




NW Natural

AGA Forum

Investor Presentation

May 17, 2015

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, customer and business growth, conversion potential, business risk, regulatory recovery, business development and new business initiatives, environmental remediation recoveries, allocation of environmental insurance settlement proceeds, gas storage markets, gas storage development or costs or timing related thereto, financial positions and performance, economic recovery, capital expenditures, liquidity, gas reserves and investments and regulatory recoveries related thereto, hedge efficacy, cash flows, return on invested capital, revenues and earnings and timing thereof, margins, dividends, credit ratings, the regulatory environment, effects of regulatory disallowance, timing or effects of future regulatory proceedings or future regulatory approvals, regulatory prudence reviews, effects of regulatory mechanisms, including, but not limited to, SRRM and the Company’s integrated resource plan, infrastructure investments, effects of legislation, 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, so we caution you 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.

How We Are Different



- **Low business risk profile with near pure-play LDC**
  - 90% utility operations
  - 10% non-utility gas storage operations
- Stable utility margins – 90% from firm sales to utility customers
- Rate recovery mechanisms (e.g. WARM, Decoupling, Env, Pension)
- Gas reserve investments
- Modern system (all cast iron and bare steel removed by end of 2015)
- **Organic growth opportunities**
  - High-growth service territory with innovative customer marketing tools
  - Conversion potential with less than 60% market share
  - Gas storage planned expansion and future potential
  - New market potential with carbon reduction programs
- Conservatively financed business with strong liquidity
- 59-year record of increasing dividends paid annually
  - Current yield ~ 4%

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NW Natural Overview



Utility

- Largest stand-alone LDC in PNW
- Steady growth with 700,000+ customers
- 14,000 miles distribution & transmission



Gas Storage

- 31 Bcf underground designed capacity
- 2 Bcf LNG designed capacity
- Facilities: OR (Mist) & CA (Gill Ranch)
- Expansion opportunities



Regulation

- Constructive regulatory environment
- Supportive rate mechanisms
- New programs to support utility growth



Operations

- #1 in customer satisfaction
- State-of-the-art training center
- Experienced management team
- Strong safety and reliability record



Financials

- $3.0 billion in total assets
- Strong balance sheet and credit ratings
- Stable revenues and cash flows
- Organic growth opportunities

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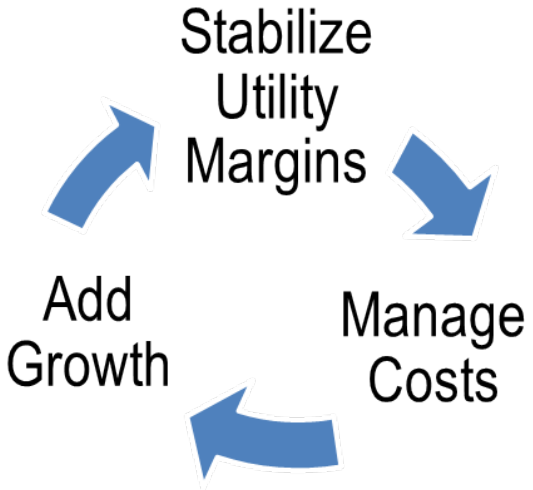
Business Strategy

Conservative, low-risk business model

- ***Stabilize margins through regulation***
  - Weather & decoupling mechanisms in Oregon
  - Cost and rate base tracking mechanisms in Oregon
  - Constructive relationships with regulators and customer groups
- ***Manage cost structure***
  - Commitment to safety, reliability, and efficiency
  - Continued focus on business operations footprint
- ***Add LT growth opportunities that fit NWN's risk profile***
  - For the utility: steady growth in customers and rate-base investments
  - At our Mist facility: LT contracts, asset optimization, planned expansion
  - At our Gill Ranch facility: market rebound, state's RPS requirement, storage value over LT



Abundant supply of clean, affordable natural gas is creating new opportunities to grow our bottom line.
— Gregg Kantor, President and CEO

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Growth Opportunities & Initiatives

Utility

Customer Acquisition Focus

- Residential conversions and multi-family
- Commercial and industrial load growth
- New programs and incentives

Rate Base Focus

- Integrated Resource Plan (IRP) requirements
- System reliability and safety
- Other infrastructure needs

Carbon Solution Programs

Gas Reserve and Commodity Hedging



Gas Storage

Mist

- High-value asset serving Pacific Northwest
- Planned expansion for unique utility service
- Future expansion potential

Gill Ranch

- Flex resources needed for RPS targets
- California economy improving
- Expect storage market and prices to recover



Customer Acquisition Focus

Residential

- Web-based tool for targeted conversions
  - Over 13,000 gas availability queries
  - 25% of conversion sales used web tool
  - Call volumes reduced 25% per meter sold
- Enhanced web services for trade allies
- Natural gas less than 60% market share in region
- New ideas targeted at rental/multi-family market

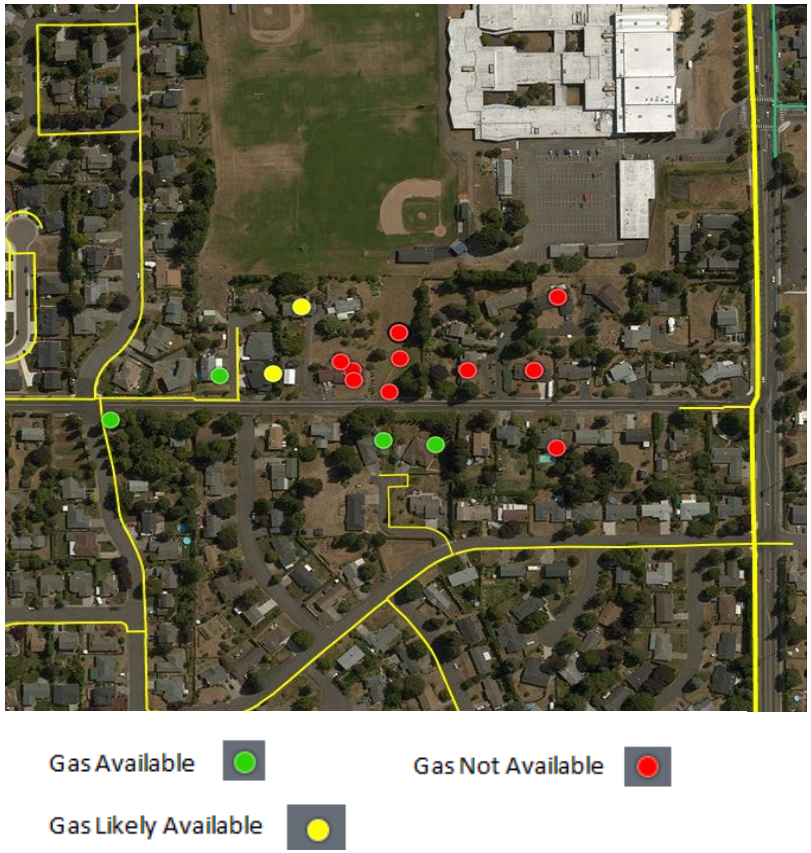
Commercial and Industrial

- Potential for increasing load and margins
- Expect continued gains in small to mid-size commercial

Customer growth

- Growth rate consistently above national average
- Single-family new construction and multi-family units in Oregon expected to increase in 2015

Online Customer Portal



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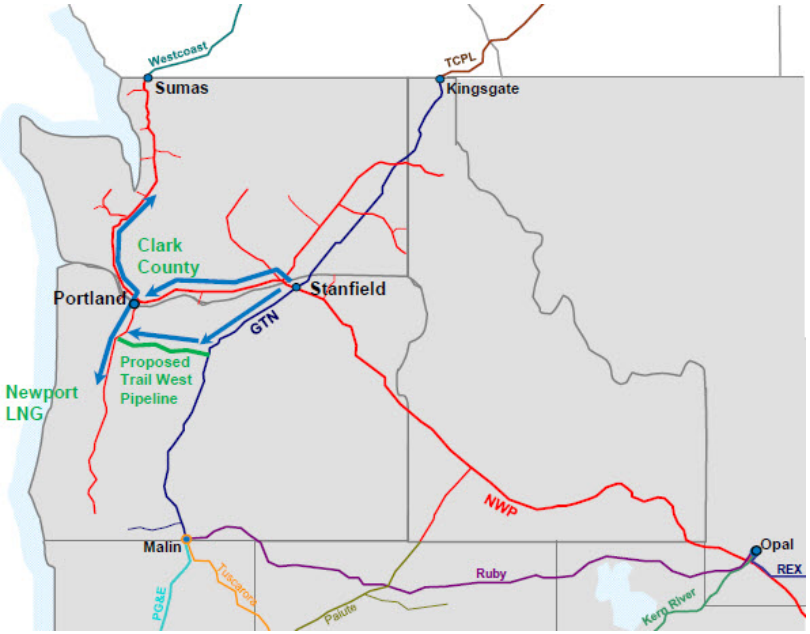
Rate-Base Focus

Integrated Resource Plan

- Newport LNG Facility
  - Facility built in 1977 with 0.9 Bcf capacity
  - Upgrades needed to modernize the facility
  - Estimated capex total $20 million over three years

- Clark County Infrastructure
  - Fastest growing region in service territory
  - Infrastructure needed to serve new homes and businesses
  - Expected investment total apprx. $25 million over five years



- Trail West Pipeline
  - Large regional projects (e.g., methanol plants) could require significant increase in pipeline capacity
  - OPUC acknowledged in IRP a desire to keep Trail West Pipeline and Pacific Connector options open
  - Would provide a second pipeline delivery path for reliability

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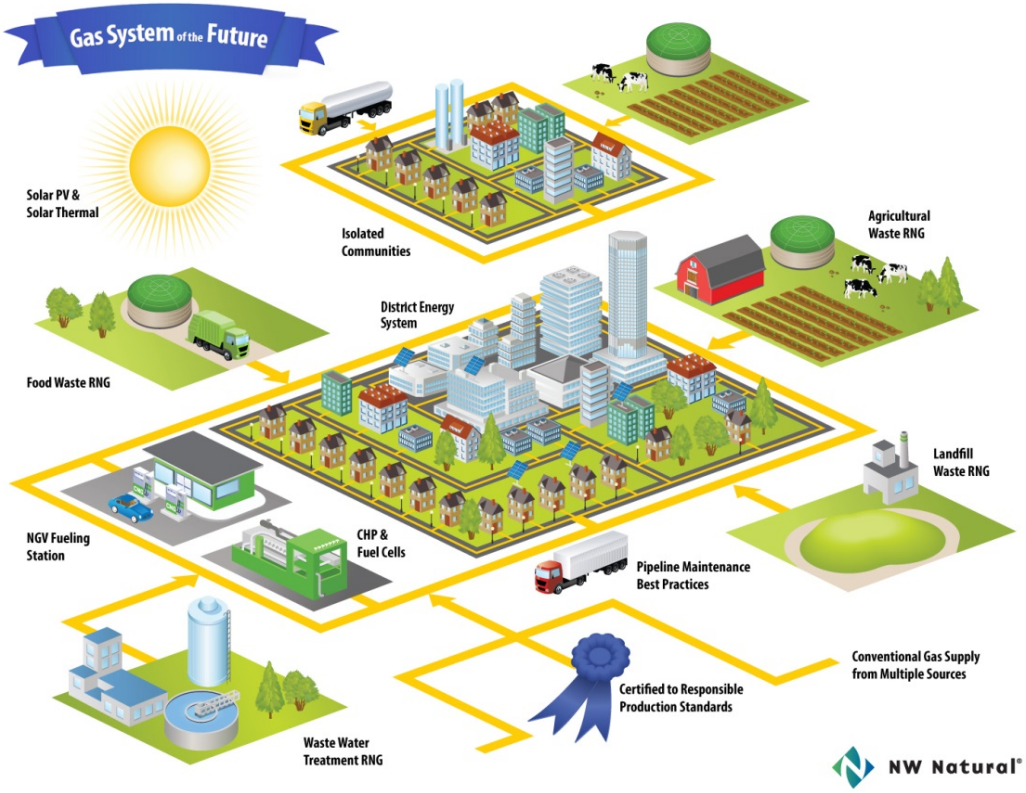
Carbon Solutions Program



Innovative, new program opportunities

Significant revenue potential

- up to 4% utility gross revenue cap

Regulation

- State supported legislation
- OPUC rulemaking completed

Projects in development

- Oil conversions
- Waste-water treatment renewable gas
- Combined heat and power systems

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Gas Reserves



Investment Goals

- Long-term gas price hedge for utility customers
- Rate-base return on invested capital
- Recovery of costs through customer rates

Program Updates

- Original deal with Encana in 2011; field sold to Jonah Energy in 2014
- Gas costs and ROI tracked into rates with annual PGA
- Original Encana investment totaled $178M
- Follow-on Jonah investment to date totaled $10M
- Net rate-base investment $116M as of March 31, 2015
- Future investment by NWN on a well-by-well basis
- OPUC review for prudence of wells drilled in 2014 to be completed in 2015
- New docket opened with OPUC to review long-term commodity hedging by OR utilities

Gas Storage Growth Opportunities



Mist Gas Storage Facility Planned Expansion	
Storage Capacity	2.5 Bcf
Deliverability	120,000 Dth/day
Estimated Capex Spend	$125 million
ROE	9.5%
Debt : Equity Structure	50:50
Target In-Service Date	Winter 2018/2019

- Expansion to meet demand for flexible power generation in Pacific Northwest
- Agreement with PGE to serve Port Westward plant
- Rate schedules approved that allow for no-notice gas storage service
- Permitting and land acquisition work in progress

Gas Storage Growth Opportunities



Gill Ranch Gas Storage Facility

Current Ownership	Gill Ranch 75% and PG&E 25%
Designed Capacity	20 Bcf Total (Gill portion 15 Bcf)
Max Deliverability	490,000 Dth/day
In-Service Date	2010
Expansion Potential	25 Bcf Total (Gill portion 7.5 Bcf)

- Contracted 2014-15 with short-term contracts, relatively flat price curve, & weak market conditions
- 2015-16 prices are slightly higher than 2014-15 historic lows
- Pursuing higher value service contracts, lower costs, and new market opportunities
- Expect flexible energy resources to be needed in California to meet state's RPS targets
- Ability to expand, but will depend on California storage market conditions

Regulatory Overview

Recent Updates

- **Environmental Cost Recovery** – OPUC ordered (Feb-2015) full recovery of costs, subject to prudency review and earnings test
- **Integrated Resource Plan** – OPUC and WUTC acknowledged IRP filing (Q1 2015), which identified utility system needs and capex requirements
- **Carbon Solutions** - Senate Bill (SB) 844 rule making completed, and NWN plans to submit programs to OPUC in 2015
- **Most Recent General Rate Cases**
  - Oregon (2012): ROE 9.5%; Equity Ratio 50%
  - Wash. (2009): ROE 10.1%; Equity Ratio 51%
- **Rate-Base Investments Tracked into Rates**:
  - Gasco water treatment plant $19M (Nov-2013)
  - SIP $15M (Nov-2013) and $21M (Nov-2014)

Open Proceedings

- **Prepaid Pension Assets** – Docket to address Oregon utilities' request to include prepaid asset in rate base (expect decision in 2015)
- **Interstate Storage and Optimization Sharing –** OPUC ordered an independent third-party review of revenue sharing mechanism
- **Gas Reserves** – NWN seeking cost recovery of post-carry wells drilled in 2014 (expect decision in 2015)
- **System Integrity Plan** – OPUC ordered additional process with utilities across the state before final decision to extend cost tracker
- **Commodity Hedging** - OPUC opened docket to discuss appropriate gas portfolio hedging in the state

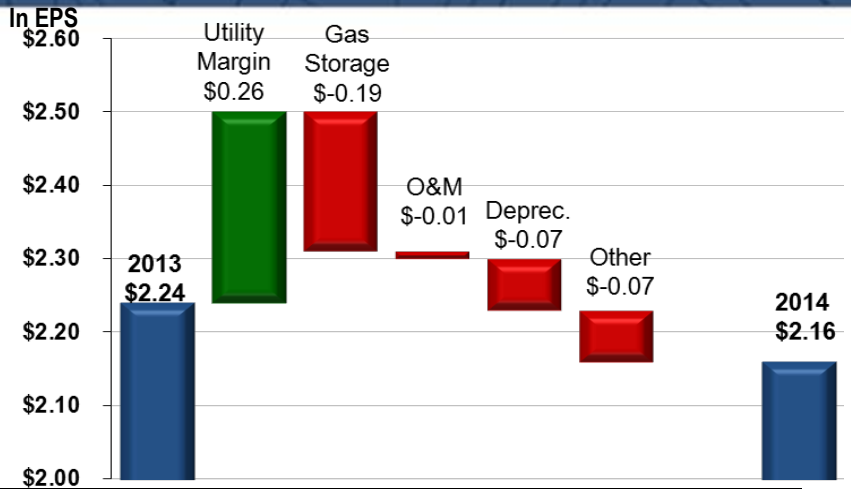
Environmental Cost Recovery

- OPUC costs and insurance recoveries deemed prudent
- Order provides full cost recovery of prudent costs
- Recovery of past costs (pre-2013):
  - Regulatory disallowance of $15 million for past earnings test, recorded Q1 2015
  - All remaining costs to be recovered
    - ~$50 million from insurance
    - ~$30 million balance to be collected through site remediation and recovery mechanism (SRRM)
- Recovery of future costs (post-2012):
  - First $5 million collected annually in customer rates
  - Next $5 million collected annually from insurance account, plus interest
  - All remaining prudently incurred costs allocated over a 5-year period
- Earnings test (post-2012):
  - If costs > $10 million **AND** utility earnings > ROE allowed, then earnings test applied
- Compliance Filing and Other
  - Filed the compliance report on March 31, 2015. Filing is subject to review and approval by the OPUC.

Financial Results

FYE 2014 compared to 2013

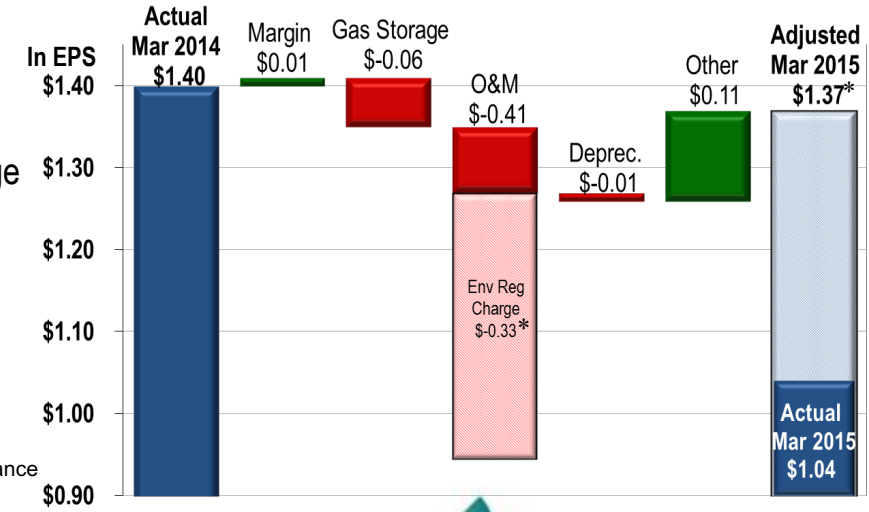
- Net income $58.7M in 2014 ($2.16/sh)
- Utility margin increase on customer growth and rate base adds
- Gas storage revenue decrease on lower market prices
- O&M flat as increase storage costs offset by lower utility costs
- Depreciation increase on added utility plant investments
- Other reflects increase in interest cost on regulatory balances



Q1 2015 compared to Q1 2014

- Net income $28.5M in Q1-2015 ($1.04/sh)
- Adjusted net income* $37.6M ($1.37/sh) excluding $15M charge
- Utility margin increase despite record warm weather
- Gas Storage revenue decrease on lower market prices
- O&M increase on higher wages, benefits, growth initiatives
- Other reflects equity interest income on regulatory balances

*Non-GAAP adjusted net income, EPS, and O&M excludes the after-tax regulatory disallowance related to the OPUC's 2015 environmental order. See page 17 for additional information.



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A Path to Success

- **Utility-focused business** with majority of margin revenues generated from core customers
- **Company results** continue to show steady growth from utility while gas storage faces weak but slowly improving market conditions
- **Consistently high ratings** on customer satisfaction and system reliability
- **Positioned well for growth**
  - Strong balance sheet
  - Predominantly pure-play LDC with stable margins and organic growth
  - Regulatory support for full recovery of future prudently incurred environmental costs
  - Attractive growth opportunities with abundant supply of clean, affordable natural gas
  - Focused marketing efforts on new construction, conversions and multi-family
  - New web-based customer portal tools at www.nwnatural.com
  - Innovative ideas and new programs (Carbon Solutions, CNG, Gas Reserves)
  - Commercial and industrial margins increasing from demand for natural gas
  - Storage development opportunities to support flexible energy resource needs
- **59-year history of increasing dividends** paid to shareholders

NW Natural Overview

About NW Natural

NW Natural (NYSE: NWN) is headquartered in Portland, Ore., and provides natural gas service to about 707,000 residential, commercial, and industrial customers through 14,000 miles of mains and service lines in western Oregon and southwestern Washington. It is the largest independent natural gas utility in the Pacific Northwest, with $3.0 billion in total assets. NW Natural and its subsidiaries currently own and operate underground gas storage facilities with designed storage capacity of approximately 31 Bcf in Oregon and California. Additional information is available at www.nwnatural.com.

Key Indicators:	Q1 - 2015	FYE 2014	FYE 2013
Total customers	707,472	704,644	694,873
Total common equity ($000)	$ 784,915	$ 767,321	$ 751,872
Average diluted common shares outstanding (000)	27,369	27,223	27,027
Consolidated tax rate	40.1 %	41.5 %	40.8 %
Institutional ownership	60 %	62 %	56 %
Dividends paid	$ 0.465	$ 1.85	$ 1.83
Diluted earnings per share	$ 1.04	$ 2.16	$ 2.24
Book value per share	$ 28.72	$ 28.12	$ 27.77
Composition of Utility Revenues:			
Residential	61 %	59 %	60 %
Commercial	30 %	31 %	30 %
Industrial	8 %	9 %	9 %
Other	1 %	1 %	1 %

Non-GAAP Financial Information

Non-GAAP adjusted net income, EPS, and O&M excludes the after-tax regulatory disallowance related to the OPUC's 2015 environmental order. Amounts per share are calculated using the combined federal and state statutory tax rate of 39.5% and divided by 27,369 thousand dilutive shares.

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