

NW Natural

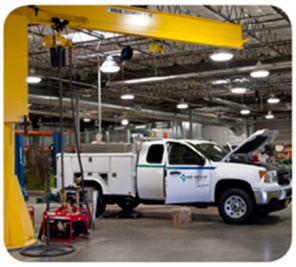
D.A. Davidson
Analyst Meeting
Portland, OR

September 17, 2013

NW Natural®







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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.

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AGENDA

- NW Natural Overview
- Corporate Strategy
- Business
  - Business Mix
  - Financial and Operational Highlights
- Regulatory Environment
  - Regulatory Mechanisms
  - General Rate Cases
- Growth Opportunities
  - Utility
  - Compressed Natural Gas (CNG)
  - Gas Reserves
  - Mist Storage Expansion
  - Gill Ranch Storage
  - Pacific NW Infrastructure Investment
- Conclusion
- Quick-Reference Key Metrics







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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
  - Pipeline safety cap-ex tracker
  - Potential settlement of environmental cost recovery mechanism (pending approval)
- 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: consistently in top-tier rankings of utilities in JD Power & Associates annual survey
- Current, indicative dividend rate of $1.82 per share with record of increasing dividends paid for 57 consecutive years



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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 longer-term growth opportunities that fit NWN's risk profile and leverage what we do best
  - Utility – price advantages with abundant, clean and low-priced natural gas – rate-based investment opportunities
  - Gas reserves – low risk, stable price and regulated return
  - Gill Ranch – currently short and medium-term storage contracts, serves California growth market, expansion potential
  - Mist – long-term storage contracts, optimization opportunities, planned storage expansion
  - Other infrastructure – a proposed pipeline investment to reinforce system reliability and growth for the Pacific Northwest



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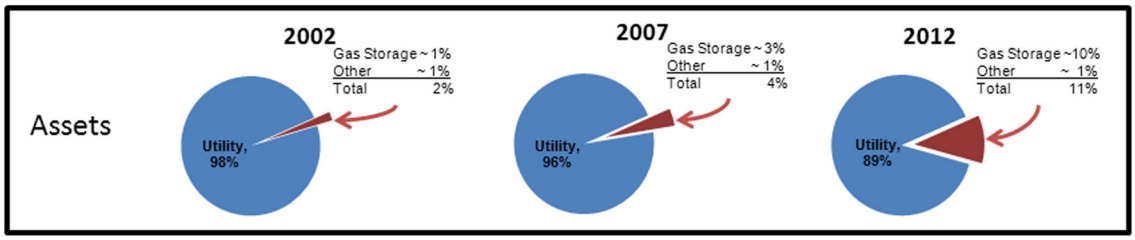
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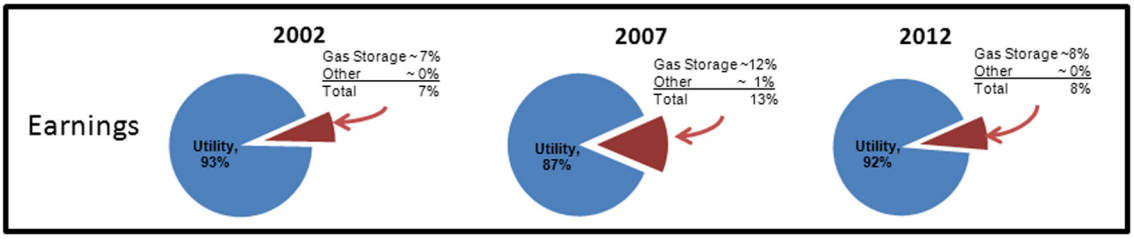
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BUSINESS MIX

2012 Updates

- Utility segment margin - $345 million vs. $343 million last year with approximately 90% from residential and commercial customers
- Gas storage segment operating income - $13.2 million vs. $9.1 million last year

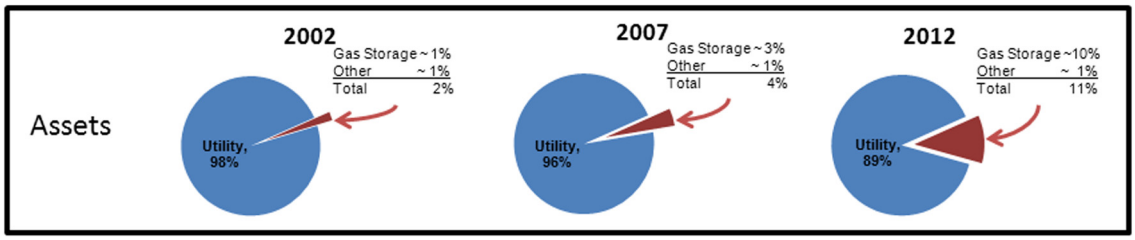


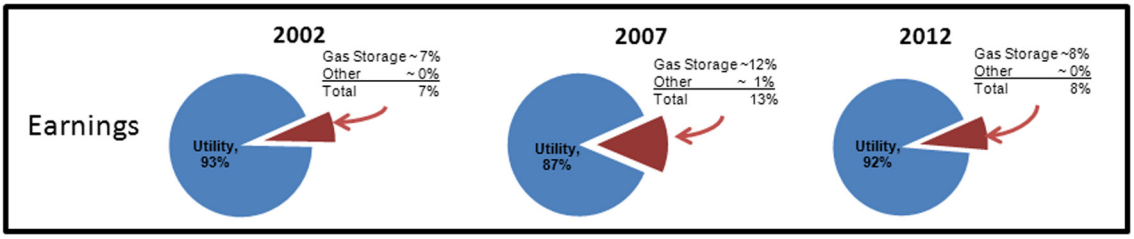


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HIGHLIGHTS 2013 AND 2012

2013 Highlights

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
EPS	$0.08	$0.05	$1.48	$1.55
Net Income *(in millions)*	$2.1	$1.2	$39.8	$41.5
Customer Growth *(rolling twelve months)*	N/A	N/A	1.0%	0.9%

- **Earnings affected by timing differences** due to higher fixed monthly charges and decoupling baseline adjustment from Oregon general rate case
- **Reached tentative settlements** to resolve environmental cost recovery and working gas inventory carrying cost recovery. Settlements subject to OPUC approval before becoming effective

2012 Highlights

	2012	2011
EPS	$2.18	$2.36
Net Income *(in millions)*	$58.8	$63.0
Bad Debt Expense *(% of revenues)*	0.15%	0.23%

- **Earnings negatively impacted by two Oregon rate case items**: $2.7 million after-tax write-down for state income tax disallowance and $3.9 million pretax revenue decrease for timing differences
- **General rate case decision** approved/renewed key regulatory mechanisms, but some policy decisions delayed until 2013-14
- **Customer satisfaction remained high:** Ranked 1st for Business and 2nd for Residential in the West by J.D. Power & Associates
- **Industry-leading operations and training facility opened** in Portland metro area

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REGULATORY RATE MECHANISMS

- **Purchased Gas Adjustment (PGA) mechanism**
  - Gas costs updated annually, effective November 1
  - Oregon PGA incentive-sharing mechanism with 80 or 90% deferral of higher/lower costs; Washington is 100% deferral
  - NWN has never had prudence disallowance for gas costs in Oregon or Washington
- **Decoupling mechanism**
  - Applies to Oregon customers only. Baseline average use per customer was reset with the 2012 Oregon general rate case
  - Fixed monthly charge increased from $6 to $8 for residential customers, and from $8 to $15 for small commercial customers
  - Removed complicated, annual price elasticity adjustment factor
- **Weather normalization mechanism (WARM)**
  - Applies to Oregon customers only. Adjusts residential and small commercial bills between December 1 and May 31
- **Gas reserves investment**
  - OPUC approved $250 million investment with Encana to develop gas reserves in the Jonah Field (Wyoming)
  - Company allowed to earn regulated return on rate base investment
- **Pension cost deferral**
  - Existing balancing account in Oregon allows deferral of FAS 87 pension expenses above amounts recovered in rates
  - Decision delayed on Company's request to recover carrying cost on prepaid asset balance, with a docket currently underway
- **System Integrity Program (SIP)**
  - Provides recovery for transmission pipeline integrity management program and related rules adopted by the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration
  - Additional $13.7 million of expenditures over the next two years to be tracked into rates for the SIP mechanism

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REGULATORY UPDATE - GENERAL RATE CASES

OREGON

- Final order issued by the Public Utility Commission of Oregon (OPUC) in November 2012
  - **Annual revenue requirement**
    - Overall base rate increase of $9 million
      - Includes $15 million previously recognized revenue from decoupling mechanism, resulting in net annual revenue decrease of $6 million
      - Net $2 million decrease if allowed to recover working gas inventory carrying costs
    - Quarterly revenue spread is different due to increase in fixed monthly charge and decoupling baseline update
  - **Authorized cost of capital**
    - ROE at 9.5%; ROR at 7.78%; Capital structure target is 50% common equity
    - Key mechanisms renewed: WARM, Decoupling mechanism, System Integrity Program (SIP)
  - **Environmental cost recovery mechanism**
    - Subject to annual earnings test and prudence review
    - Annual earnings test agreed to in all-party settlement filed July 11, 2013, which requires OPUC approval before becoming effective
  - **Working gas inventory carrying costs**
    - Deferred to separate docket in rate case with a settlement filed July 11, 2013, which requires OPUC approval before becoming effective
  - **Issues deferred to future regulatory proceedings**
    - Interstate storage sharing mechanism (expect decision by year-end 2013)
    - Prepaid pension asset rate treatment to apply to all Oregon utilities (expect decision in 2014)

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- Most recent rate case effective January 1, 2009
- ROE at 10.1%; ROR at 8.4%; Capital structure target is 51% common equity

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GROWTH OPPORTUNITIES

- **General Utility**
  - Organic residential and commercial customer growth due to attractive price advantage compared to alternative fuels
  - Added industrial loads
  - SIP investments
  - Other rate-base investments
- **CNG**
  - Filed tariff with OPUC that would allow NW Natural to provide refueling facilities for Oregon businesses
- **Gas Reserves Investment**
  - Initial investment totaling $250 million acts as a hedge of long-term gas supplies (2011-2015)
  - Cost of gas includes cost of service rate recovery for the net rate-base investment
  - Opportunities for additional long-term physical supply reserves
- **Mist Storage Expansion**
  - Planning storage development; subject to PGE's approval of projected costs and timelines, receiving notice to proceed, filing and approval with OPUC for a new rate schedule, and getting permits and other regulatory approvals
  - Additional expansions enabled by next infrastructure investment
- **Gill Ranch Storage**
  - Seeking higher value customers looking for flexible resources
  - Positioned for additional total 25 Bcf expansion with PG&E to meet market demand when volatility and prices return
- **Pacific NW Infrastructure Investment**
  - Regional need for natural gas transmission pipeline for reliability and growth

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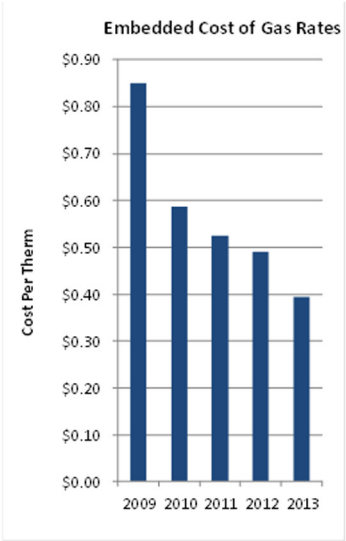
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UTILITY DEVELOPMENTS

Wealth of natural gas opportunities due to abundant domestic supplies, low prices and environmental benefits

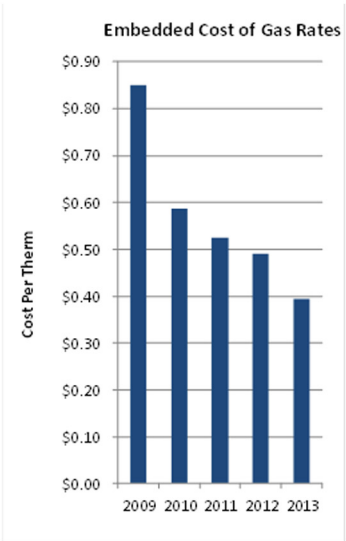
- Additional residential market share
- Aggressively seeking new commercial and industrial loads
  - Industrial load coming back to the United States due to natural gas advantages
  - Seeing higher number of commercial and industrial businesses signing up for natural gas service
- Enhancing and automating customer acquisition process
  - User-friendly, online access to services and information for customers, builders, contractors and retailers
  - Create one-stop, online shopping experience
- Expanding growth efforts
  - Natural gas supported by Oregon Governor's 10-year energy plan
  - Desire for lower carbon emission fuel
  - Natural gas complements wind and solar renewable energy options as a reliable, on-call, electric generation resource



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CNG TARIFF FILED IN OREGON

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- 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





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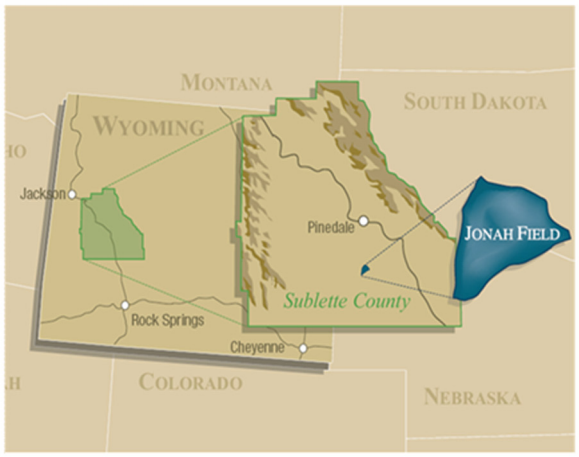
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GAS RESERVES

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 = $142 million at June 30, 2013 (or $89 million net rate base), with additional ~$110 million planned spend left over the next two years
- Drilled 20 wells in 2011, 22 wells in 2012, and 23 scheduled for 2013

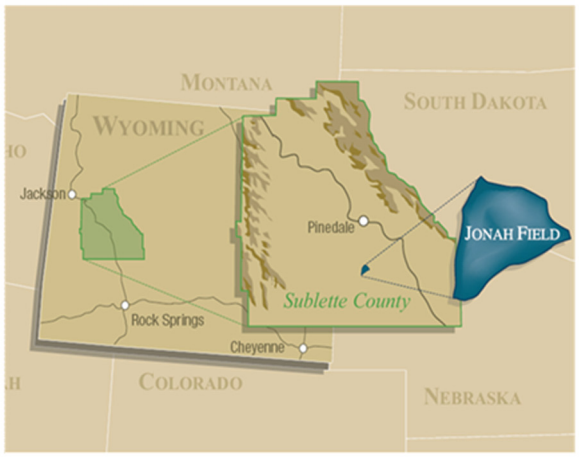


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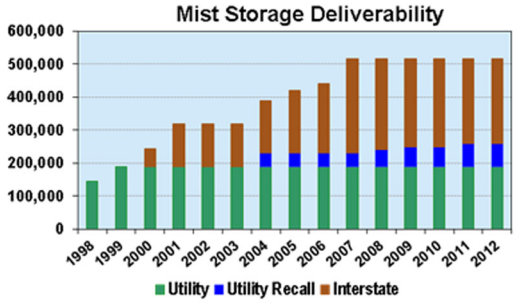
MIST STORAGE DEVELOPMENT HISTORY

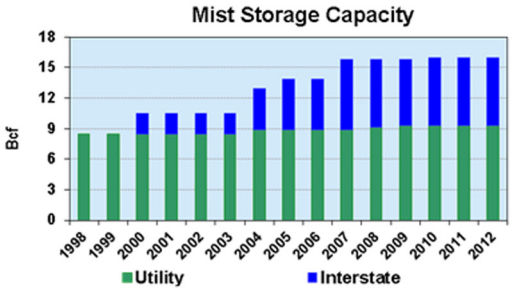
Development Recap:

- 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





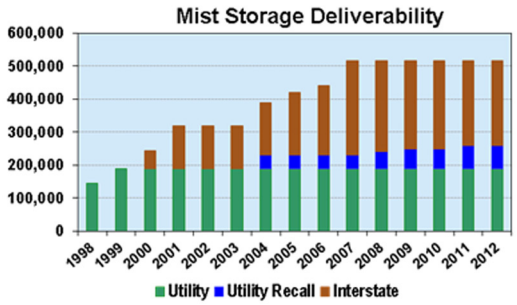
MIST STORAGE DEVELOPMENT HISTORY

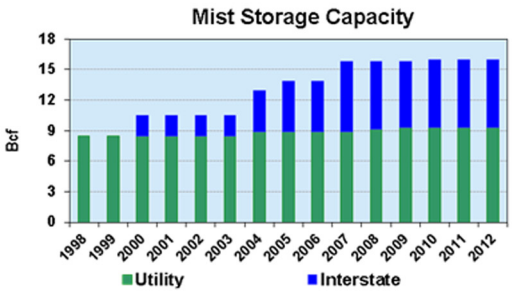
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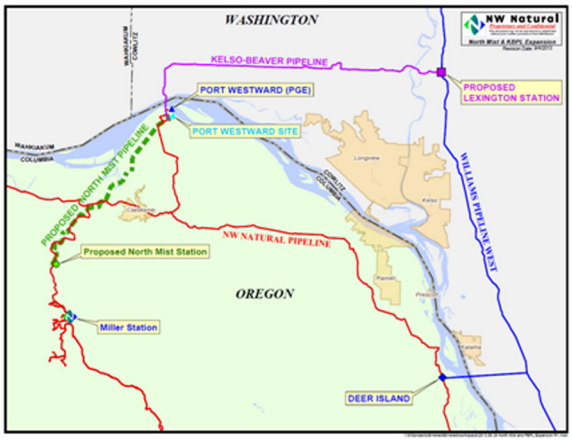
NW Natural® NYSE: NWN 14

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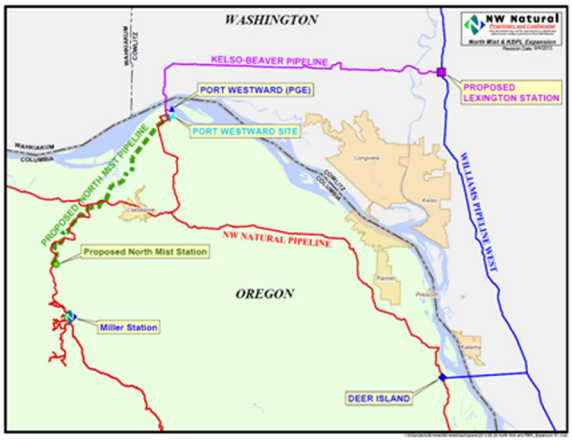
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- Electric generation capacity is needed for wind integration and load growth beyond hydro systems' capabilities
- Current storage-related infrastructure in PNW is fully committed to existing utility and interstate customers
- Most interstate storage 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
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- Development timing earliest in-service date approx. 2016



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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
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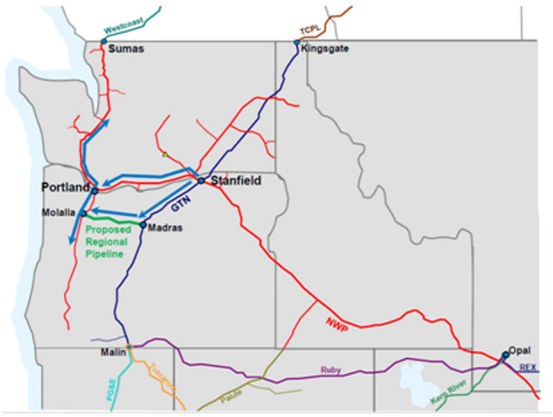


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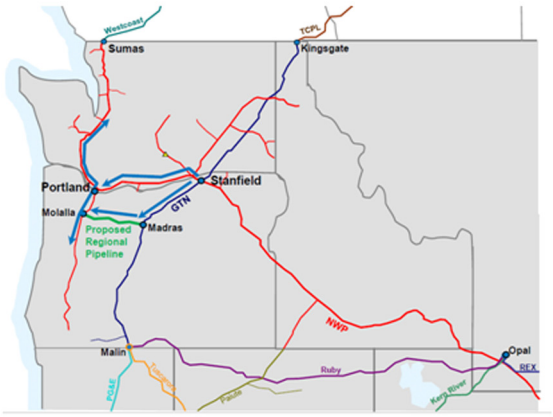
REGIONAL INFRASTRUCTURE INVESTMENT

- **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**
  - Introduced reliability risk analysis supporting a cross-Cascade pipeline in its 2013 Washington IRP and Oregon IRP update
  - Will continue examination of reliability risk analysis in 2014 full Oregon IRP, with the goal of achieving acknowledgment of participation in a cross-Cascades pipeline project
- **Project Sponsor Review**
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  - Sponsors intend to re-file a FERC application to address changes in the project's scope and scale following results of an open season
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CONCLUSION

- **Solid consolidated earnings** for year-to-date 2013 were $1.48 per share on net income of approximately $40 million, compared to $1.55 per share on net income of about $42 million in 2012
- **Constructive regulatory environment** – two all-party settlements filed in July 2013 to resolve environmental cost recovery and working gas inventory open dockets, which require OPUC approval before becoming effective
- **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 ~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
- **Strong liquidity position** with low refinancing risk
- **Fifty-seven 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)
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NW Natural® NYSE: NWN 18

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Key Indicators:	YTD Q2 2013	2012	2011
Total Customers	688,067	685,941	679,543
Total Common Equity	$ 748,549	$ 729,627	$ 712,158
Avg. diluted common shares outstanding (000)	26,999	26,907	26,744
Number of registered common shareholders	N/A	6,405	6,745
Institutional ownership	57%	61%	52%
Annual dividends	$ 1.82	$ 1.79	$ 1.75
Diluted earnings per share	$ 1.48	$ 2.18	$ 2.36
Book value per share	$ 27.75	$ 27.11	$ 26.62

Composition of Utility Revenue:	YTD Q2 2013	2012	2011
Residential	60%	61%	60%
Commercial	30	30	29
Industrial	9	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:
Bob Hess: Director, Investor Relations
Phone: 503-220-2388, 1-800-422-4012, ext. 2388
Email: bob.hess@nwnatural.com

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