NW Natural®

We grew up here.



American Gas Association Financial Forum

May 18, 2010

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 668,000 customers in OR & WA
  - 90% Oregon, 10% Washington
- A distribution and transmission system totaling 13,800 miles
- 16 billion cubic feet gas storage capacity in NW Oregon with growth potential
- Constructive regulatory environment
- Strong balance sheet & financial condition
- Record earnings of $2.83 per share in 2009
- Q1 results of $1.64 per share on net income of $43.6 million
- Favorable property tax ruling in Q1 2010
- Financial & operational discipline to control costs
  - Reduced FTEs by 20% since 2005
- JD Power Customer Satisfaction – consistently top 3-rating in U.S.
- Non-utility growth projects –
  Gill Ranch Gas Storage & Palomar Pipeline
- Indicative dividend rate of $1.66 per share annually



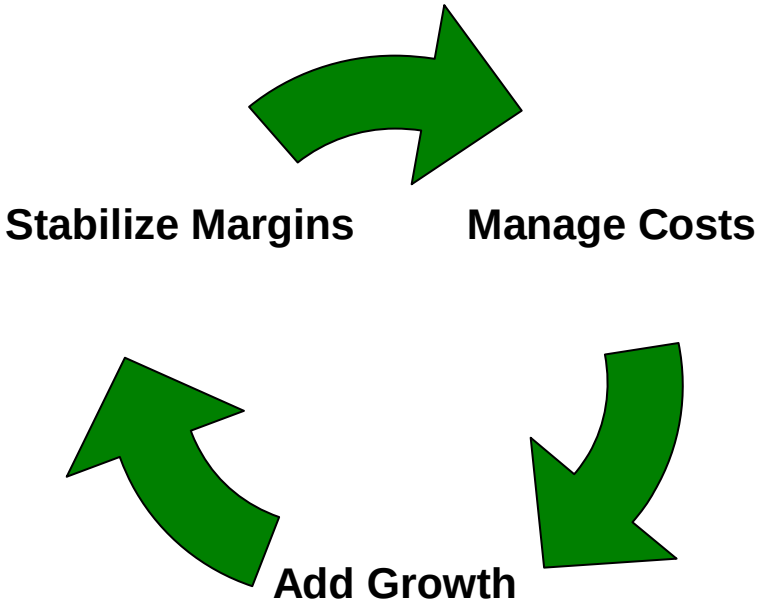
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2009 Full Year & Q1 Highlights

- Earned record $2.83 per share on earnings of $75.1 million in 2009 versus $2.61 per share on earnings of $69.5 million in 2008
- Favorable property tax ruling totals net $6.0 million gain
- Union employees agreed to new, five-year agreement last summer that adds flexibility and keeps expenses aligned with growth
- Oregon and Washington customers saw 16% and 22% price reductions for 2009-10
- Selected 90%-10% Purchased Gas Adjustment incentive sharing component for current year's heating season that runs from Nov. 1 to Oct. 31
- Focused on managing costs & long-term growth projects
  - Made changes four years ago to operations and implemented further process improvements to reduce operating and capital costs to align with growth levels
  - Greenfield developments + Mist expansion potential provide upside potential
- Bad debt expense kept to 0.36% of revenues – among the lowest in the country – and continuing to watch it carefully
- Established 2010 EPS guidance of $2.60 to $2.75 per share and reaffirmed at Q1
- 54 consecutive years of increasing dividends paid

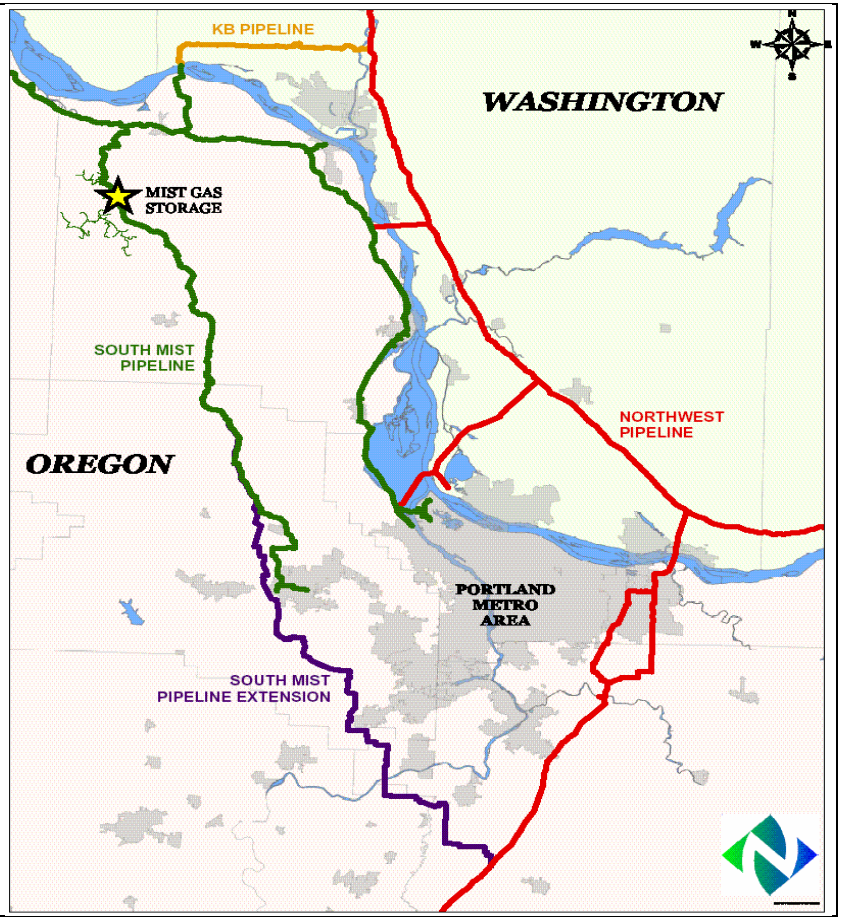
NWN Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
- Managing cost structure
  - Continuing to make improvements
  - Increased use of technology to improve reliability & safety, etc.
  - Five-year union agreement reached and 20% workforce reduction achieved over past several years
- Adding longer-term infrastructure growth opportunities that fit NWN's "DNA" of what we do best
  - Gill Ranch, Palomar pipeline and Mist storage expansion



Natural Gas Storage

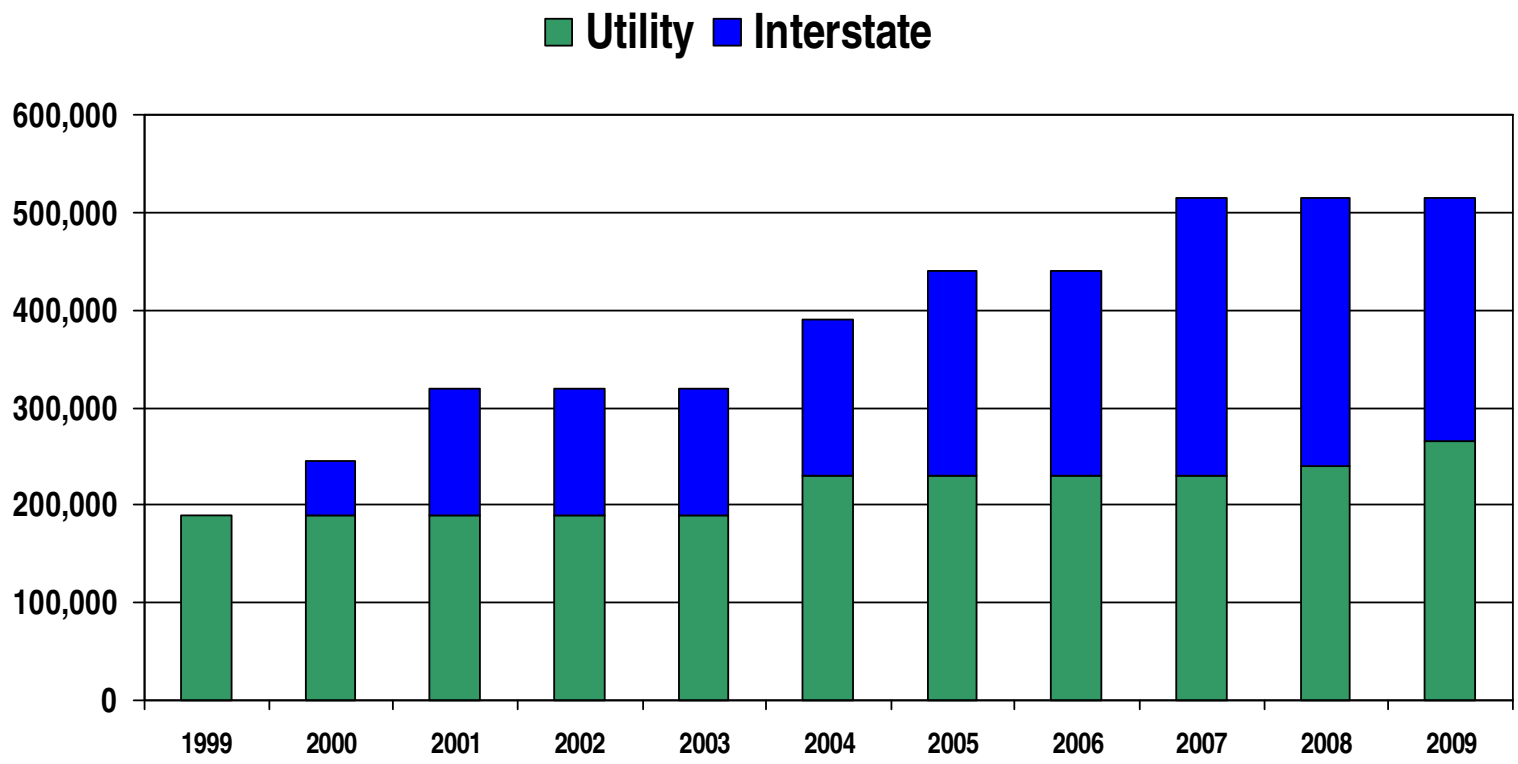
- Key utility resource at Mist (OR) – 16 Bcf
  - Least-cost seasonal peaking supply
  - Low incremental development costs
  - Investment rolled into rates as needed for core customers
- Separate business segment – Interstate storage services
- Additional storage capacity in advance of core customer needs 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



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Historic Mist Integrated Development

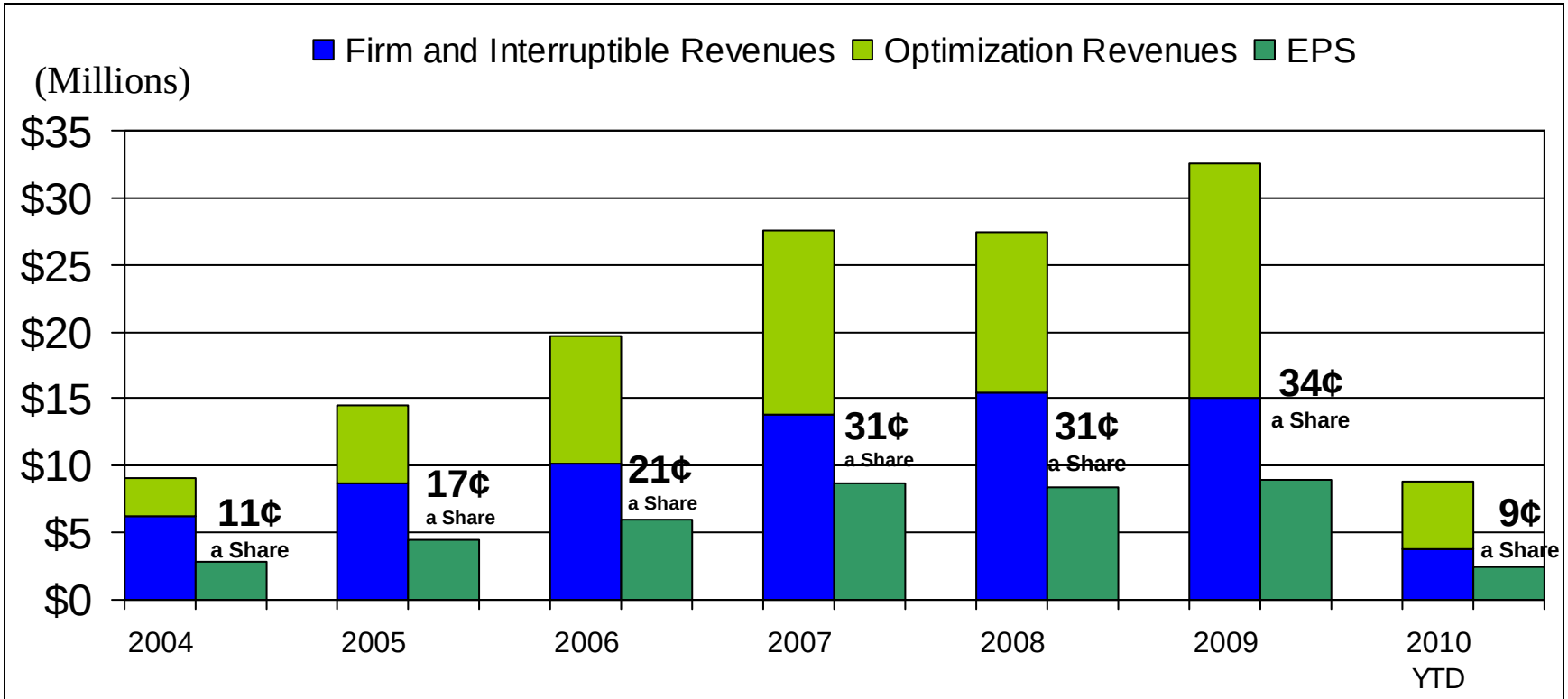
(Deliverability/Dtherms)



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Gas Storage Revenues & EPS

(through March 31, 2010)

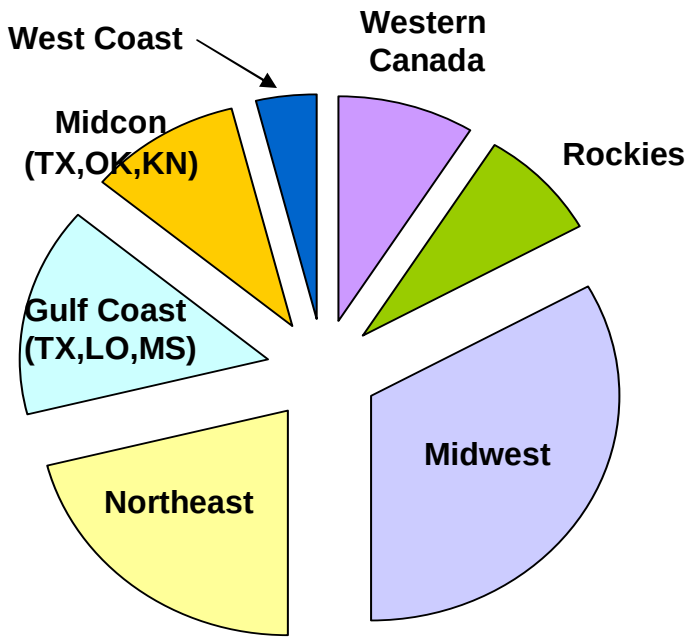


Use a third-party optimizer to maximize opportunities and lower risk

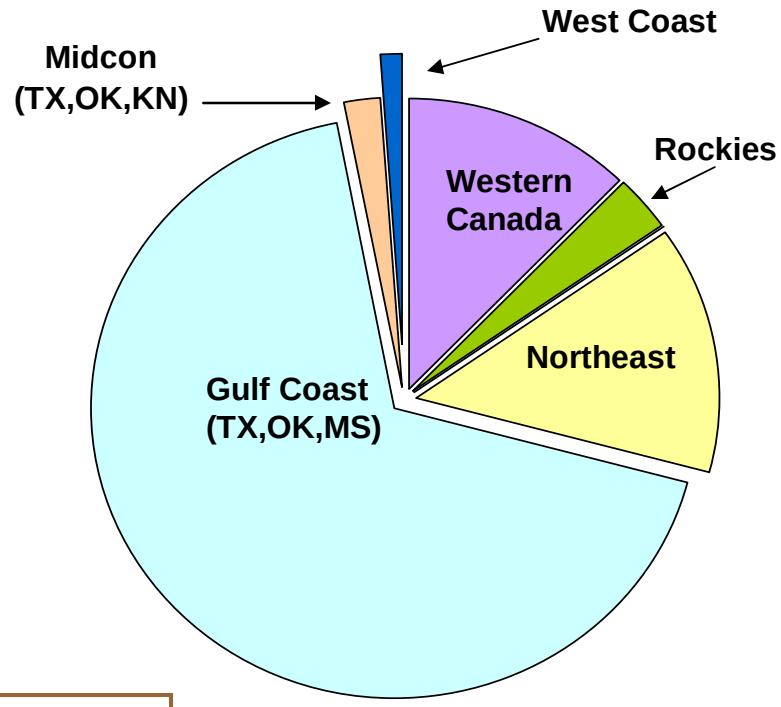
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Need for Additional Storage in West

Existing Storage (4,395 Bcf)



Proposed Storage (403 Bcf)



Lack of storage in the West

Source: EIA

Gill Ranch Project Overview

- Market area storage at prime location on PG&E system
- Under CPUC jurisdiction
  - CPCN permit approved & construction underway
- Depleted gas reservoirs
- Phased development
  - 20 Bcf to start
- Planned 2010 in-service date
- Successful “open season” results – now actively marketing
- 75/25 venture with PG&E
- ~$185m-205m development costs (NWN portion)



Strategic location for customers…

Gill Ranch Construction Underway

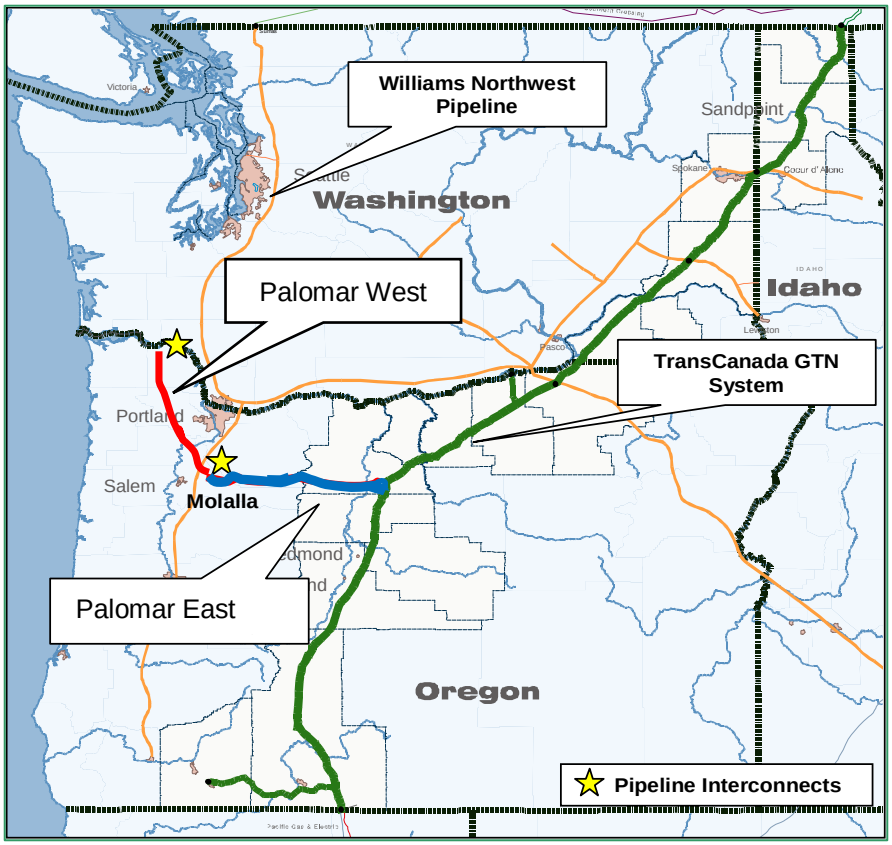
- Construction started in January
- Weather was wet early in year
- Targeting an in-service date of Q3 ‘10





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Palomar E&W Pipeline Project Overview



Project Purposes

- Palomar East
  - – Access domestic supplies for regional growth
  - – Provide a second pipeline delivery path to NW Natural for reliability
- Palomar West
  - – Primary shipper halts LNG project
  - – Adds greater strategic reasons for Palomar East

Project Review

- 50/50 JV with TransCanada
- 36” pipe; 220 miles
- Up to 1.3 Bcf/d of capacity
- $750-800 million total project cost
- FERC filing made in December 2008
- Draft EIS expected in 2010

Two projects: East & West Zones

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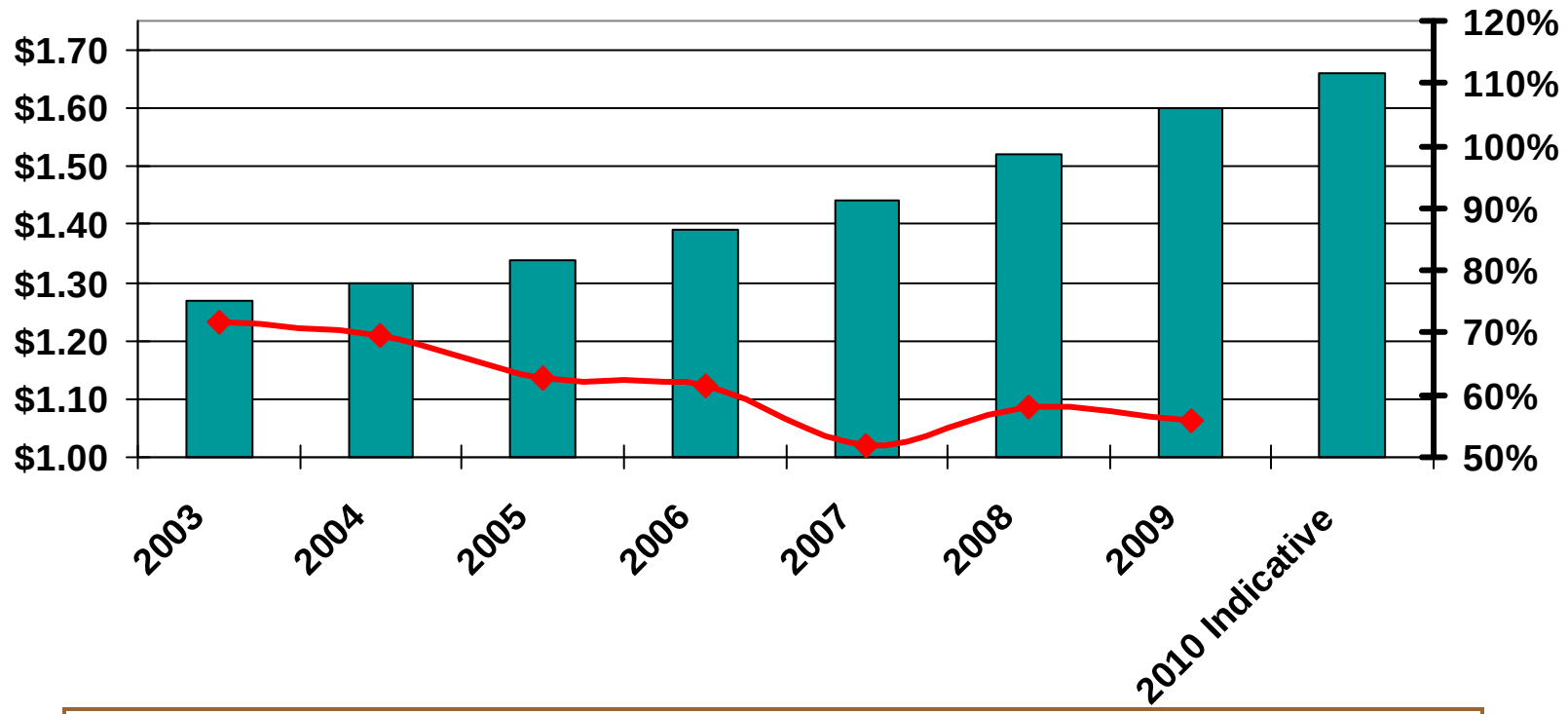
Conclusion

- Record earnings results in 2009 – earnings of $75.1 million and earnings per share of $2.83
- Earnings of $43.6 million and earnings per share or $1.64 for Q1 2010, and reaffirmed EPS guidance of $2.60 to $2.75 with first quarter announcement on May 5th
- Dividends increased in October 2009 by 5.1 percent – to 41.5 cents per common share quarterly and an indicative rate of $1.66 per year
- Signed five-year union labor agreement in 2009 – fair agreement with added flexibility for company
- Sound regulatory relationships continuing – extension of margin stabilization mechanisms in Oregon through late 2012, Washington IRP approved, AMR deferral request approved
- Purchased Gas Adjustment (PGA) mechanism revised in OR with 90%-10% sharing with customers and shareholders for 2009-10 season
- Pipeline system integrity program (SIP) agreement approved with OPUC in Feb. 2009 to recover a net $9 million per year
- Company operating with approximately 1,000 employees vs. 1,300 in 2005
- Non-utility opportunities from Gill Ranch underground gas storage & Palomar pipeline
- Mist underground gas storage potential being evaluated
- Strong credit ratings and low refinancing risk –
  - Secured LT Debt: S&P (AA-) and Moody's (A1)
  - Commercial paper: S&P (A-1) and Moody's (P1)
- 54-year history of increasing dividends paid to shareholders

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Dividend Payout History

(54-year history of increasing dividends paid)



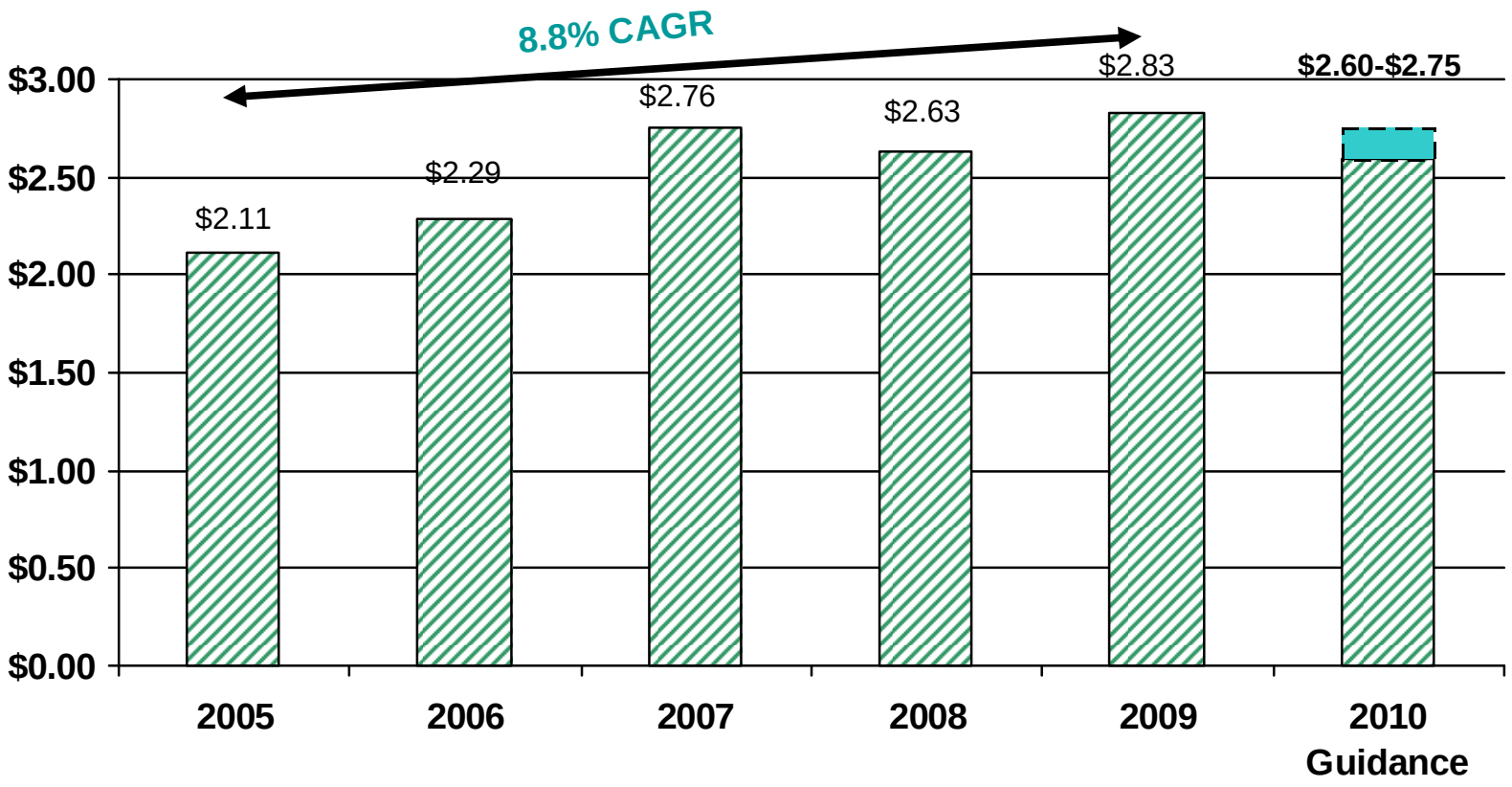
Dividend raised 5% on Oct. 1, 2009 to $1.66 per share annually on an indicative basis

Addendum



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Earnings Per Share Growth



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Constructive Regulation

- Purchased Gas Adjustment (PGA) mechanism
  - Establishes better risk-reward balance with customers
  - 90-10 customer-shareholder sharing mechanism elected for 2009-10 heating 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
- System Integrity Program in Oregon approved – consolidated into one program
- Received CPC for Gill Ranch from CPUC and construction has started
- Expect to receive FERC ruling on Palomar Pipeline in 2010

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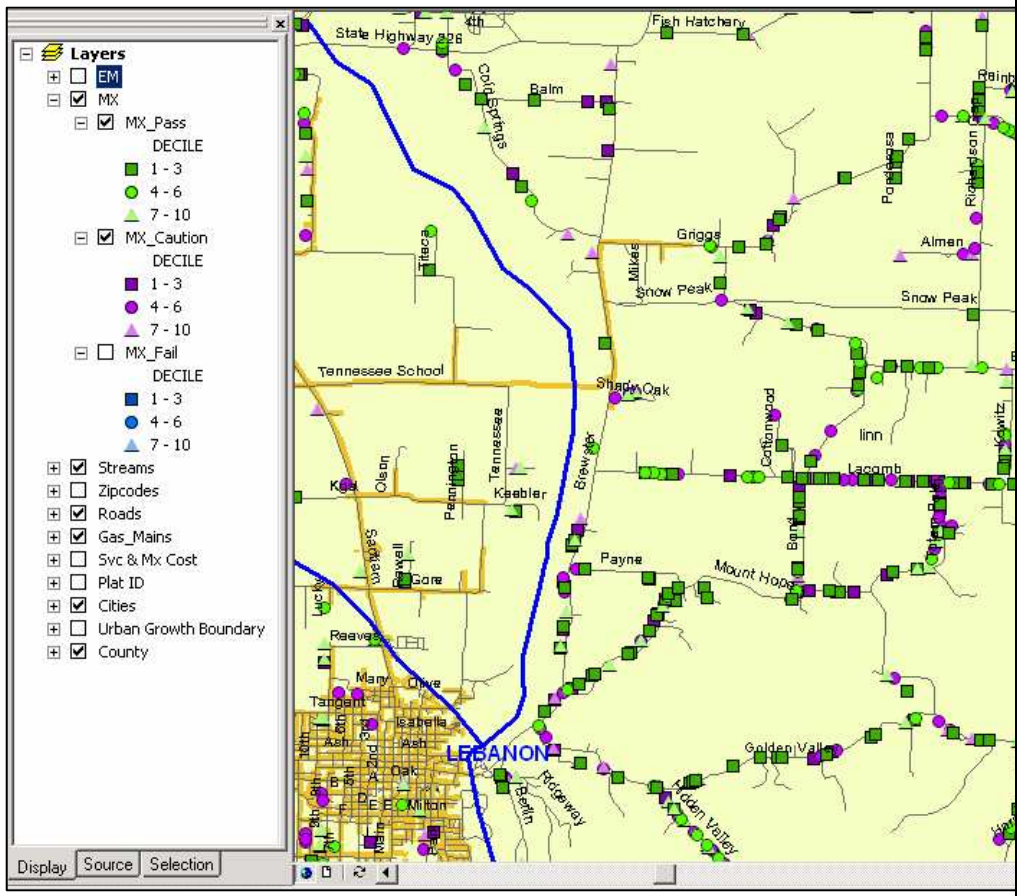
Conversion Opportunities

Estimated Market Potential	Single-Family	Multi-Family	Non-Residential	Total
On-main and Near-main prospects (0–150ft from main)	169,841	8,060	16,087	**193,988**
Near-main prospects (150-600ft from main)	112,290	25,945	19,166	**157,401**
Off-main prospects (>600ft from main)	109,385	8,770	22,124	**140,279**
TOTAL	**391,516**	**42,775**	**57,377**	**491,668**

Updated: March 1, 2010 - Source: Tax Assessor database (Sites) June 2009

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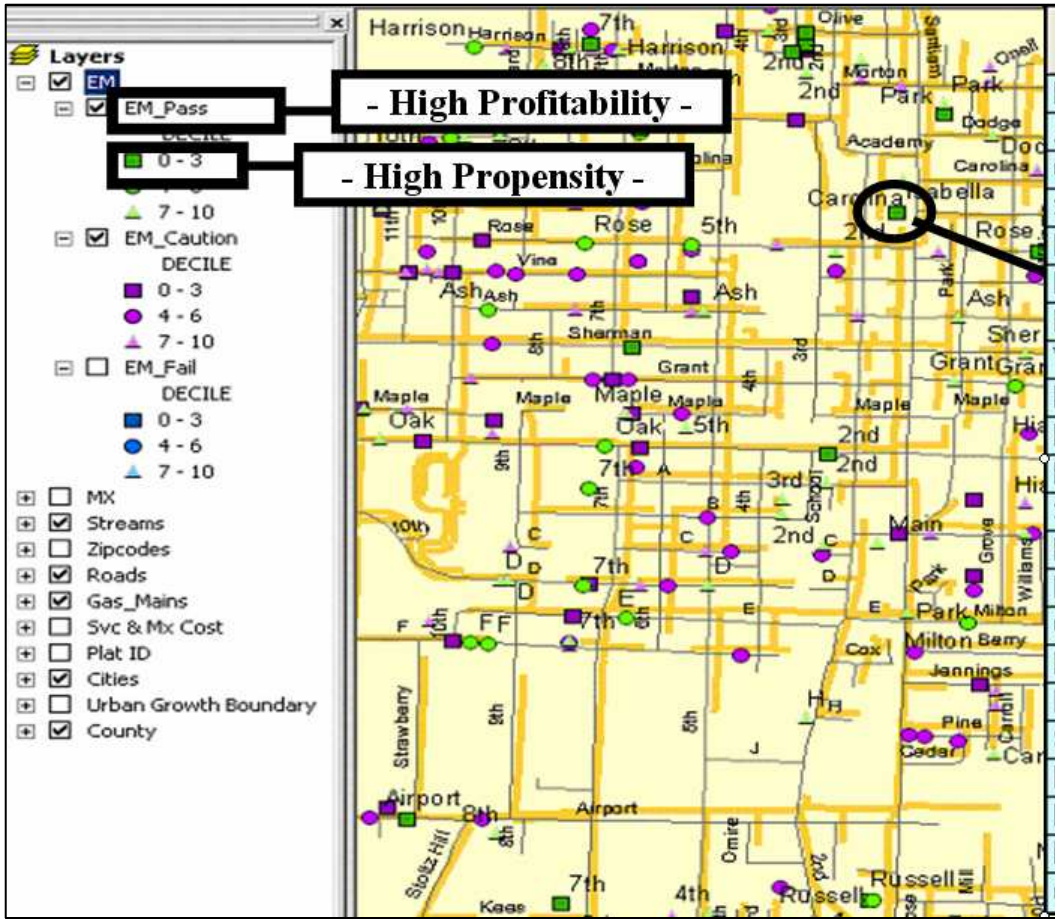
AROE – Main Mapping



- 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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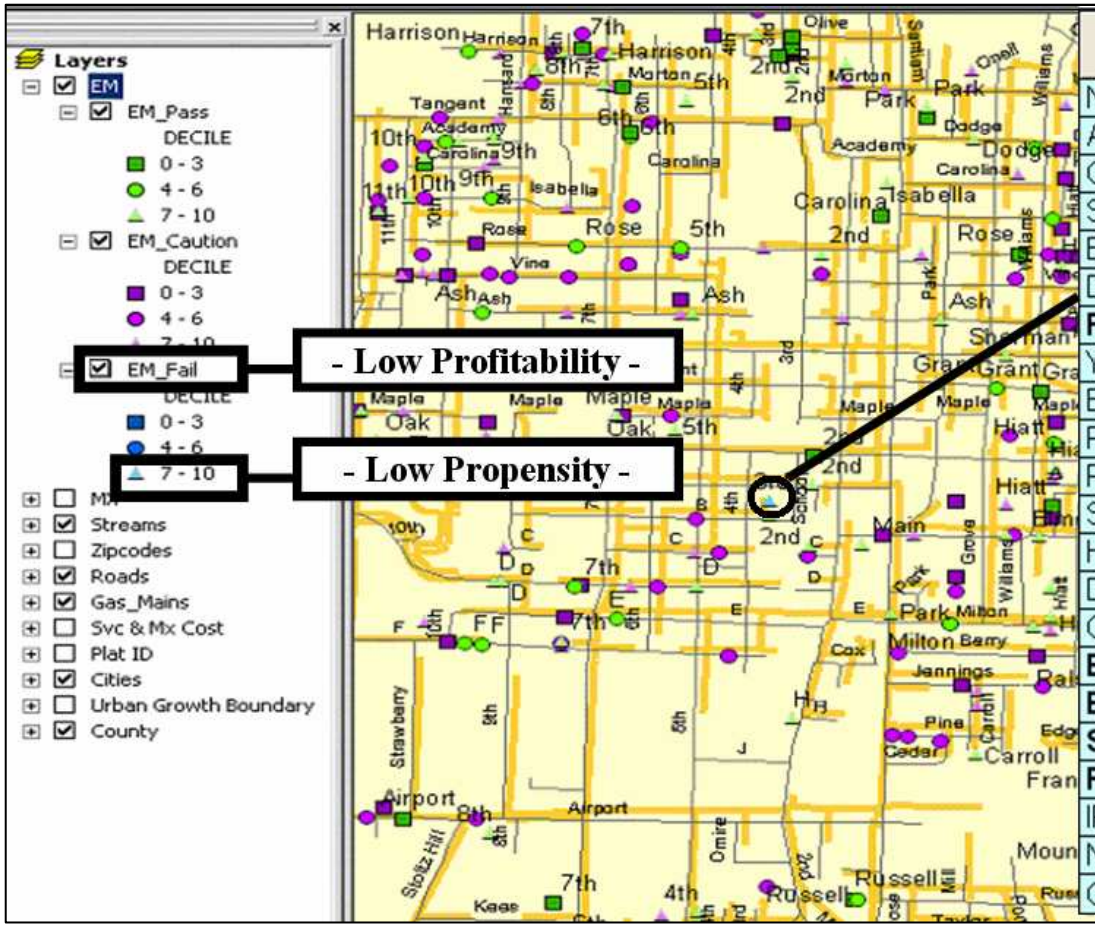
Example of a “Pass” Conversion



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

NYSE: NWN

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NW Natural (NYSE: NWN) is a 151-year-old natural gas local distribution and storage company headquartered in Portland, Oregon, with a customer growth rate consistently above the national average. NW Natural serves customers in Oregon and Southwest Washington. In keeping with its steady growth, the company has increased dividends paid to shareholders for 54 consecutive years, a feat matched by few publicly traded companies. NW Natural operates gas storage facilities in its service territory and provides gas storage services to other energy companies in the Northwest. NW Natural is developing a new gas storage facility at Gill Ranch near Fresno, California, is looking to expand the Mist storage facility, and plans to develop a new gas transmission pipeline called Palomar in Oregon to provide enhanced gas deliverability and reliability for the region.

KEY INDICATORS:	2009 Y/E	2008 Y/E
Total customers	667,794	662,341
Total common equity	$660,105	$628,373
Avg. shares of common stock outstanding (000)	26,533	26,501
Number of registered common shareholders	7,418	7,673
Institutional ownership	58%	65%
Annual dividends (ttm)	$1.60	$1.52
Diluted earnings per share	$2.83	$2.61
Book value per share	$24.88	$23.71

COMPOSITION OF UTILITY REVENUE:	2009 Y/E	2008 Y/E
Residential	56%	55%
Commercial	29%	29%
Industrial & transportation	12%	13%
Other	3%	2%

CURRENT BOND RATINGS:	MOODY'S	S&P
Secured long-term debt	A-1	AA-
Commercial paper	P1	A-1
Outlook	Stable	Stable

For more information on NW Natural, contact:
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