NW Natural®

We grew up here.



American Gas Association

Investor Presentation

May 2006

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.

May 2006

NW Natural at a Glance

- Over 624,000 customers
- A distribution and transmission system totaling 13,187 miles
- Customer growth of 3%+; more than twice the national average
- 13.9 billion cubic feet gas storage capacity
- Constructive regulatory environment
- Strong balance sheet
- Widely recognized financial discipline
- Shareholder-focused strategy
- Experienced management team



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2006 Highlights YTD

- Increased Q1 06 EPS to $1.48 per diluted share vs. $1.43 per share
- Continued to add customers at a rate of 3.5% for past 12 months
- Managed bad debt effectively (.41% of revenues in Q1)
- Named one of America's 100 "best corporate citizens" for the sixth year in a row
- Strong credit agency ratings

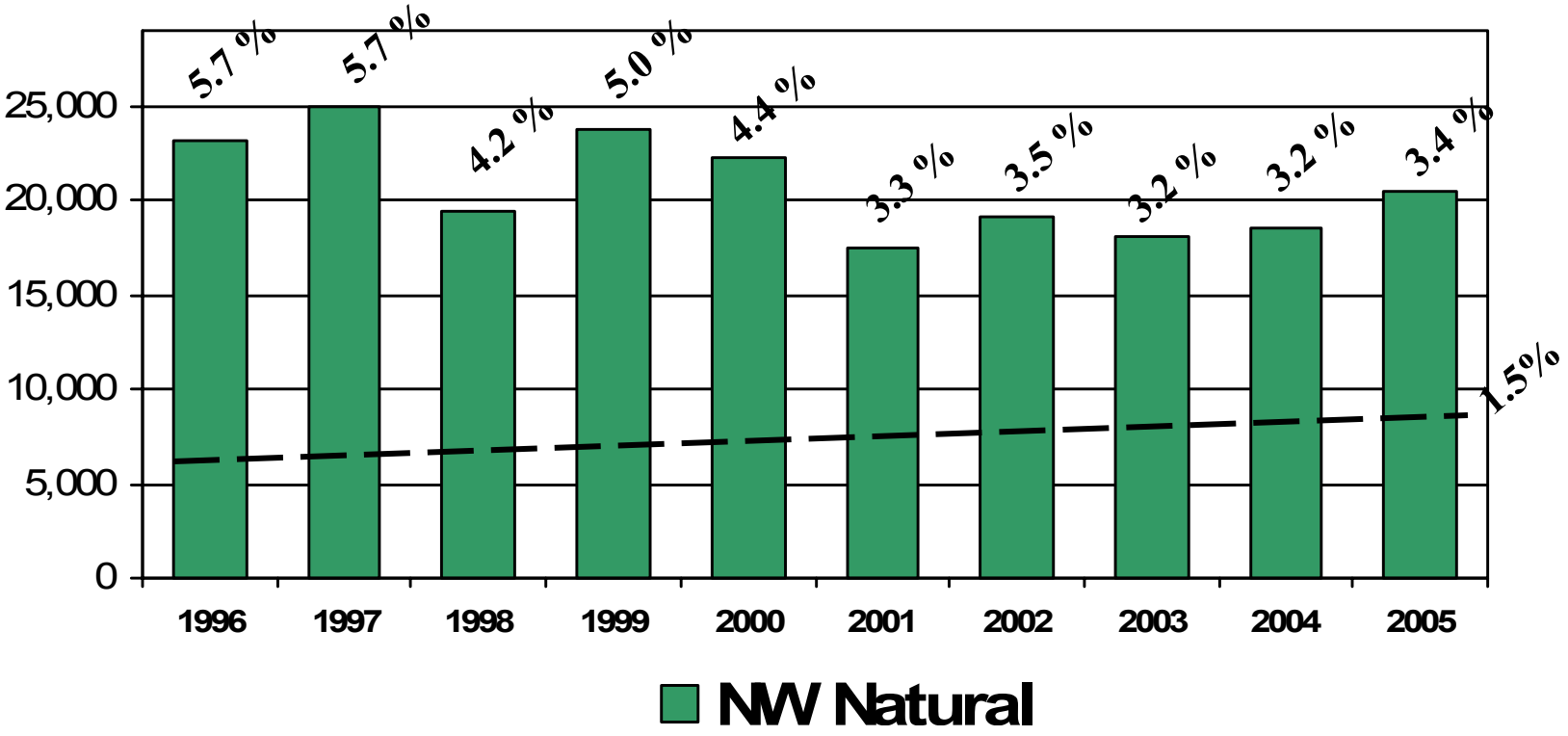
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Core Business Growth Potential

Residential single-family market

- Gas is still well positioned in Northwest energy market
- 53% market share means large conversion market potential
- Leader in new construction market – single and multi-family

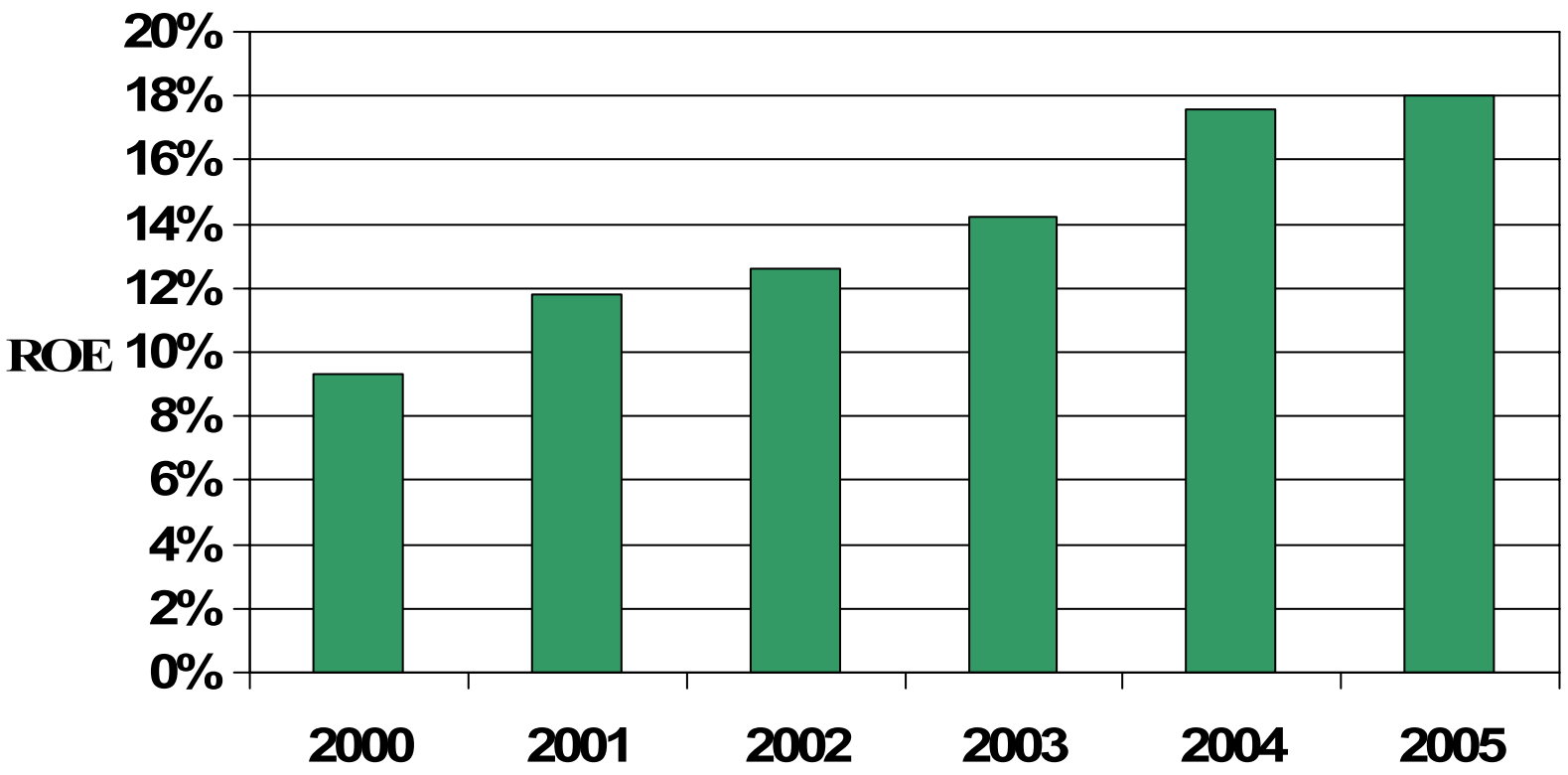
Net Customer Gains and Annual Growth %



Natural Gas Distribution Industry Average Annual Growth : ~1.5 %

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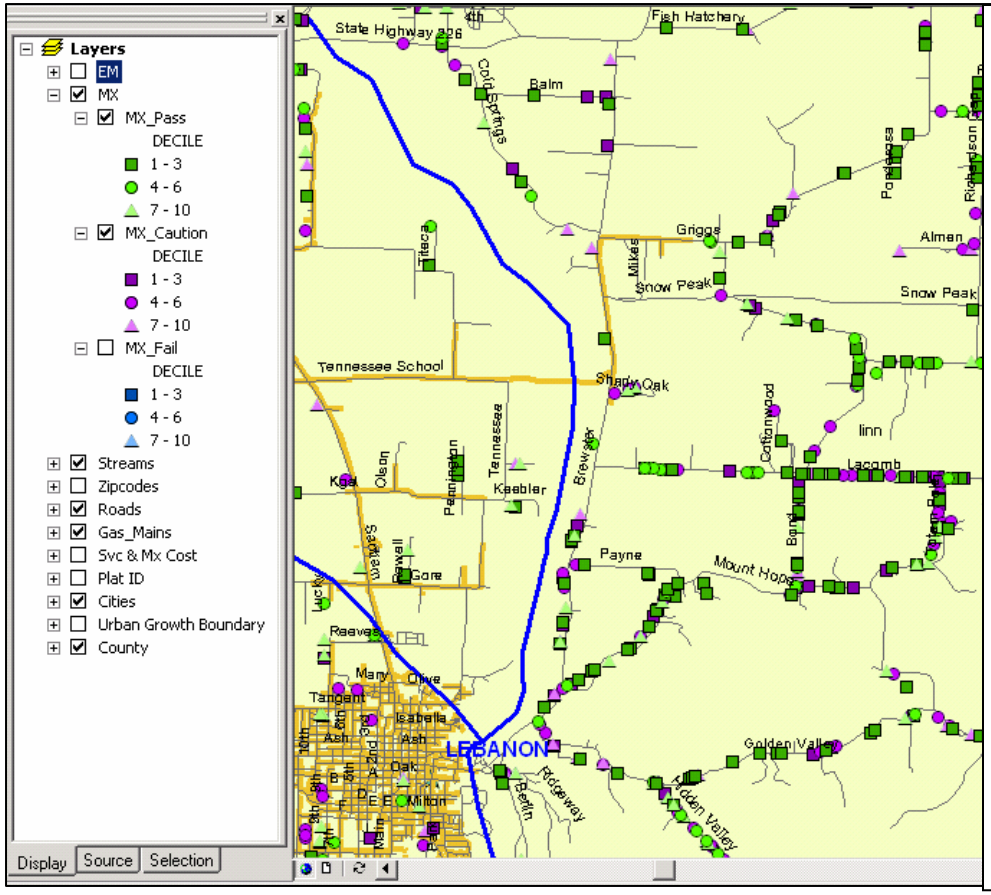
Profitability of New Residential Customer Acquisitions



Conversion Opportunities

Estimated Market Potential	Single-Family	Multi-Family	Non-Residential	Total
On-Main Potential - Gas in same block	141,962	6,551	14,807	**163,320**
On-Main Potential - Probably Gas in same or next block	111,542	27,172	18,845	**157,559**
Near-Main Potential - Gas main somewhere in neighborhood	41,882	7,980	8,517	**58,379**
Off-Main Potential - No gas main in neighborhood	65,077	3,666	14,788	**83,531**
TOTAL	**360,463**	**45,369**	**56,957**	**462,789**

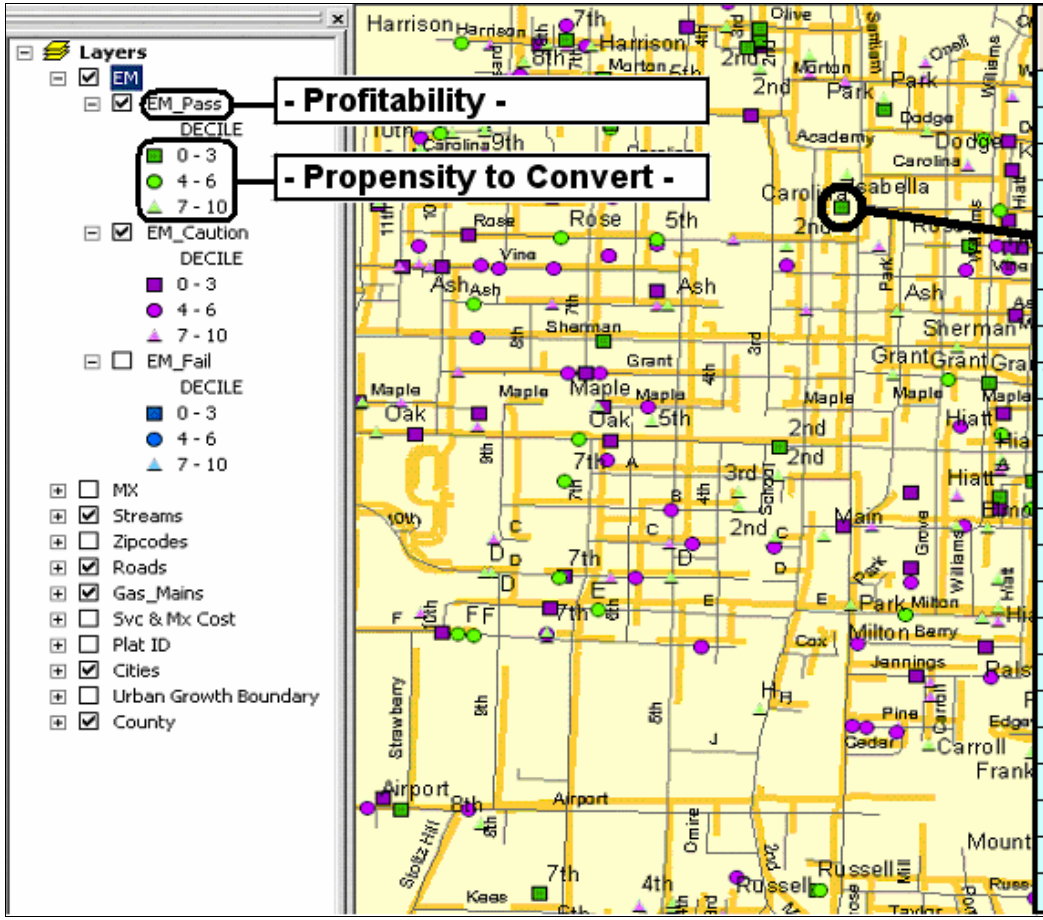
AROE – Main Mapping



- 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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Mix of Technology, Targeting, Segmentation & Profitability



Field	Value
NWN Customer:	NO
Segment:	Residential
EM (Existing Main):	YES
Income (Demographic):	MEDIUM
Life Stage (Demographic):	FAMILY
Market value:	$ 235,444
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**
Construction Cost:	**$ 1,419**
STATUS:	**PASS**
ROE (3 years):	**14%**
IRR:	22%
NPV:	$ 802
Contribution Required	$ 0

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Constructive Regulation

- Oregon Conservation Tariff
  - A decoupling mechanism, breaking the link between profitability and customer consumption
    - Price elasticity adjustment
    - Conservation adjustment
    - Renewed for four additional years and decoupling mechanism raised from 90 to 100%
- Weather normalization (WARM) in place in Oregon, workshop conducted in Washington
- Purchased Gas Adjustment (PGA) approved price increases in both states
- Forward treatment for pipeline integrity & bare steel

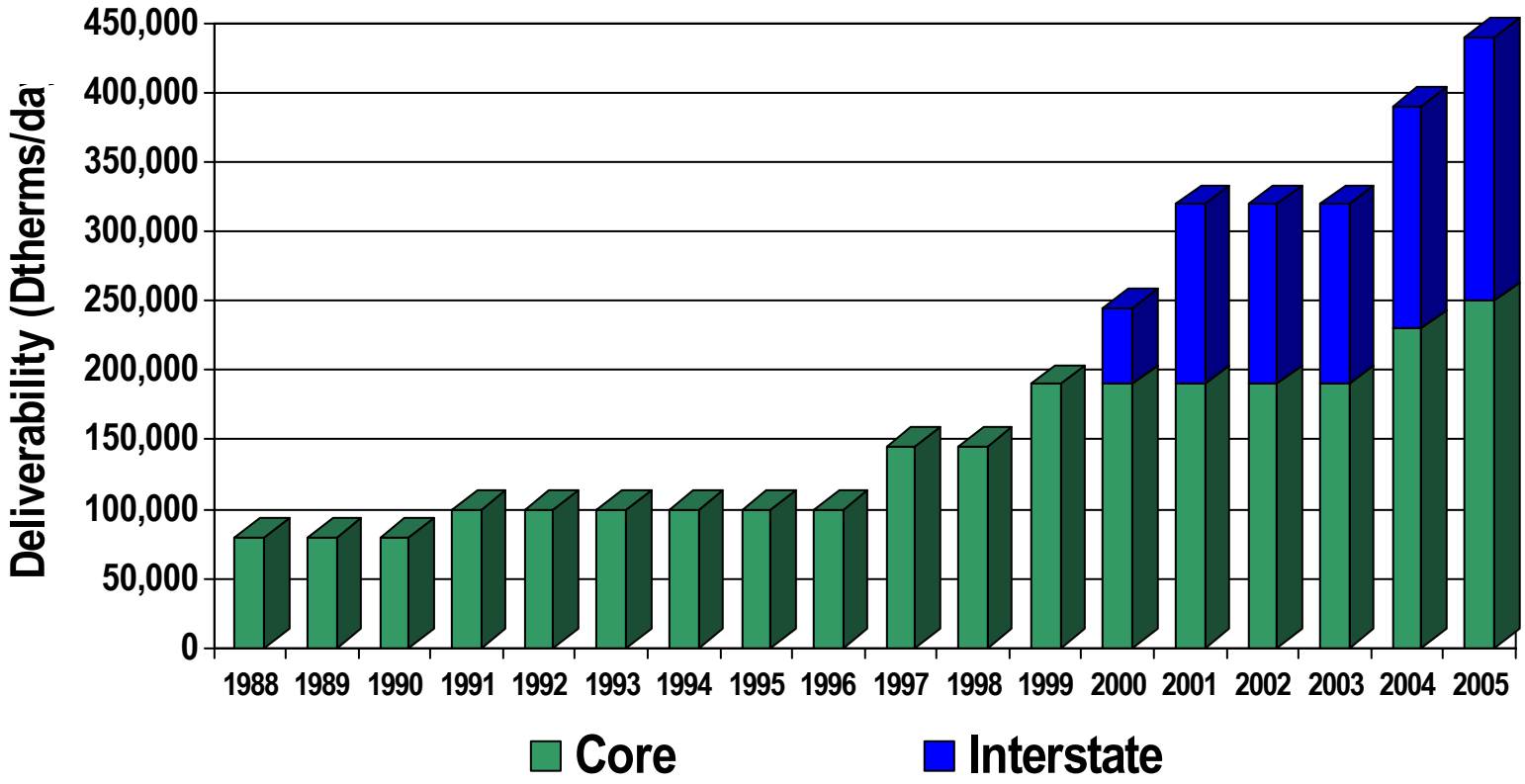
Natural Gas Storage

- Separate business segment
  - Interstate storage services
  - 3rd party optimization of assets
- Key utility resource at Mist (OR)
  - 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
- 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
- Last expanded in 2005; further expansion planned



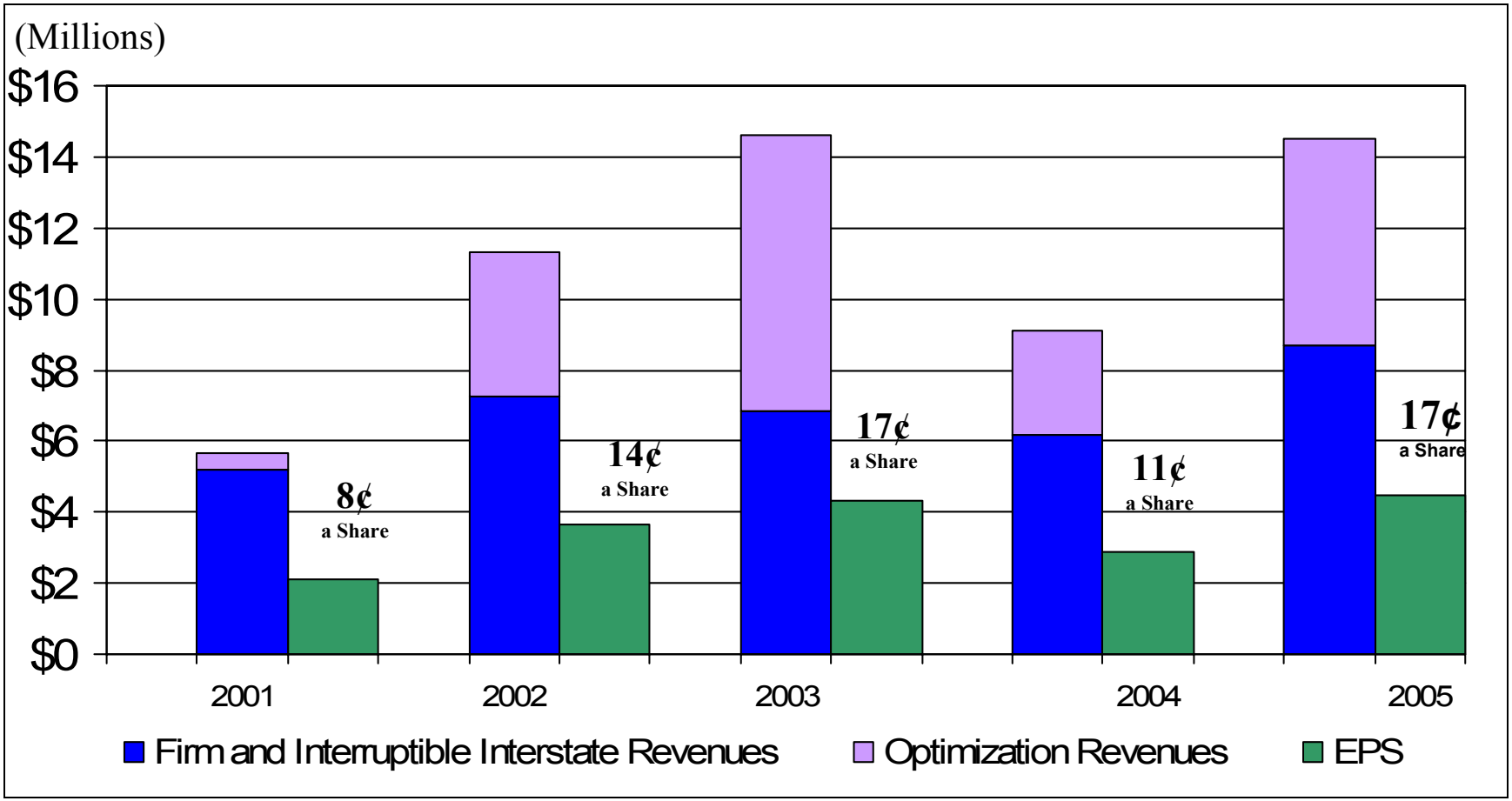
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Historic Mist Integrated Development



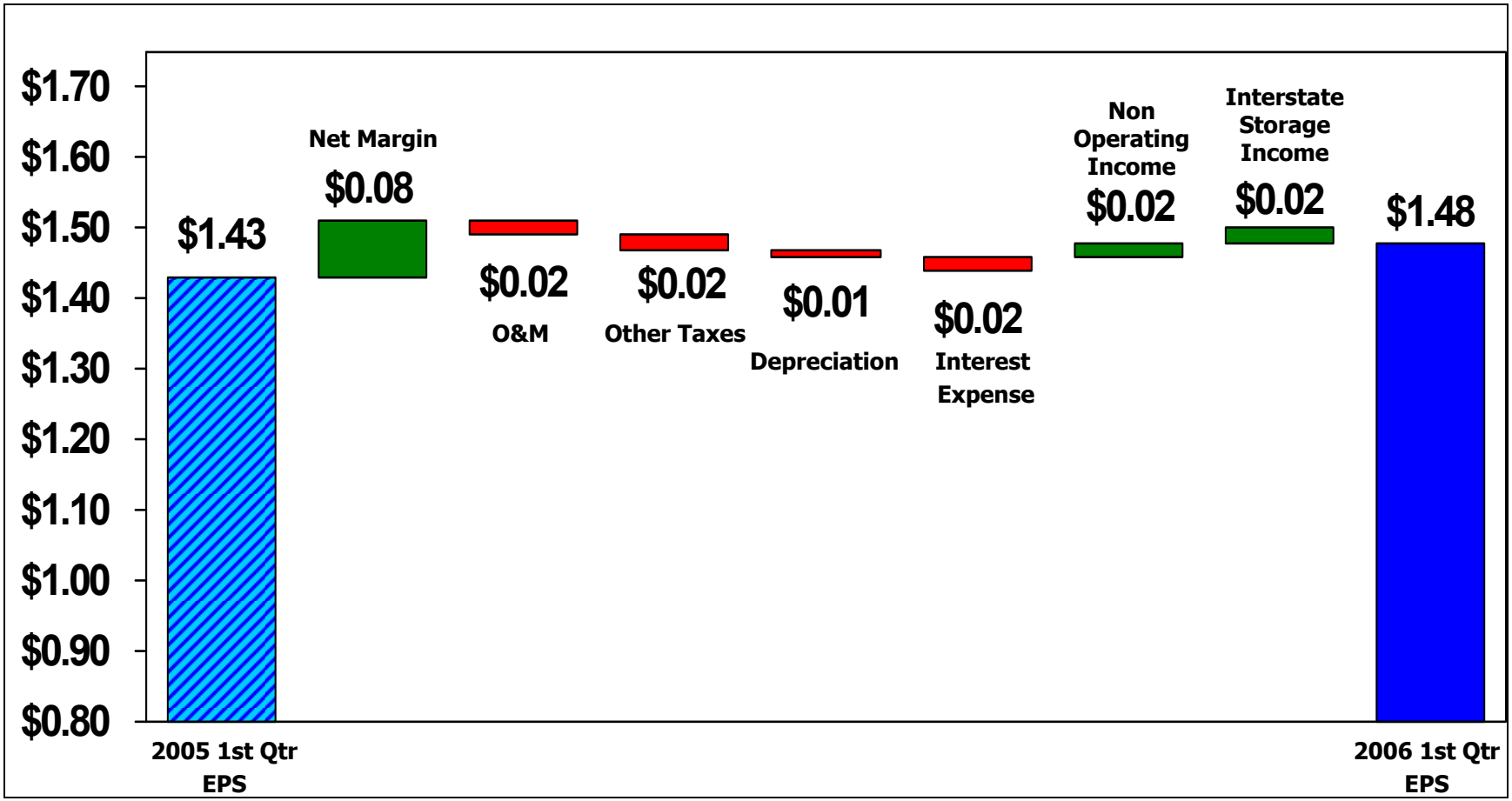
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2005 Interstate Gas Storage Revenues & EPS



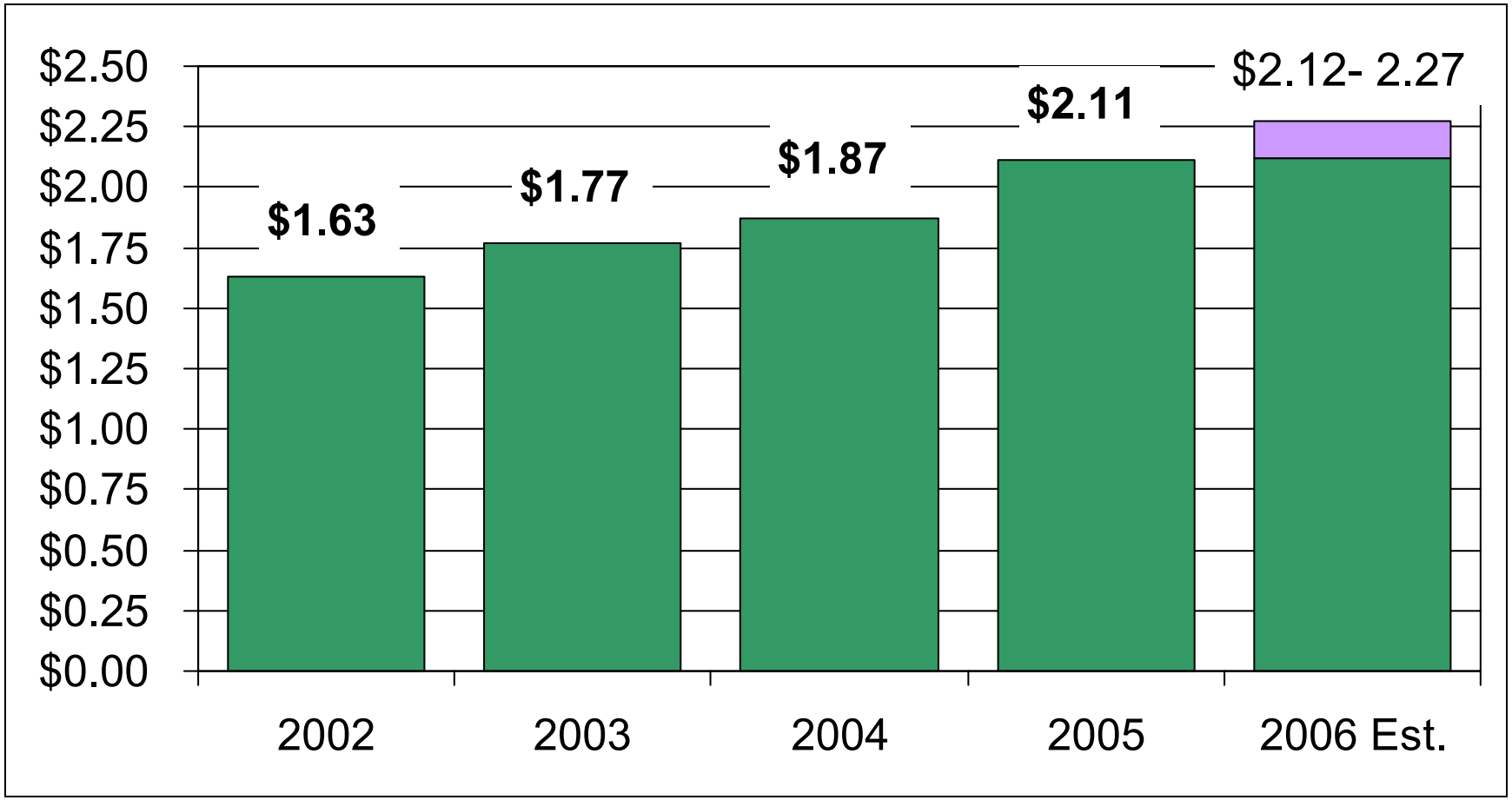
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Earnings per Share Variance
2005 - 2006 (1st Qtr 2006)



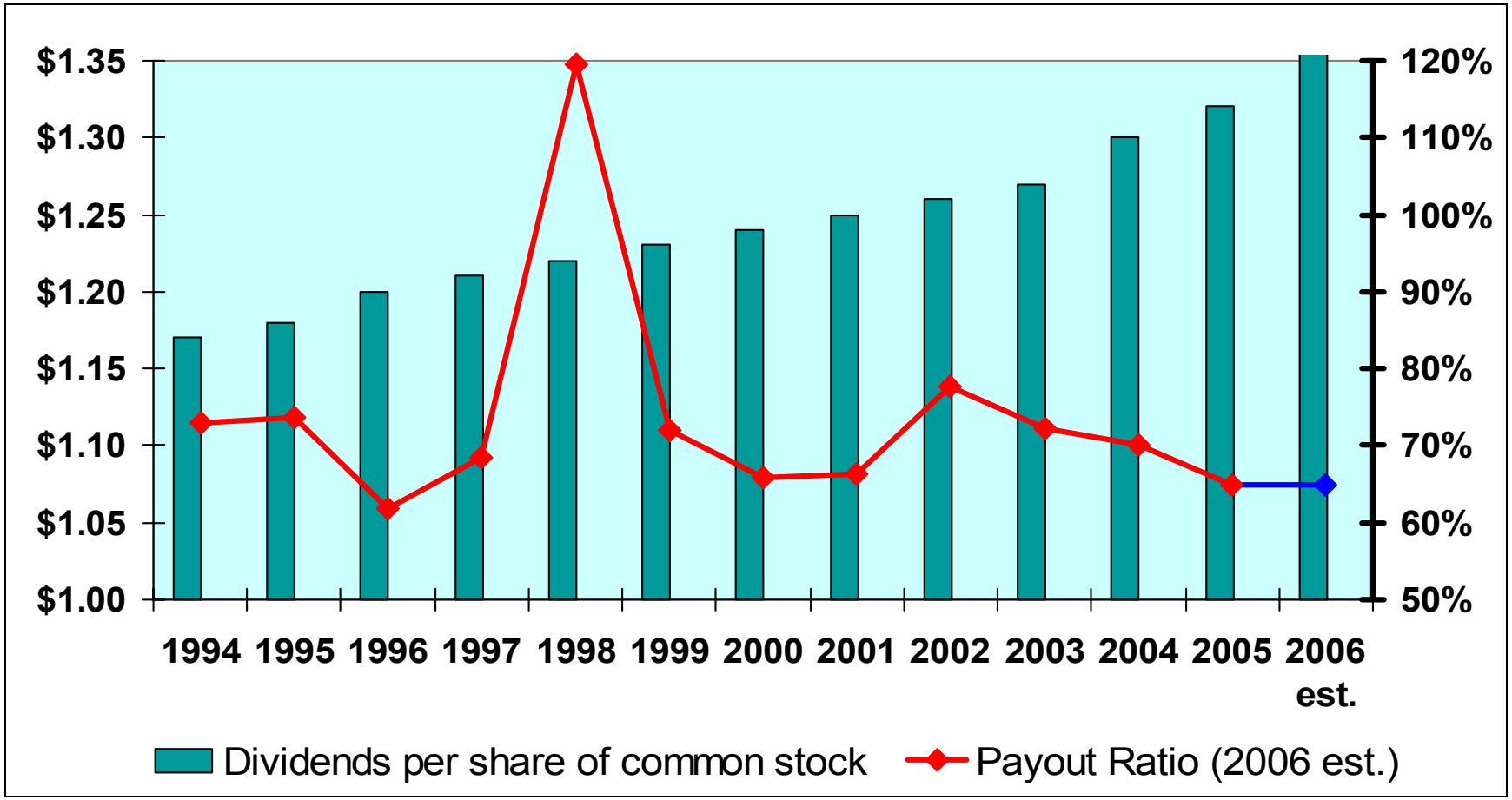
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Earnings Per Share

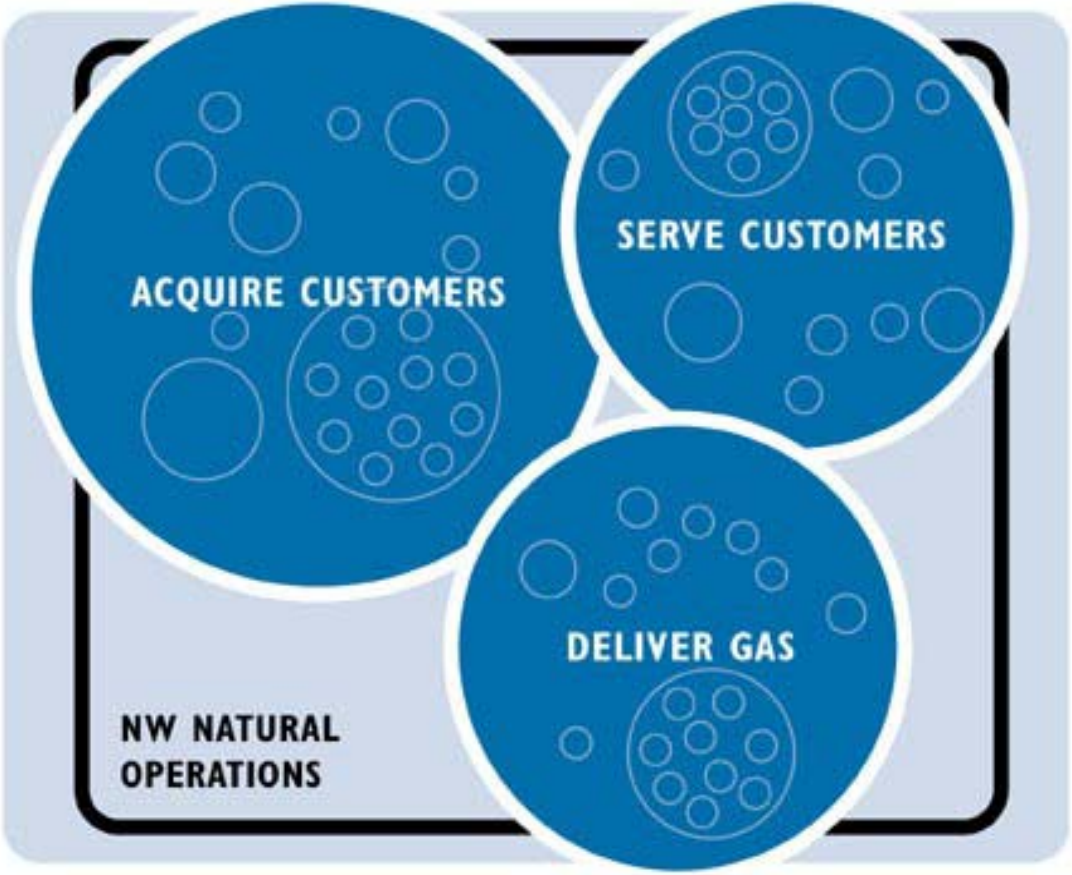


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Dividend History



Operations Business Model Review



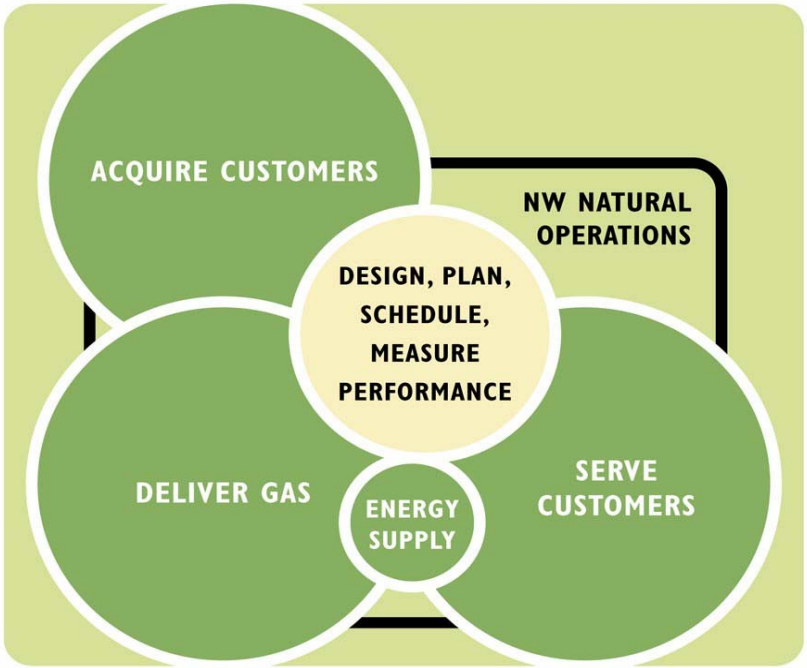
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Operations Business Model Review

Characteristics of model

- Simple / process orientation
- Move from “a construction company” to a “gas delivery company”
- Centralized decision – making
- Less customization and more standardization

NEW MODEL



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Conclusion

- Solid start to 2006 with Q1 results of $1.48 per diluted share
  - Strong customer growth and improving operating results from utility and interstate gas storage
- Increasingly predictable earnings stream and internally funded cash flow adequate to fund ’06 capex, including AMR project
- Sound regulatory relationships
- Earnings guidance for 2006 assumes normal weather, continued strong customer growth & no significant change to current regulatory policies
- Regulatory framework provides effective treatment of commodity costs
- Non-utility opportunities from gas storage
- 50 year history of dividend increases
- Strong credit ratings and low refinancing risk –
  - LT Debt: S&P (AA-), Fitch (A+), Moody’s (A2)
  - Commercial paper: S&P (A1+), Fitch (F1), Moody’s (P1)

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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 and has a population of more than 2.7 million people.

KEY INDICATORS:	Q1 2006	2005 Y/E	2004 Y/E
Total Customers	624,297	617,163	596,635
Total Common Equity (000)	$618,910	$586,931	$566,517
Avg Shares of Common Stock Outstanding (000)	27,584	27,564	27,016
Number of Registered Common Shareholders	8,958	9,136	9,359
Institutional Ownership	49%	49%	47%
Annual Dividends (ttm)	$1.34	$1.32	$1.30
Diluted Earnings per Share	$1.48	$2.11	$1.86
Book Value per Share	$22.44	$21.28	$20.64

COMPOSITION OF UTILITY REVENUE:	Q1 2006	2005	2004
Residential	53%	53%	55%
Commercial	31%	27%	29%
Industrial & Transportation	16%	20%	16%

CURRENT BOND RATINGS:	Fitch	Moody's	S&P
Long-Term Debt	A+	A2	AA-
Commercial Paper	F1	P1	A1+

Stock Exchange: NYSE

Ticker: NWN

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