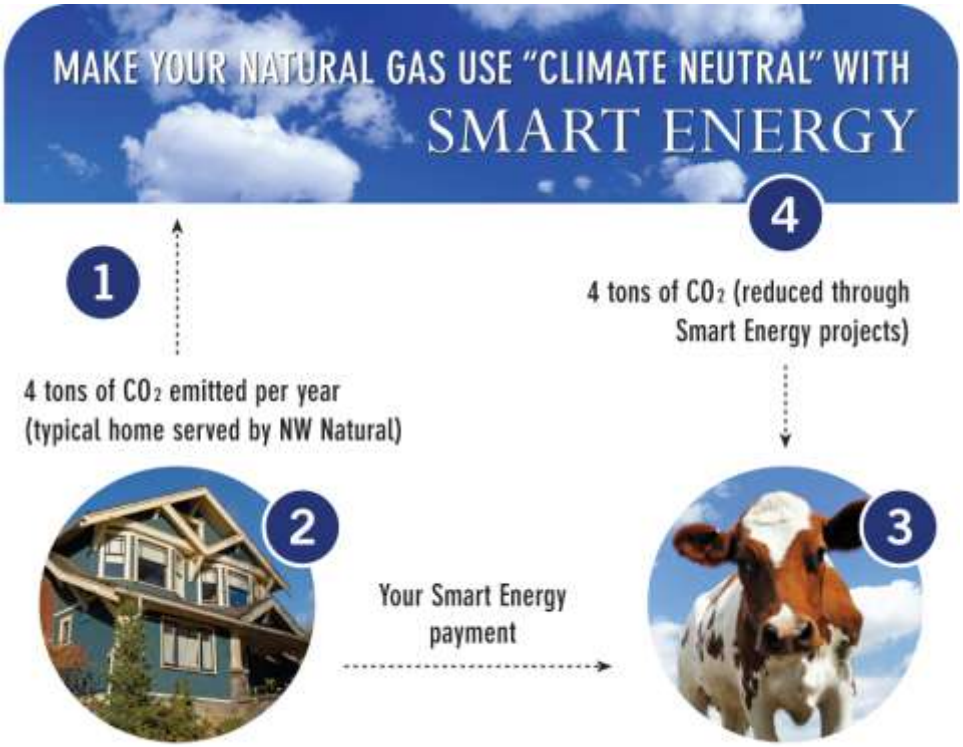
Overview Of Smart Energy Program

- 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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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	662,341	652,012	636,584
Total Common Equity	$628,373	$594,751	$599,545
Avg Shares of Common Stock Outstanding	26,477	26,821	27,540
Number of Registered Common Shareholders	7,642	7,863	8,958
Institutional Ownership	65%	62%	52%
Annual Dividends (ttm)	$1.58	$1.44	$1.40
Diluted Earnings per Share	$1.25	$2.76	$2.29
Book Value per Share	$23.71	$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

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