NW Natural®

We grew up here.



March 19, 2012

Investor Presentation

Sidoti & Co.

New York, New York

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.

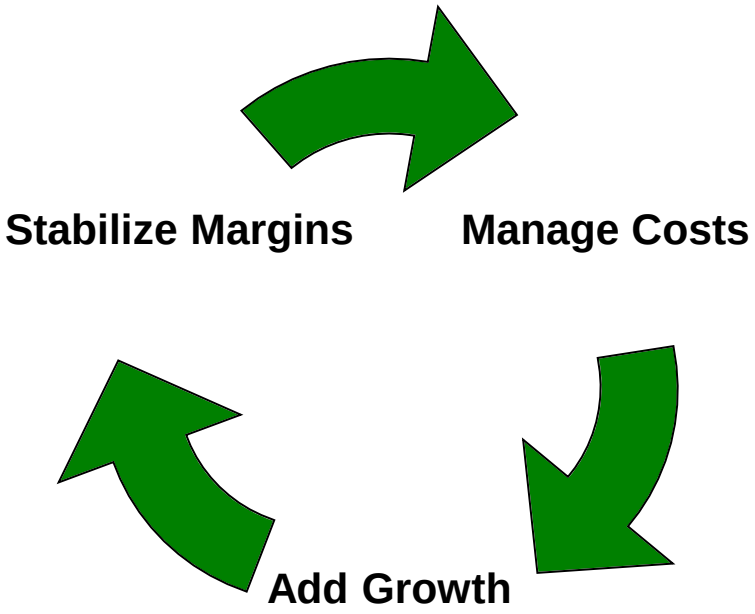
NW Natural at a Glance

- Approximately 680,000 customers in OR & WA
  - 90% Oregon, 10% Washington
  - Largest LDC in Northwest
- A distribution and transmission system totaling approximately 14,000 miles
- A total of 31 BCF of designed underground gas storage capacity (with expansion potential) in OR & CA
- Economists believe economic recession has hit bottom and will gradually improve in the Northwest
- Conversion opportunities exist due to gas coming late to the West Coast
- Constructive regulatory environment – Oregon GRC filed Dec. 30, 2011 -- (10 month process) – first in 9 years
- Gas reserves investment operating as designed
- Strong balance sheet & financial condition with low refinancing risk with strong credit ratings
- Experienced management team
- JD Power Customer Satisfaction — consistently top 3-rating in U.S and western U.S.
- Indicative dividend rate of $1.78 per share & 56 years of increasing dividends paid

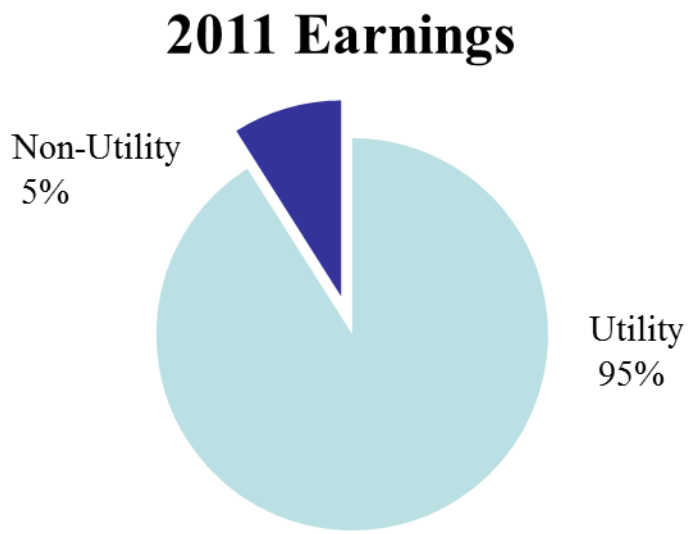


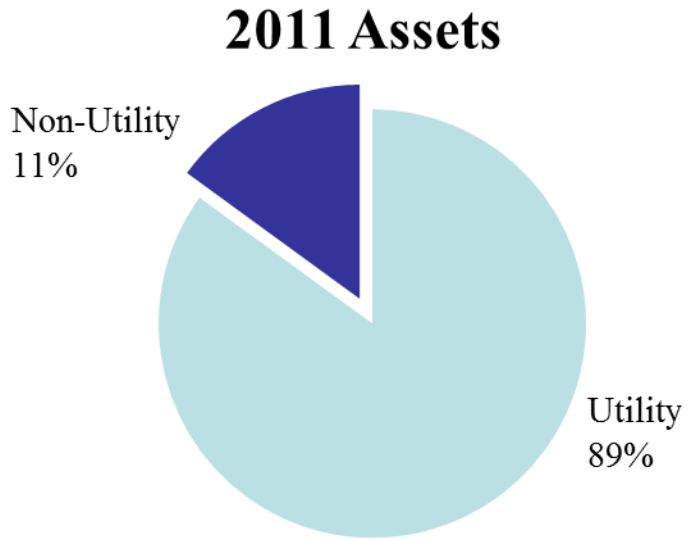
NW Natural Corporate Strategy

- Stabilized margins through regulation
  - First to implement decoupling among gas LDCs
  - Work well with regulators & others
- Managing cost structure
  - Continuing to make improvements
  - Increased use of technology to improve reliability & safety
- Adding longer-term growth opportunities that fit NWN's "DNA" risk profile and leverage what we do best
  - Gas reserve investment to provide low-cost, long-term gas supplies to Oregon customers
  - Gill Ranch Gas Storage in California
  - Mist Gas storage expansion opportunity in Oregon
  - Palomar pipeline project in Oregon



NW Natural Business Mix





- Customer mix – 90% OR, 10% WA – ~680,000 utility customers
- Utility net revenue – 92% from stable R&C customers
- Non-utility activities – primarily natural gas storage

NW Natural

2011 Highlights

- Earned $2.39 per share on $63.9 million of net income vs. $2.73 per share on net income of $72.7 million in 2010
- Gill Ranch Gas Storage enters second year of operations/injections
- First mover on unique gas reserves joint venture agreement to provide approximately 30-year gas supply for Oregon customers
- Company ranked second-highest in the nation in 2011 among gas utilities for residential customer satisfaction – consistently among top 3 in U.S.by J.D. Power
- Oregon and Washington customers saw a rate decline for a third year in a row for current heating season – a definite competitive advantage in region
- Strong financial position and credit ratings
- No longer subject to utility tax legislation volatility in Oregon
- Bad debt expense kept to 0.23% of revenues at Dec. 31, 2011
- Increased quarterly dividend in November 2011 to 44.5 cents per common share from 43.5 cents per share – the 56th consecutive year of increasing dividends paid (indicated annual dividend of $1.78 per share)
- Earnings guidance for 2012 established at $2.35 to $2.55 per share

Regulatory Activity

- **OPUC approval of Encana transaction on April 29, 2011**
  - Rapid turnaround and all-parties settlement important to gain approval and completion of ~$250 million gas reserves investment
  - Met investment target of $45-55 million per year in 2011
- **Customers received ~2% rate decrease for 2011-12 PGA year**
  - Selected 90/10 sharing mechanism for 2011-2012 heating season
  - Residential rates have gone down 20% in Oregon and 26% in Washington over the past three years
- **SB 967 repealed SB 408 (Oregon utility tax legislation)**
  - SB 967 required NWN to expense 2010 deferred amounts of $7.4 million ($4.4 million after tax or 17 cents per share), which was taken in Q2
  - No longer subject to SB 408 volatility
- **Company filed general rate case in Oregon in late December 2011**

Oregon Rate Case – Docket UG 221

- Filed December 30, 2011 with OPUC
- November 2012 to October 2013 test year
- Requesting $43.7 million in increased revenues or about 6.2 percent increase
- Requesting 10.3% return on equity (8.28% overall Rate of Return – 50/50 cap structure)
- Establishment of Site Remediation Recovery Mechanism (environmental cost recovery) could result in additional 1 to 3 percent rate increase
- Revised pension recovery mechanism
- Rate design changes for residential and small commercial customers proposed
- Extension of System Integrity Program

Drivers of Increase

($s in millions)	
Decoupling	$15.1
O&M Safety Costs	$9.1
O&M Customer Service Costs	$5.1
Pension	$7.7
Rate Base Increases	$5.7
Other O&M and Other	$1.0
Total Requested Rate Increase	$43.7

*Environmental cost recovery not included in the above (outside of base rates)

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Case Schedule (Subject to Change)

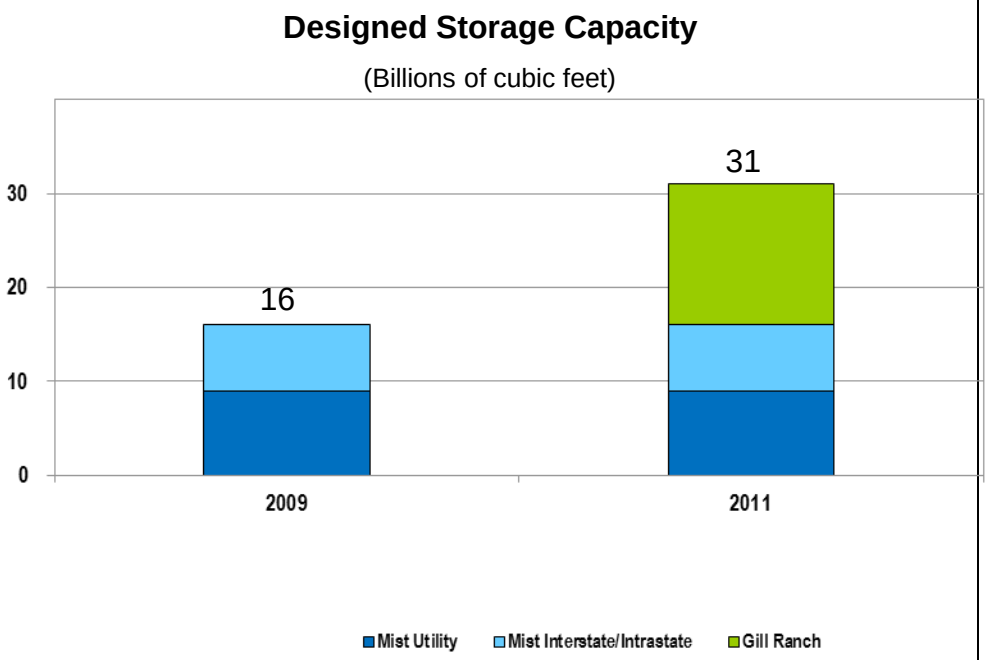
Activity	Date
• Settlement conference	April 4-5
• Staff & interveners file opening testimony	May 3
• Settlement conference	May 30-31
• Reply/continued testimony until	Aug. 10
• Hearing	Aug. 29-30
• Target date for Commission decision	Oct. 12
• New rates effective	Nov. 1

Adding Growth

- **Storage**
- **Gas Reserves**
- **Palomar Pipeline**

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
- Gill Ranch Storage located near Fresno, Calif., at a prime location to serve customers – a 20 Bcf designed facility – with expansion potential
- Separate business segment – Gas Storage
- 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 at Mist & Gill Ranch Storage



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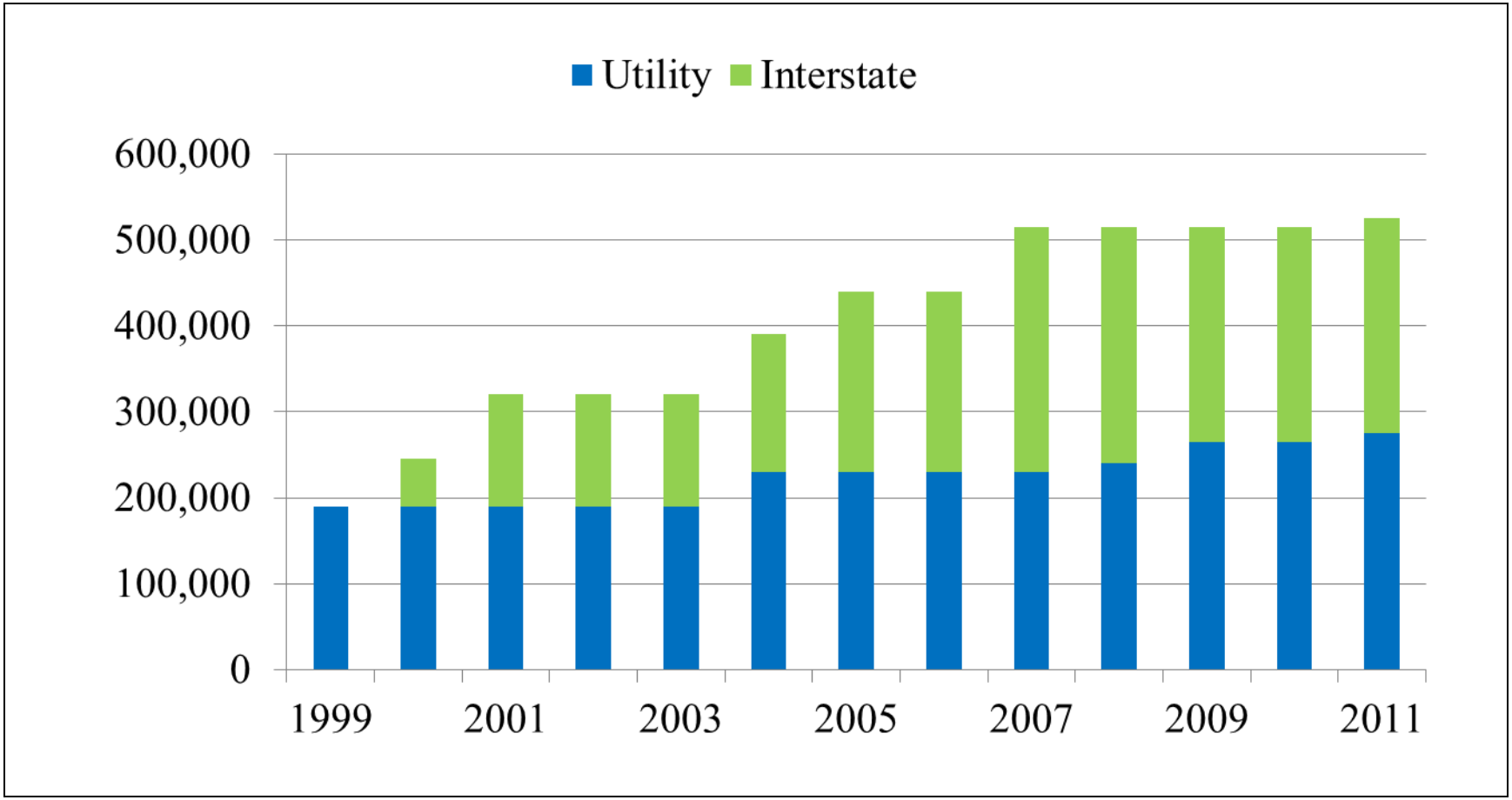
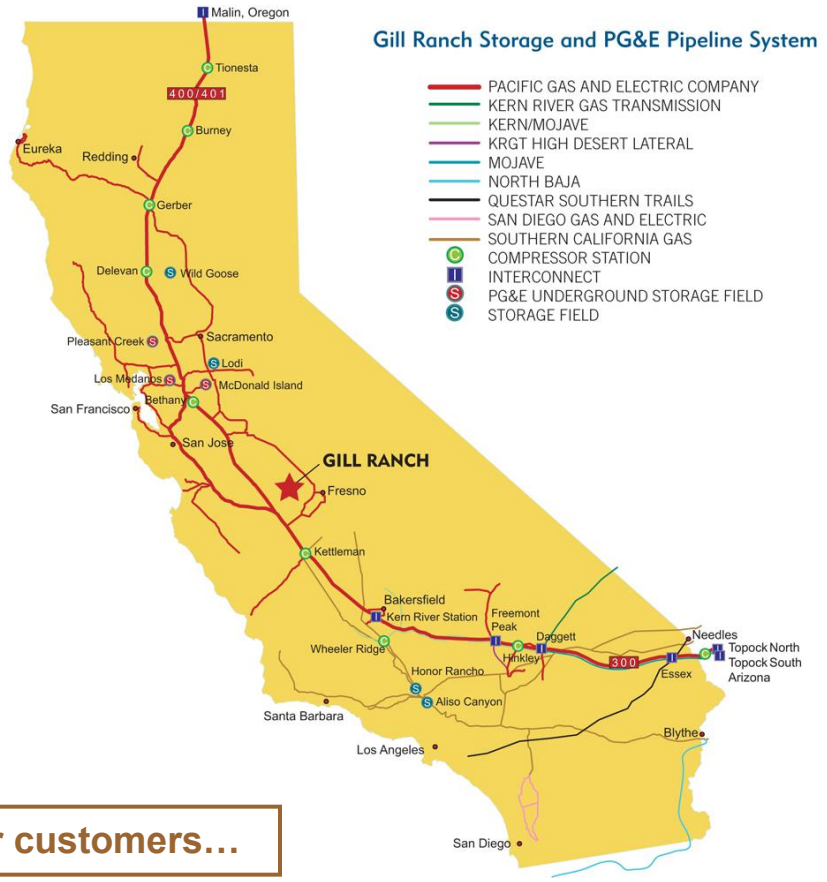
Historic Mist Integrated Development

(Deliverability/Dtherms)



Gill Ranch Storage Overview

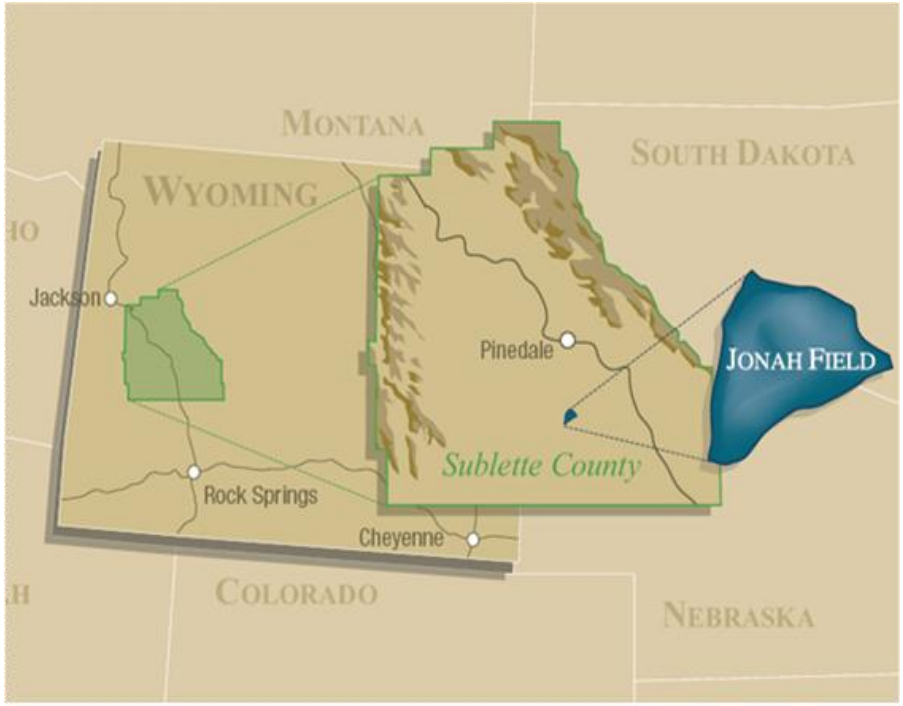
- Market area storage at prime location on PG&E system
- Under CPUC jurisdiction
- Depleted gas reservoirs
- Phased development
  - 20 Bcf designed capacity
  - Impacted by current pricing
  - Expandable per market needs
- GRS working as designed & entering 2nd injection year in April
- 75/25 venture with PG&E, with NWN owning 75% share of first phase



Strategic location for customers…

Gas Reserves Joint Venture with Encana

- **Strategic focus:**
  - NW Natural is investing in a joint venture to earn working interests in gas reserves with Encana Oil & Gas
  - JV operations with Encana in the Jonah Field in sections that include currently producing wells and future wells
  - Agreement provides gas for 30 years with the majority flowing in first 10 years
  - Venture is expected to provide approximately 8-10 percent of NWN's average annual requirements over first 10 years
  - Price will be ~$45-55 million per year, for a five-year period, totaling about $250 million
  - New investment will be tracked as rate base into rates at each PGA filing
  - Invested about $52 million in 2011
  - Drilled 20 wells in 2011 & 24 wells scheduled for 2012

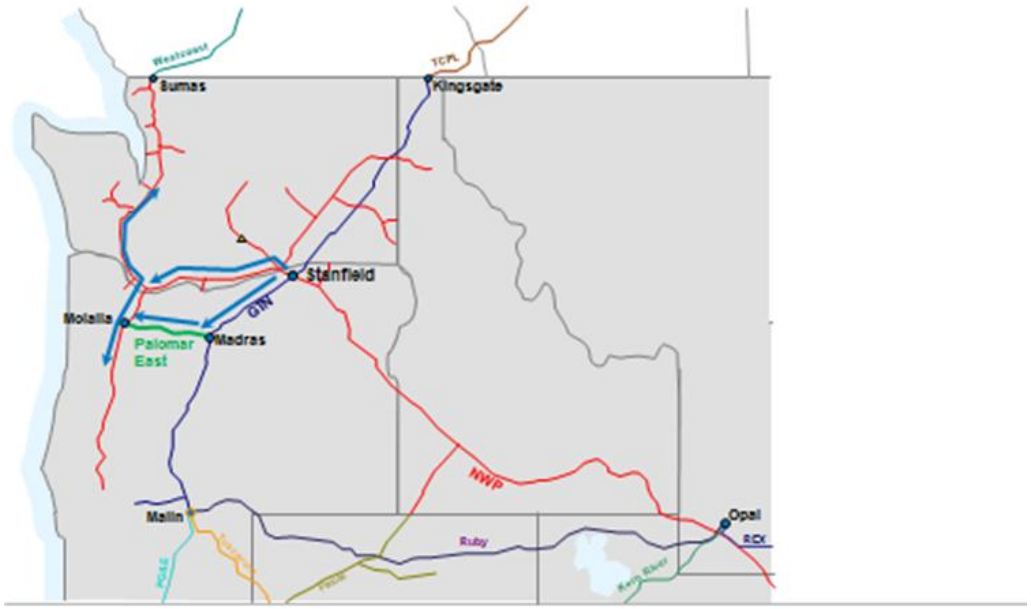


The Jonah Gas Field

- One of top 10 U.S. producing gas fields by reserves
- Located north of Rock Springs, Wyoming, in proven field
- Field contains an estimated 2 Trillion cubic feet equivalent of proved reserves, and produces the equivalent of 1.5 percent of total U.S. daily consumption
- Operations will be in sections that include currently producing wells and future wells
- Proven successful development results and track record



Palomar Pipeline Project Overview



Project Purposes

- Palomar East
  - – Access natural gas supplies for regional growth
  - – Provide a second pipeline delivery path to NW Natural for reliability

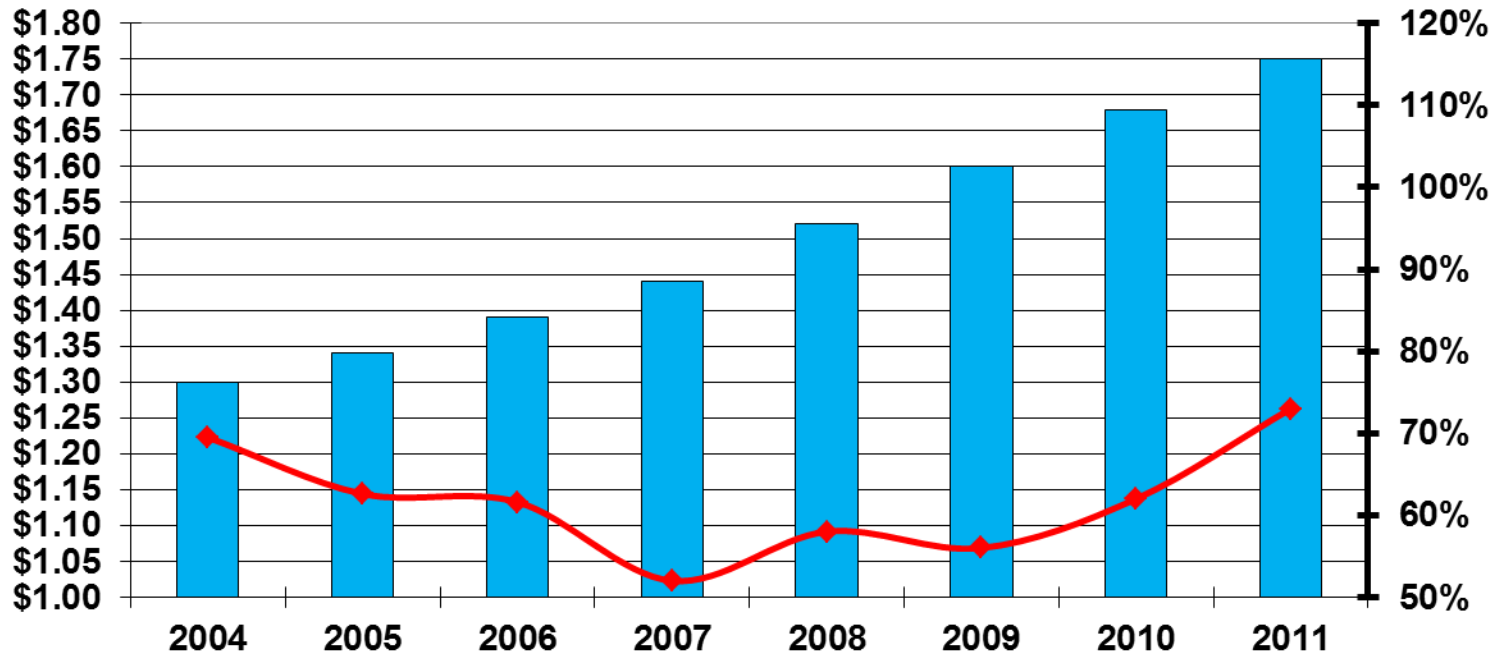
Project Review

- 50/50 JV with TransCanada, but have signed non-binding MOU with Williams to potentially become part owners
- Will re-file the FERC application to address changes in the project

Remains Important Project for Region

Dividend Payout History

(56-year history of increasing dividends paid)



Dividend raised to $1.78 per share annually on an indicative basis

Conclusion

- Gill Ranch Storage facility completed and operational as planned – entering 2nd year of operations with storage reservoirs growing faster than anticipated
  - NW Natural now operates and controls ~31 BCF of designed gas storage capacity
- Company completes and gains approval of unique $250 million gas investment with Encana
  - Wells and production were on target in 2011
- Dividends increased in November 2011 to 44.5 cents per common share quarterly and an indicative annual rate of $1.78 per year
- Economists believe Pacific Northwest's recession has bottomed out and expect slow recovery over next several years
- Conversion opportunities exist due to gas coming late to the Northwest (in the mid-1950s)
  - ~90 percent of company is regulated activities (stable)
- Oregon general rate case filed (first since 2002/03) in December – 10 month process
- Low-growth plan implemented before it was needed to better align the company with the current, slow-growth economy
- Strong financial and liquidity positions with low refinancing risk
- Strong credit ratings –
  - Secured LT Debt: S&P (A+) and Moody's (A1)
  - Commercial paper: S&P (A-1) and Moody's (P-1)
  - Outlook: S&P (Stable) and Moody's (Stable)

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NW Natural (NYSE: NWN) is a 153-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, Southwest Washington and California. In keeping with its steady growth, the company has increased dividends paid to shareholders for 56 consecutive years. NW Natural operates gas storage facilities in its service territory and provides gas storage services to other energy companies.

KEY INDICATORS	2011	2010
Total customers	679,543	673,997
Total common equity ($000)	$714,488	$693,101
Avg. diluted common shares outstanding (000)	26,744	26,657
Number of registered common shareholders	6,745	7,135
Institutional ownership %	62%	58%
Annual Dividends (ttm)	$1.75	$1.66
Diluted earnings per share (YTD)	$2.39	$2.73
Book value per share	$26.70	$25.99
COMPOSITION OF UTILITY REVENUE :		
Residential	60%	57%
Commercial	29	29
Industrial Firm	4	5
Industrial Interruptible	4	6
Other	3	3
CURRENT BOND RATINGS :	**MOODY'S**	**S&P**
Secured long-term debt	A1	A+
Commercial paper	P-1	A-1
Outlook	Stable	Stable

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