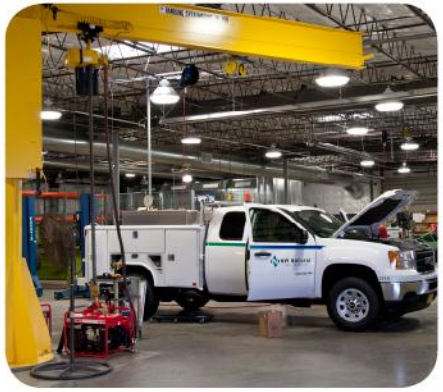










NW Natural

Investor Meeting –
McAdams Wright Ragen
Seattle, Washington

December 3, 2013

NW Natural®

FORWARD-LOOKING STATEMENTS

This and other presentations made by NW Natural from time to time, may contain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects” and similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements regarding the following: plans, objectives, goals, strategies, future events, investments, hedge efficacy, gas reserves and their financial value and benefit, customer and business growth, project development or expansion, growth initiatives, weather, commodity and other costs, customer rates or rate recovery, liquidity and financial positions, revenues and earnings, dividends, performance, legislative actions and impact, timing or effects of future regulatory proceedings or future regulatory actions or approvals, adequacy of regulatory deferrals, rate recovery, effects of regulatory mechanisms, including, but not limited to, SRRM, and other statements that are other than statements of historical facts.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed by reference to the factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” in the Company’s most recent Annual Report on Form 10-K, and in Part I, Items 2 and 3 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk”, and Part II, Item 1A, “Risk Factors”, in the Company’s quarterly reports filed thereafter.

All forward-looking statements made in this presentation and all subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by these cautionary statements. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law. New factors emerge from time to time and it is not possible for the Company to predict all such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

AGENDA

NW Natural Overview

- Corporate Strategy
- Growth Opportunities
  - Core Utility
  - CNG – Utility
  - Gas Reserves – Utility
  - Mist Storage Expansion – Utility
  - Web Portal -- Utility
  - Gill Ranch Storage
  - Pacific NW Infrastructure Investment
- Financial and Operational Highlights
- Regulatory
- Conclusion
- Quick-Reference Key Metrics







NW NATURAL AT A GLANCE

- Approximately 690,000 utility customers in Oregon and Washington
  - *~90% in Oregon, 10% in Washington*
  - *Largest stand-alone LDC in Northwest*
- About 14,000 miles of distribution and transmission system
- Conversion opportunities exist due to gas coming late to the West Coast
- Constructive regulatory environment
  - *Innovative margin stabilization and incentive-sharing mechanisms*
  - *Pension balancing account O&M deferral*
  - *Pipeline safety cap-ex tracker*
- Approximately 31 Bcf of underground gas storage capacity with expansion potential in Oregon and California
- Strong balance sheet, stable cash flows and low refinancing risk
- Experienced management team
- Growth initiatives that fit the Company's low risk profile
- High customer satisfaction ratings: #1 in the West and nation by J.D. Power & Associates
- Current, indicative dividend rate of $1.84 per share with record of increasing dividends paid for 58 consecutive years



CONSISTENT CORPORATE STRATEGY

- Stabilize margins through regulation
  - Weather normalization in Oregon
  - Decoupling mechanism in Oregon
  - Constructive relationships with regulators and customer groups
- Manage cost structure
  - Continue focus on business operations footprint
  - Improve safety, service and reliability
  - Maintain optimum use of technology and human capital resources
- Add growth opportunities that fit NWN's risk profile and leverage what we do best

Utility

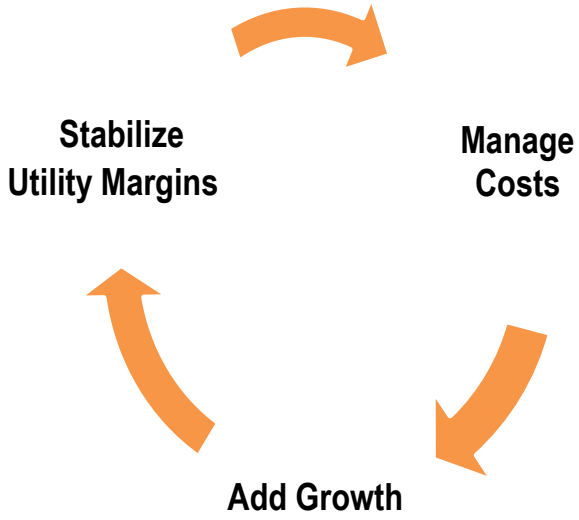
  - Stable, low-risk, steady cash flow profile
  - Attractive to a focused investor base
  - Consistent and transparent

Storage

  - Medium- and long-term capacity contracts and optimization (Mist)
  - Currently short--term capacity contracts and optimization (GRS)

Other

  - Regional pipeline opportunity to support reliability and growth in PNW



"The abundant supply of low-cost natural gas will continue to support core customer growth, but is also opening new and exciting utility growth opportunities." – Gregg Kantor

GROWTH OPPORTUNITIES

- **Core Utility**
  - Organic residential and commercial customer growth due to attractive price advantage compared to alternative fuels
  - Added industrial loads, with more targeted R&C programs
  - SIP investments
  - Other rate-base investments
  - Green House Gas legislation
- **CNG – Utility**
  - Filed tariff with OPUC that would allow NW Natural to provide refueling facilities for Oregon businesses
- **Gas Reserves – Utility**
  - Initial investment totaling $250 million acts as a hedge of our long-term gas supplies (2011-2015)
  - Cost of service rate recovery for the net rate-base investment included in cost of gas
  - Opportunities for additional long-term physical supply reserves
- **Mist Storage Expansion – Utility**
  - Planning storage development for PGE's flexible and reliable on-demand fuel source
    - Next steps: approval of projected costs and timelines expected by first half of 2014, requires PGE notice to proceed, OPUC filing and approval of a new rate schedule
    - Supported by 30+ year contract
- **Web Portal – Utility**
  - Innovative online customer portal for gas availability and cost comparison
- **Gill Ranch Storage**
  - Seeking higher value customers and longer-term contracts
  - Expansion capability up to 25 Bcf when market supports
- **Pacific NW Infrastructure Investment**
  - Regional need for natural gas transmission pipeline for reliability and growth

HIGHLIGHTS 2013 AND 2012

2013 Highlights

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2013	Sept. 30, 2012	Sept. 30, 2013	Sept. 30, 2012
EPS	$(0.31)	$(0.41)	$1.17	$1.14
Net Income *(in millions)*	$(8.2)	$(10.9)	$31.5	$30.6

- **Customer growth for 12-months ended was 1.1% vs. 1.0% a year ago**
- **Earnings positively impacted by higher utility margins** from steady customer growth, revenues from gas reserve investment, and timing differences due to higher fixed monthly charges and decoupling baseline adjustment
- **OPUC approved recovery for investment in working gas inventory and water treatment station**
- **Customer satisfaction remained high:** Ranked 1st in West and nation by J.D. Power & Associates

2012 Highlights

	2012	2011
EPS	$2.18	$2.36
Net Income *(in millions)*	$58.8	$63.0

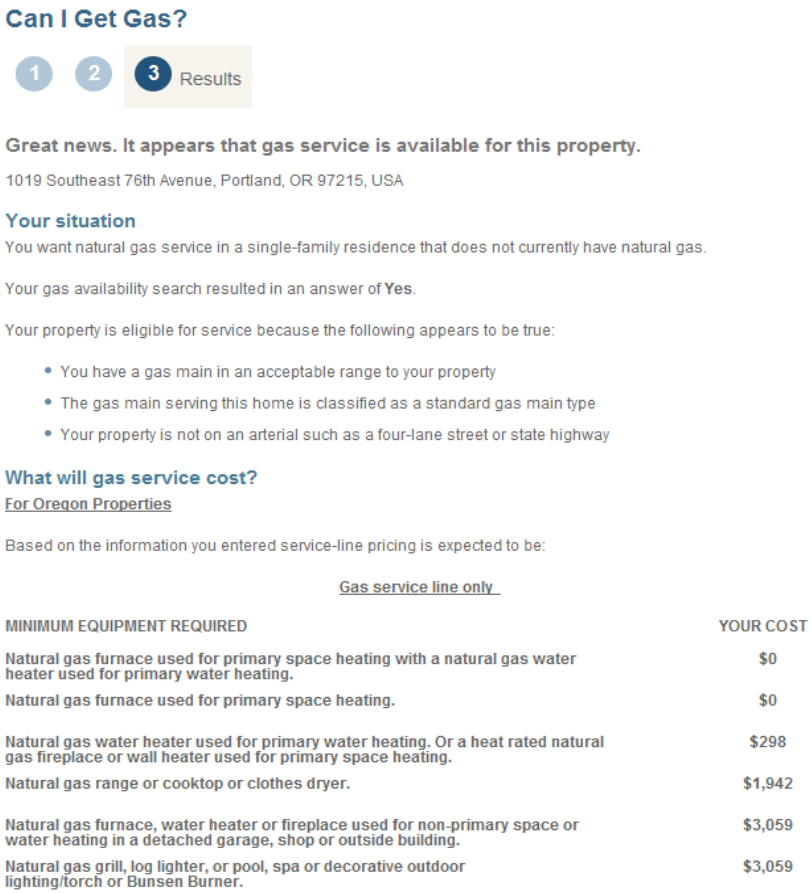
- **Earnings in 2012 negatively impacted by rate case items**
- **Other rate case items:** approved/renewed key regulatory mechanisms; certain policy decisions delayed until 2013 or 2014
- **Bad debt expense as a percent of revenues** was 0.15% for 2012 vs. 0.23% in 2011
- **Industry-leading operations and training facility:** major new service center opened in Portland metro area

REGULATORY

- **Purchased Gas Adjustment (PGA) mechanism**
  - Gas costs updated annually, with slight increase for R&C customers effective Nov. 1, 2013
  - Oregon PGA incentive-sharing mechanism with 90% deferral of higher/lower costs; Washington is 100% deferral
- **Decoupling mechanism (Oregon)**
  - Adjusts monthly margin up or down based on average use per customer. Baseline average use was reset in 2012
  - Removed complicated, annual price elasticity adjustment factor
- **Weather normalization mechanism (Oregon)**
  - Adjusts residential and small commercial bills up or down based on weather between December 1 and May 31
- **Gas reserves (Oregon)**
  - Tracking mechanism approved for five-year, $250 million investment with recovery allowed for return on rate base
  - Cumulative gross investment at Sept. 30, 2013 was $149 million. Net rate base at Sept. 30, 2013 was $93 million
- **Pension cost deferral (Oregon)**
  - Regulatory balancing account allows deferral of annual FAS 87 pension expenses above amounts recovered in rates
  - Pending request to recover carrying cost on prepaid asset balance (under review by OPUC for all Oregon utilities)
- **System Integrity Program (SIP)**
  - Provides recovery for transmission pipeline integrity management program and related rules adopted by DOT (PHMSA)
  - Allow up to $29 million of expenditures over two years (2013 and 2014) to be tracked into rates as part of the SIP mechanism
- **Environmental cost recovery mechanism**
  - All-party settlement filed July 11, 2013; OPUC rejected the settlement on Nov. 18, requesting full hearing process
  - $20 million source control investment added to rate-base with PGA, effective Nov. 1, 2013
- **Working gas inventory carry costs**
  - OPUC approved $4.5 million annual recovery, effective Nov. 1, 2013
- **Issues pending in ongoing regulatory proceedings**
  - Interstate storage sharing mechanism (expected decision in 2014)
  - Prepaid pension asset rate base treatment (expect decision In 2014)

NEW CUSTOMER PORTAL

- NWN developed industry leading, new, web-based portal to automate and enhance customer experience
- Consumer-driven
  - Available from computer, tablet or phone
  - Builds on consumer preference
  - Opens a new retail channel
- Key components include
    - Consumer research capability
    - Gas availability
    - Cost comparisons
    - Data collection for web analytics (a heat map – propensity to convert & nearness to main)
- Further development in next phase for contractors and builders portal (trade allies)



Can I Get Gas?

1 2 3 Results

Great news. It appears that gas service is available for this property.

1019 Southeast 76th Avenue, Portland, OR 97215, USA

Your situation

You want natural gas service in a single-family residence that does not currently have natural gas.

Your gas availability search resulted in an answer of **Yes**.

Your property is eligible for service because the following appears to be true:

- You have a gas main in an acceptable range to your property
- The gas main serving this home is classified as a standard gas main type
- Your property is not on an arterial such as a four-lane street or state highway

What will gas service cost?

For Oregon Properties

Based on the information you entered service-line pricing is expected to be:

Gas service line only

MINIMUM EQUIPMENT REQUIRED	YOUR COST
Natural gas furnace used for primary space heating with a natural gas water heater used for primary water heating.	$0
Natural gas furnace used for primary space heating.	$0
Natural gas water heater used for primary water heating. Or a heat rated natural gas fireplace or wall heater used for primary space heating.	$298
Natural gas range or cooktop or clothes dryer.	$1,942
Natural gas furnace, water heater or fireplace used for non-primary space or water heating in a detached garage, shop or outside building.	$3,059
Natural gas grill, log lighter, or pool, spa or decorative outdoor lighting/torch or Bunsen Burner.	$3,059

NEW CUSTOMER PORTAL – HEAT MAP

- When a potential customer checks for gas availability in the portal, they can get three results:
  - Yes – gas is available (green)
  - Likely – gas may be available, depending upon construction condition and other factors (yellow)
  - No – gas is unlikely to be available due to lack of main or other factors (red)
- Cost comparison allows prospective customer to analyze savings achieved by converting to natural gas
- The portal provides the ability to identify new customers and show targets for new mains if interest develops
- Saves 6 FTEs; cuts O&M expense



CNG TARIFF FILED IN OREGON

- CNG Tariff filed in June 2013 and awaiting OPUC review/approval
- Opportunity due to competitive advantage of natural gas:
  - Abundant and low-cost energy supply with up to 60-70% price advantage over other fuels
  - One of the cleanest-burning alternative transportation fuels available
- Refueling stations would be provided to fleet owners under tariff, addressing the refueling infrastructure challenge for CNG
- Growing number of requests and interest from businesses in NW Natural territory for fleets powered by CNG
- Major auto makers moving into CNG space. Ford recently announced it will provide CNG option for F-150 trucks





GREENHOUSE GAS PROGRAM – OREGON

- OPUC to establish eligibility criteria for projects under the bill -- established in 2013 legislative session
- Applies to natural gas utilities
- Creates opportunities to invest in projects that reduce greenhouse gas emissions while benefiting customers and shareholders
- Supported by Governor, trade associations, Intervener groups and others
- Innovative approach to making "first mover" investments

SB 844 Definition –

"Directs Public Utility Commission to establish voluntary emission reduction program for purposes of incentivizing public utilities that furnish natural gas to invest in projects that reduce emissions and providing benefits to customers of public utilities that furnish natural gas."

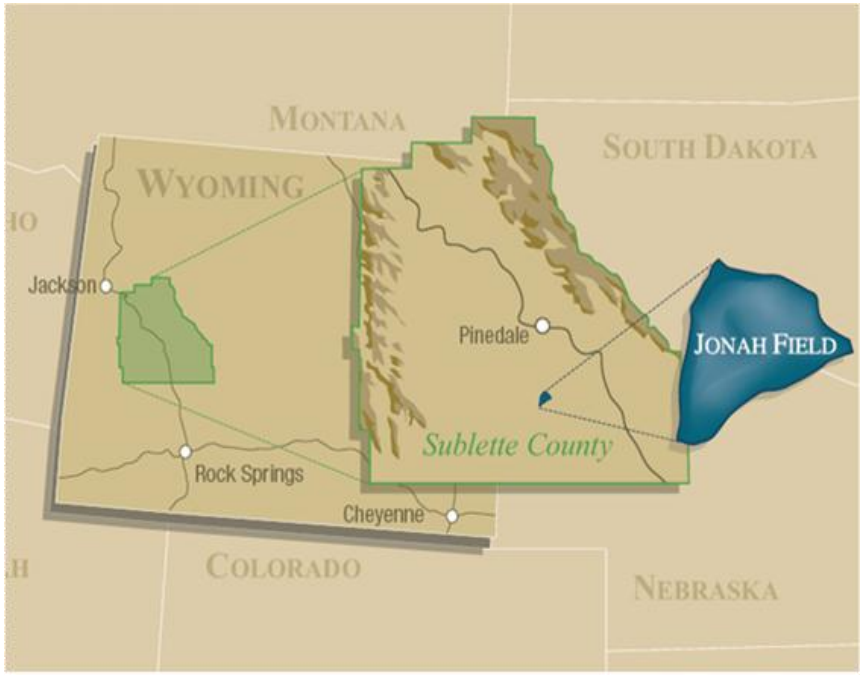
- The Oregonian

GAS RESERVES

Joint Venture with Encana Oil & Gas

Development Recap:

- Began investing in JV to earn working interests in gas reserves at Encana's Jonah Field (Wyoming) in 2011
- JV operations managed by Encana include currently producing wells and new wells
- Agreement provides gas for 30 years with the majority flowing in first 10 years
- Expected to hedge roughly 8-10% of NWN's average annual requirements over first 10 years
- Investment is tracked into rates with the annual PGA filing
- Total gross investment to date = $149 million at September 30, 2013 (or $93 million net rate base), with additional ~$100 million planned spend left over the next two years
- Drilled 20 wells in 2011, 22 wells in 2012, and 23 scheduled for 2013



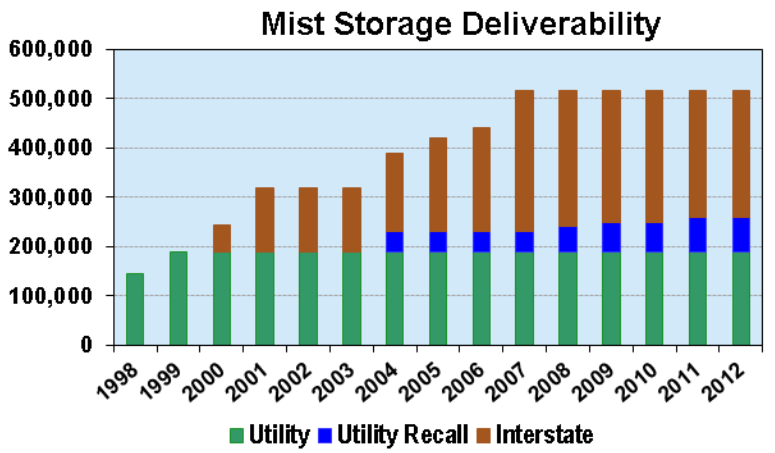
MIST STORAGE DEVELOPMENT HISTORY

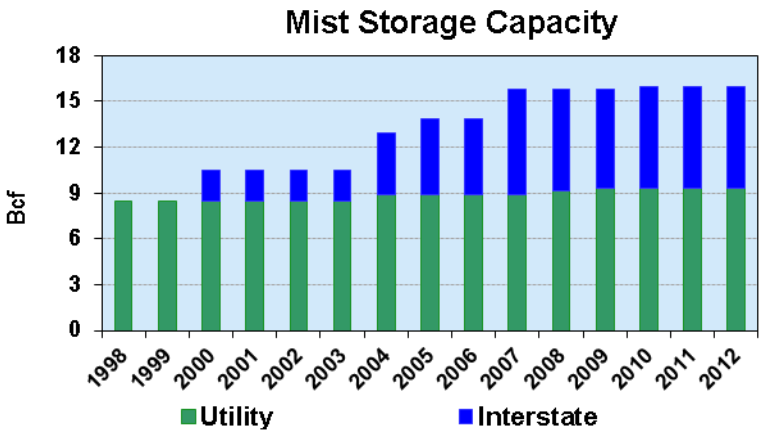
Development Recap:

- Company started storing natural gas underground at Mist depleted reservoirs in 1987 to serve core utility customers
- Mist interstate storage business went into service in 2000 with expansion of storage fields and control facility improvements
- Interstate storage consists of storage capacity and deliverability developed in advance of core utility needs, which is sold into interstate market at cost-based rates
- Utility business can recall capacity and deliverability from interstate storage business as needed for utility customers
- Total current storage capacity at Mist is 16.0 Bcf
  - 9.5 Bcf Core Utility
  - 6.5 Bcf Interstate Storage

Future Opportunities:

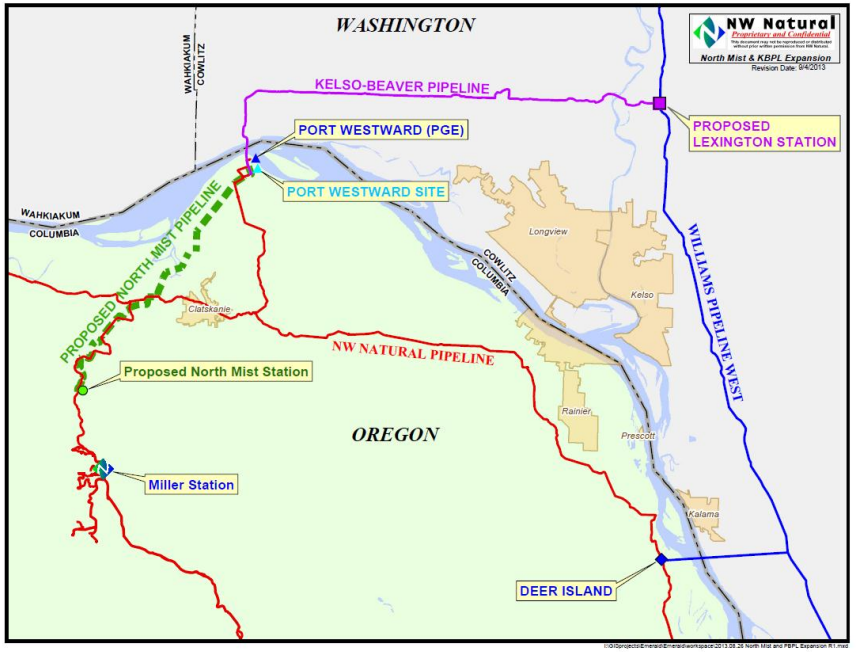
- PNW region among the strongest markets for natural gas storage capacity, with few natural gas storage options
  - Contract values well above national average
  - Longer contract term commitments possible
- Future expansions at Mist one of very few storage development opportunities in region
- Currently planning next expansion





MIST EXPANSION OPPORTUNITY

- Electric generation capacity is needed for wind integration and load growth beyond hydro systems' capabilities
- Current storage-related infrastructure in PNW is fully committed to existing utility and interstate customers
- Most interstate storage resources expected to be recalled by core utility at existing Mist field within the next 20 years
  - Recalled capacity is added to utility rate base and earns allowed ROE
  - Interstate capacity subject to recall cannot be committed to long-duration contracts
- Expansion is anchored by an agreement with PGE as long-term anchor tenant, supporting new wind-following electric generation facility at Port Westward. Proposal includes dedicated pipeline serving Port Westward
- NWN will continue to market expansions to electric utilities needing support for energy requirements in the Pacific Northwest
- Customers to pay cost of service rate
  - Construction cost risk born by customer(s)
  - Return on investment is regulated rate base ROR
  - Targeting long-term contracts
- Development timing earliest in-service date approx. 2017



GILL RANCH STORAGE

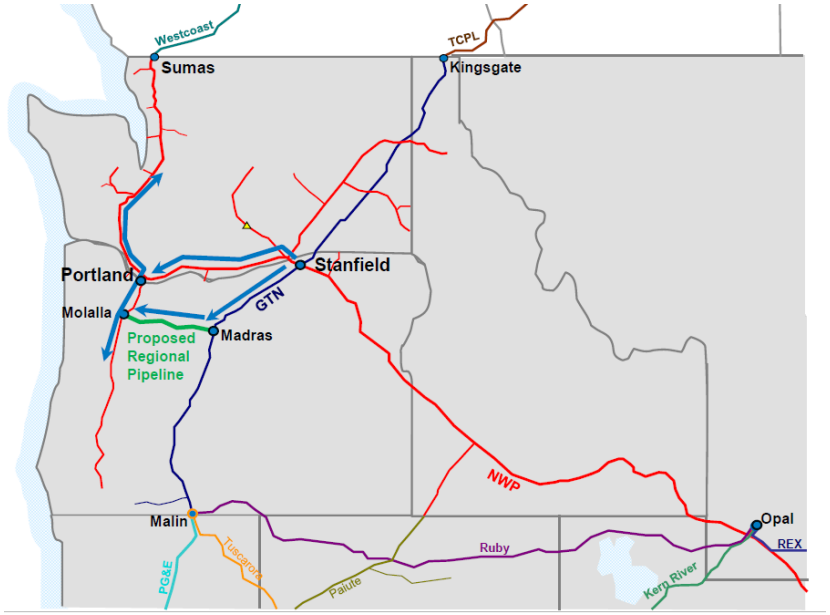
Development Recap:

- Development went into service October 2010
- Strategic location for customers
- Market area storage at prime location on PG&E system
- Ownership is 75/25 venture with Gill and PG&E; could be up to an eventual 50/50 split after phase II expansion
- Under CPUC jurisdiction with market-based rates
- Depleted gas reservoirs
- Phased development
  - First 20 Bcf storage capacity and 27-mile pipeline completed and in-service
  - Expandable for additional total 25 Bcf with PG&E to meet market demand
  - Future development impacted by market pricing and demand
- Next expansion would require certain infrastructure investments, but no additional gas transmission pipeline needed
- Expansion to be driven by future market demand



REGIONAL INFRASTRUCTURE INVESTMENT

- **Regional Pipeline Important Investment for Region**
  - Access additional natural gas supplies for regional growth
  - Provide a second pipeline delivery path into NW Natural territory for reliability
- **NWN IRP**
  - Will continue examination of reliability risk analysis in 2014 full Oregon IRP, with the goal of achieving acknowledgment of participation in a cross-Cascades Mountains pipeline project
- **Project Sponsor Review**
  - Currently a 50/50 joint venture between TransCanada and NW Natural
  - Sponsors intend to re-file a FERC application to address changes in the project's scope and scale following results of an open season
  - Timeline for potential development to be determined after open season



CONCLUSION

- **Solid consolidated earnings** for year-to-date 2013 were $1.17 per share on net income of approximately $32 million, compared to $1.14 per share on net income of about $31 million in 2012
- **Constructive regulatory environment** – recovery for working gas inventory and water treatment station approved. Waiting for OPUC review and approval on environmental settlement
- **Utility-focused business** (~ 90%) with a majority of margin revenues generated from core residential and commercial customer segments. Growth potential from utility and nonutility investments
- **Positioned well for growth** in service territory
  - Abundant supplies and low prices create competitive advantage
  - Residential and small commercial customer counts growing at over 1% per year
  - Large commercial and industrial demand increasing from added loads and new businesses
  - Storage development opportunities to support electric generation and future demand
  - CNG as an emerging opportunity for natural gas use
  - New customer portal on NW Natural web site: www.nwnatural.com
- **Strong liquidity position** with low refinancing risk
- **Fifty-eight year history of increasing dividends** paid to shareholders
- **Earnings guidance range for 2013 is $2.02 to $2.22**
- **Strong investment-grade credit ratings**
  - Secured LT Debt: S&P (AA-) and Moody's (A1)
  - Commercial paper: S&P (A-1) and Moody's (P-2)
  - Outlook: S&P (Stable) and Moody's (Neg)

NW NATURAL OVERVIEW

NW Natural (NYSE: NWN) is a 154-year old natural gas local distribution and storage Company headquartered in Portland, Oregon, with a customer growth rate historically above the national average. NW Natural provides natural gas service to customers in Oregon and Southwest Washington. In keeping with its steady growth, the Company has increased dividends paid to shareholders for 58 consecutive years. NW Natural and its subsidiaries own and operate underground gas storage facilities in Oregon and California and provide gas storage services to other energy companies.

Key Indicators:	**YTD Q3 2013**	**2012**	**2011**
Total Customers	687,018	685,941	679,543
Total Common Equity	$ 730,291	$ 729,627	$ 712,158
Avg. diluted common shares outstanding (000)	27,013	26,907	26,744
Number of registered common shareholders	N/A	6,405	6,745
Institutional ownership	56%	61%	52%
Annual dividends	$ 1.84	$ 1.79	$ 1.75
Diluted earnings per share	$ 1.17	$ 2.18	$ 2.36
Book value per share	$ 27.05	$ 27.11	$ 26.62

Composition of Utility Revenue (by %):	**YTD Q3 2013**	**2012**	**2011**
Residential	59	61	60
Commercial	30	30	29
Industrial	10	8	8
Other	1	1	3

Current Bond Ratings:	**Moody's**	**S&P**
Secured long-term debt	A1	AA-
Commercial paper	P-2	A-1
Outlook	Neg	Stable

For more information on NW Natural, please contact:
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