





NW Natural

American Gas Association

Financial Forum

May 19, 2014

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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, hedges, gas supplies and pricing, gas reserves and their financial value and benefit, rate-based investments, customer and business growth, project development or expansion, market and business opportunities, gas storage markets, economic recovery, capital expenditures, energy market needs, rate recovery, settlement recoveries, liquidity and financial positions and performance, cash flow, revenues, earnings, margin, dividends, shareholder return, credit ratings, tax effects, legislative actions and impact, regulatory environment, 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 IRP, 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 Are We Different?

- **Low business risk profile with near pure-play LDC**
  - 90% utility operations
  - 10% non-utility gas storage operations
- Innovative regulation
- Stable margins – 90% from residential and commercial customers
- Significant natural gas storage capacity
- **Organic growth opportunities**
  - High-growth service territory with innovative customer marketing tools
  - Conversion potential with less than 60% market share
  - Gas storage with market recovery and expansion potential
  - Regulatory support for safety and environmental spend
  - New market potential with CNG and GHG programs
- Conservatively financed business with strong liquidity
- 58-year record of increasing dividends paid annually
  - Current yield > 4%








NW Natural Overview

Utility	• Largest stand-alone LDC in Pacific Northwest • Steady growth with 700,000 customers in Oregon (90%) and Washington (10%) • Approximately 14,000 miles of distribution and transmission pipelines
Regulation	• Constructive regulatory environment • Innovative rate mechanisms • New legislative/regulatory programs to support core utility growth
Gas Storage	• 31 Bcf underground storage and 2 Bcf LNG storage • Facilities owned and operated in Oregon (Mist) and California (Gill Ranch) • Expansion opportunities (up to additional 7.5 Bcf at Gill and 2.5 Bcf or more at Mist)
Financials	• Strong balance sheet and credit ratings • $2.8 billion in total assets with organic growth opportunities • Stable revenues and cash flows
Operations	• #1 in residential customer satisfaction (J.D. Power & Associates gas survey) • Experienced management team • Long-standing commitment to safety and reliability

Long-Term Goals and Strategy

- Earnings growth target of ≥ 5%
- Continuing dividend increases
- Total return target of ≥ 8%
- Conservative, low-risk business model
- Capitalize on high-growth service territory
- Steady growth in rate-base investments
- Commitment to safety and reliability
- Organic growth prospects
- Maximize value opportunities in gas storage



Abundant supply of clean, affordable natural gas is creating new opportunities to grow our bottom line.

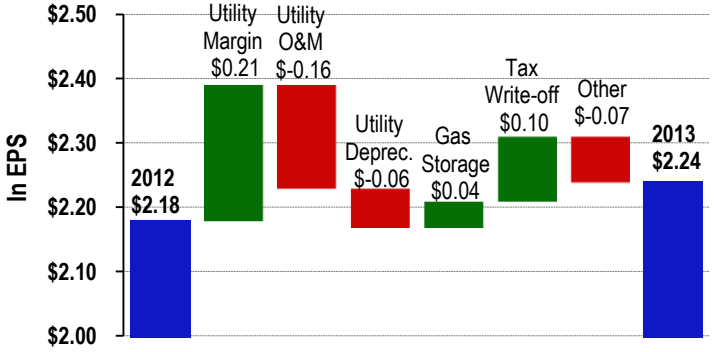
— Gregg Kantor, President and CEO

Financial Results

Annual Results

FYE 2013 compared to FYE 2012*

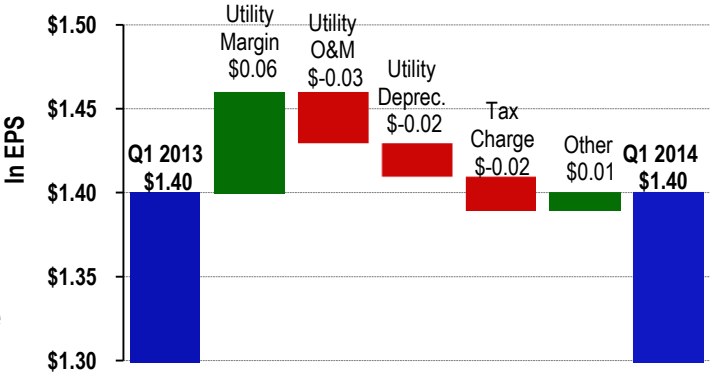
- EPS up $0.06 over 2012
- Utility margin up $9.4M with customer growth 1.3%
- Utility O&M up $7.4M due to new safety and services
- Gas storage net income up $1.1M
- Non-recurring 2012 tax-charge of $2.7M
- Other includes higher interest expense



First Quarter Results

Q1 2014 compared to Q1 2013*

- EPS of $1.40 for both periods
- Utility margin up $3.0M
  - Customer growth 1.3%
  - WACOG losses $1.8M
- Utility O&M up $1.4M; PY non-recurring bad debt adj.
- Non-recurring tax charge of $0.6M; state tax rate change



* See appendix for additional segment information and reconciliation.

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Growth Opportunities

Utility

- Customer Acquisition Focus
  - Online Customer Portal
  - Commercial and Major Industrial Accounts
  - New Premise Charge Program
- New CNG Tariff
- Ongoing Infrastructure Spend
  - System Integrity Program (SIP) & Bare Steel Replacement
  - System Expansion
- New Carbon Reduction Programs
- Gas Reserves





Gas Storage and Other

- North Mist Storage – Planned Expansion
- Gill Ranch – California Flex Resource Need
- Gill Ranch – Future Expansion
- Cross-Cascades Pipeline – PNW capacity need



Customer Acquisition Focus

Online Customer Portal

- Innovative new web-based tool
- Targeted conversion opportunities
- Less than 60% market share
- About 6,000 queries for gas availability through April (Sept. 2013 launch)
- 13% of “yes/likely” portal inquiries resulted in conversions
- Reduced call volumes down from 10 calls per meter sold to 6 calls per meter sold
- Phase II to provide enhanced services for trade allies

Commercial and Major Industrial Accounts

- Potential for increased loads in region
- Potential to add in small to mid-sized manufacturing

New Premise Charge Program (SB 561)

- In early stages

Online Customer Portal



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New CNG Tariff

- OPUC approved tariff in January 2014
- NWN provides high-pressure refueling service, with utility owning and maintaining equipment
- Clean, affordable energy solution
- GE unit “CNG in a Box” currently installed at NWN
- NWN in discussions with several large fleet operators for CNG refueling
- CNG vehicle options expanding
- Expect small but growing investment & earnings in future years



“CNG in a Box” from GE

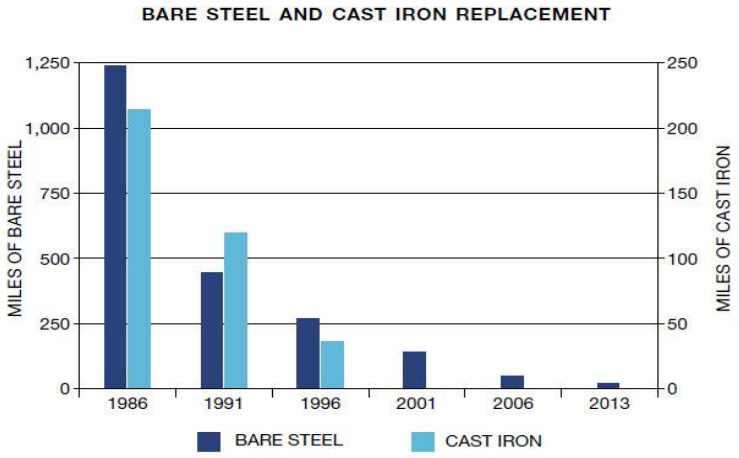
Ongoing Infrastructure Spend

Bare Steel & Cast Iron Pipe Replacement

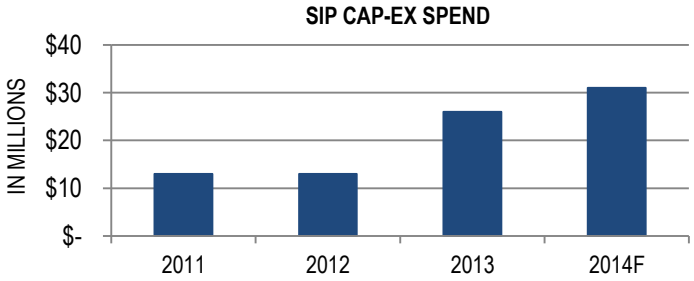
- Relatively new system as natural gas came to PNW in mid-1950s
- NWN system has one of the lowest leak ratios compared to other distribution systems across the country *(Source: SNL Energy with data submitted to PHMSA by utilities in 2012)*
- All cast iron pipe was removed from NWN's system by 2000, and less than 10 miles of bare steel main remain today, with plans to replace by 2015

System Integrity Plan (SIP)

- OPUC approved SIP program spend, allowing NWN to accelerate spending on pipe replacement in 2013 and 2014



The company has only about 10 miles of bare steel main left in its system. All cast iron pipe was removed by 2000.



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New Carbon Reduction Programs

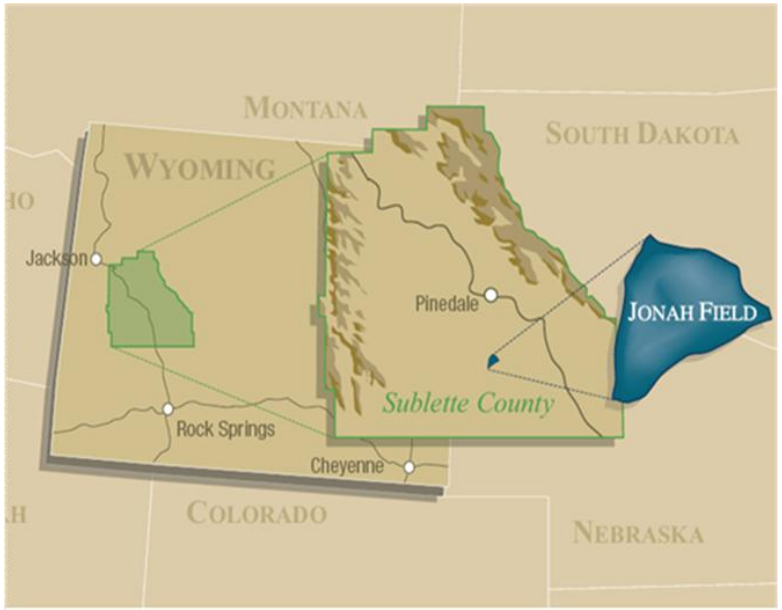
- Voluntary program for Oregon natural gas in Oregon
- Supported by Governor and OPUC
- Rulemaking to be completed 2nd half of 2014
- Creates earnings opportunities for new projects
- Innovative approach to making new investments
- Projects could include oil conversions as well as new, high efficiency equipment to low income customers



Directs the OPUC to establish a voluntary emission reduction program for purposes of incenting natural gas utilities to invest in projects that reduce carbon emissions and provide benefits to customers.

Gas Reserves Update

- Provides long-term gas supply hedge
- Currently hedged 9% for 2014
- Investment tracked into rates annually
- Jonah Field sold to affiliate of TPG
- Cumulative gross investment of $178 million
- Original contract amended
  - NWN retains current investment with rate-base treatment and long-term gas price hedge for customers
  - NWN retains rights to drill additional wells
- NWN to evaluate future drilling later this year



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Growth Opportunities – Storage & Pipeline

Mist Expansion

- Demand for flexible gas-fired generation in PNW (see map in appendix)
- Proposed expansion with rate-base investment on 2.5 Bcf storage capacity
- Expansion anchored by agreement to serve new Port Westward gas plant
- Subject to customer's notice to proceed (decision expected in 2014)

Gill Ranch Storage

- Current market conditions create short-term challenges
- Seeking higher value services
- Flexible resources are needed to meet CA's renewable portfolio standards
- Expansion capability dependent on CA market conditions (see map in appendix)

Regional Pipeline

- Additional supplies needed to support PNW regional growth (see map in appendix)
- Company to file IRP in 2014, identifying utility's infrastructure needs
- Provide alternative pipeline delivery path into I-5 corridor for reliability
- Open season needed to secure shipper support
- NWN invested with partner in a proposed cross-Cascades pipeline

Regulatory Overview

Current Updates

- **Recent Rate Cases:**
  - Oregon 2012; ROE 9.5%; Cap Structure 50/50
  - Washington 2009; ROE 10.1%; Cap Str. 49/51
- **CNG Service -** Approved Jan. 2014; utility-owned facility investment to serve CNG fleet fueling
- **Carbon Reduction Programs -** Oregon legislation enacted 2013; rulemaking currently underway; supports new natural gas programs
- **Additions to Rate Base**:
  - Gasco treatment station ($19 million Nov. 2013)
  - SIP cap-ex ($15 million Nov. 2013)
- **N. Mist Expansion -** Filed proposed tariff for "no notice" storage service to PGE (May 2014)

Open Dockets

- **Environmental Cost Recovery -** Ongoing proceeding to resolve Site Remediation and Recovery Mechanism for past and future environmental costs
- **Prepaid Pension Assets -** Ongoing proceeding to resolve utilities' request to include prepaid pension asset in rate base
- **Interstate Storage and Optimization Revenue Sharing -** Ongoing proceeding to review incentive sharing arrangement including revenues in earnings test
- **Integrated Resource Plan –** Biannual filing; identifies utility supply and demand requirements with corresponding least cost resource acquisition strategies

Safety

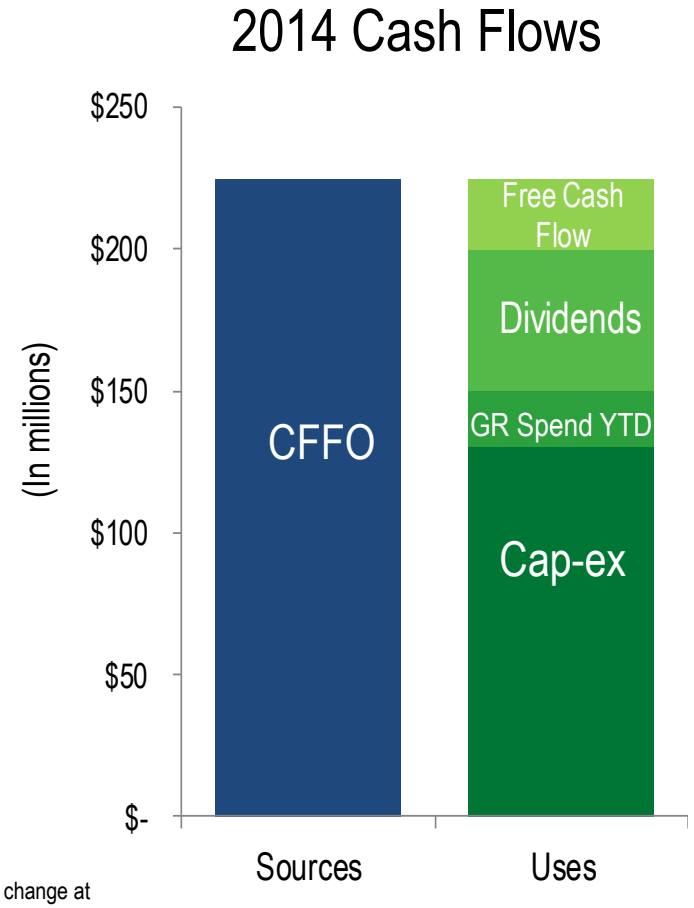
- Safety is our highest priority
- Significant investments in:
  - system reinforcement
  - pipe replacement
  - leakage and grading
  - employee training
- State-of-the-art training center:
  - live, scenario-based training
  - community resource
- Continued focus on new state and federal pipeline regulations



Liquidity

- Stable operating cash flows
- Insurance proceeds: over $100 million in 2014 and $150 million total
- Tax NOL carry-forward
- Gas reserves (GR) investment
- $300 million credit facility through 2018
- Access to capital markets
- Strong credit ratings*:

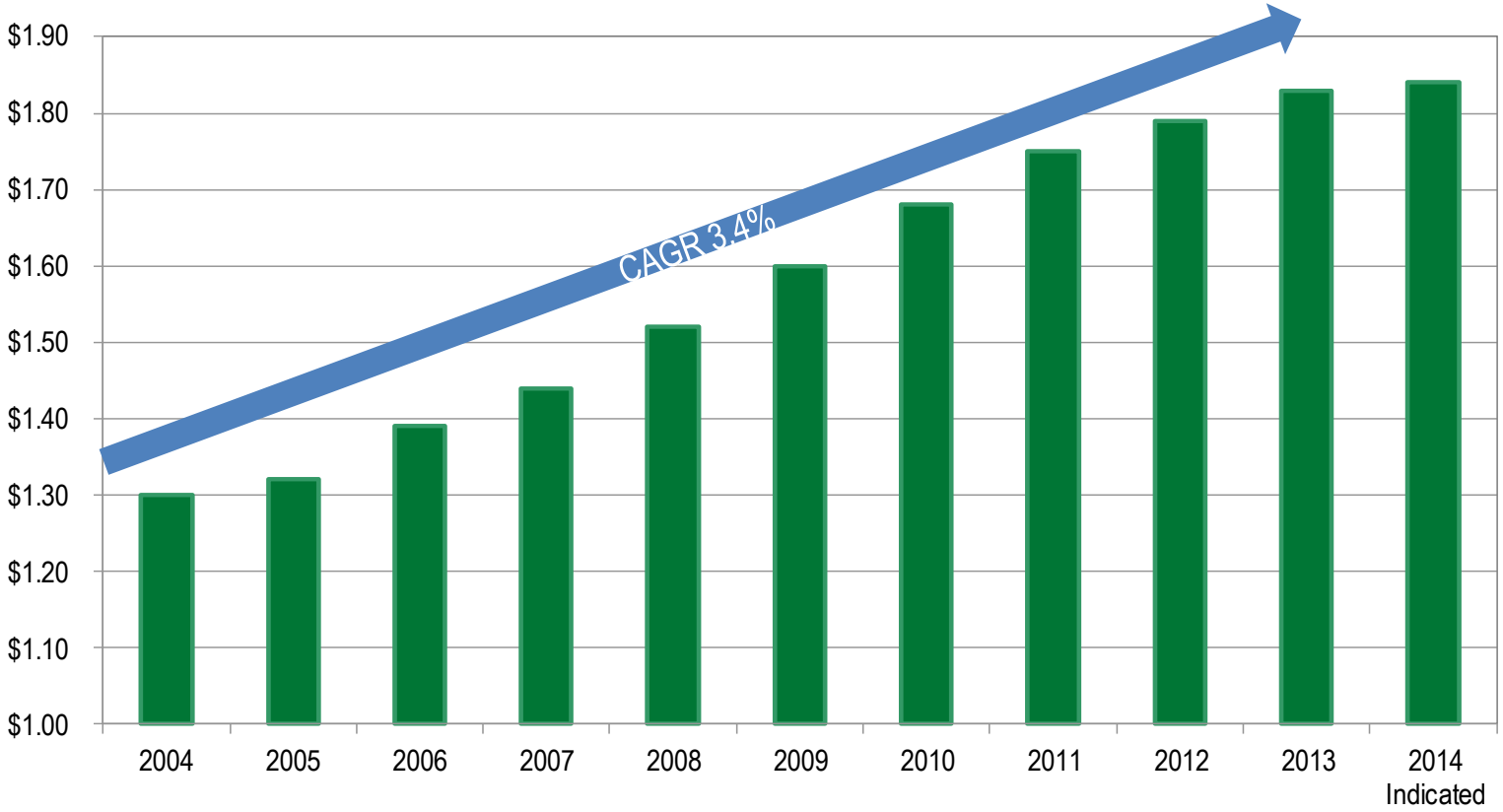
	S&P	Moody's
Secured Debt	AA-	A1
Commercial Paper	A-1	P-2
Outlook	Stable	Stable



*The above credit ratings are dependent upon a number of factors, both qualitative and quantitative, and are subject to change at any time. The disclosure of these credit ratings is not a recommendation to buy, sell or hold NW Natural securities.

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Dividend History



- 2013 marked the 58th consecutive year of increased dividends paid to shareholders
- One of the longest running dividend increase records of companies on the NYSE

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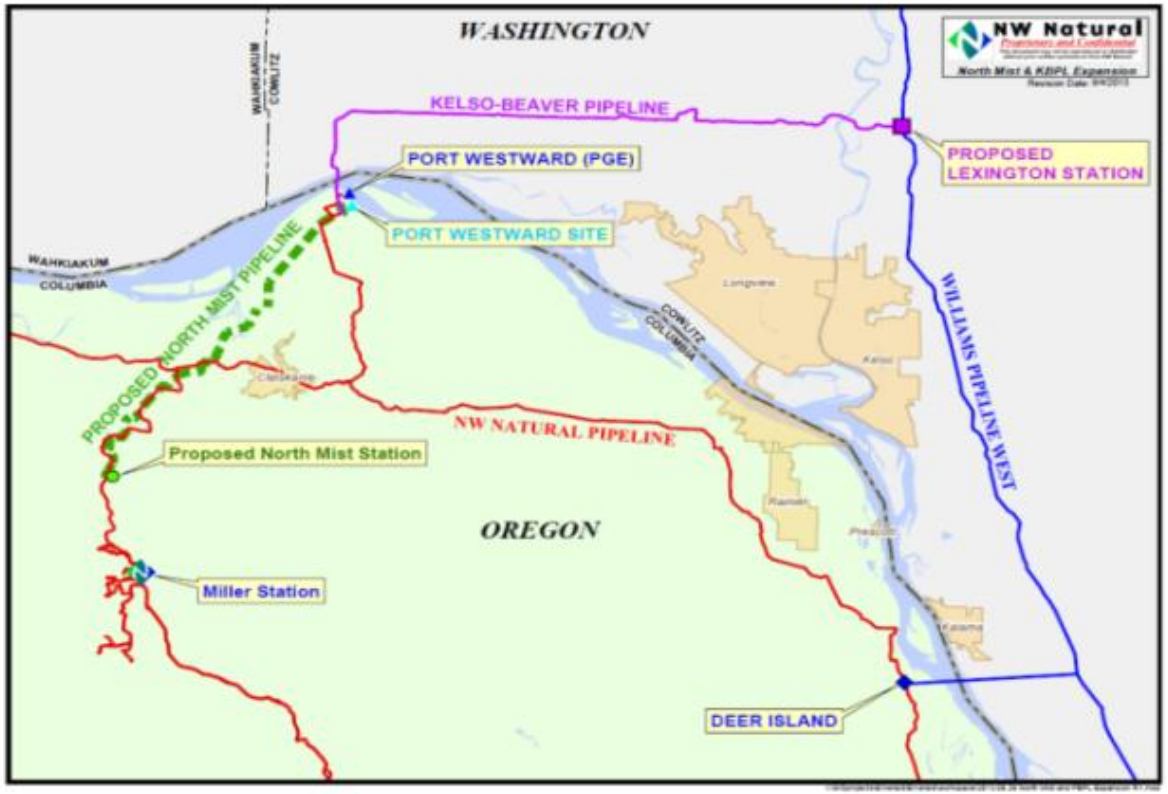
A Path to Success

- **Utility-focused business** with a majority of margin revenues generated from core customers
- **Solid performance** in 2013 with $2.24 per share on net income of $61 million and Q1 2014 with $1.40 per share on net income of $38 million
- **Positioned well for growth**
  - Opportunities due to abundant supply of clean and affordable natural gas
  - Focused marketing efforts on construction, conversions, and multi-family market penetration
  - New customer portal tool at www.nwnatural.com
  - Transportation – CNG as a potential fuel for a growing market
  - Large commercial and industrial demand increasing
  - Regulatory support for using natural gas to reduce carbon emissions
  - Storage development opportunities to support flexible electric generation needs
- **58 year history of increasing dividends** paid to shareholders

Appendix

Maps

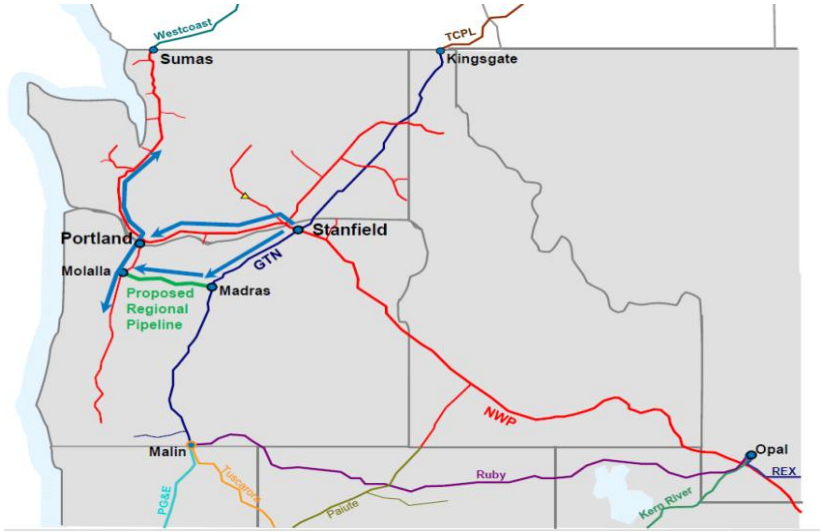
North Mist Expansion



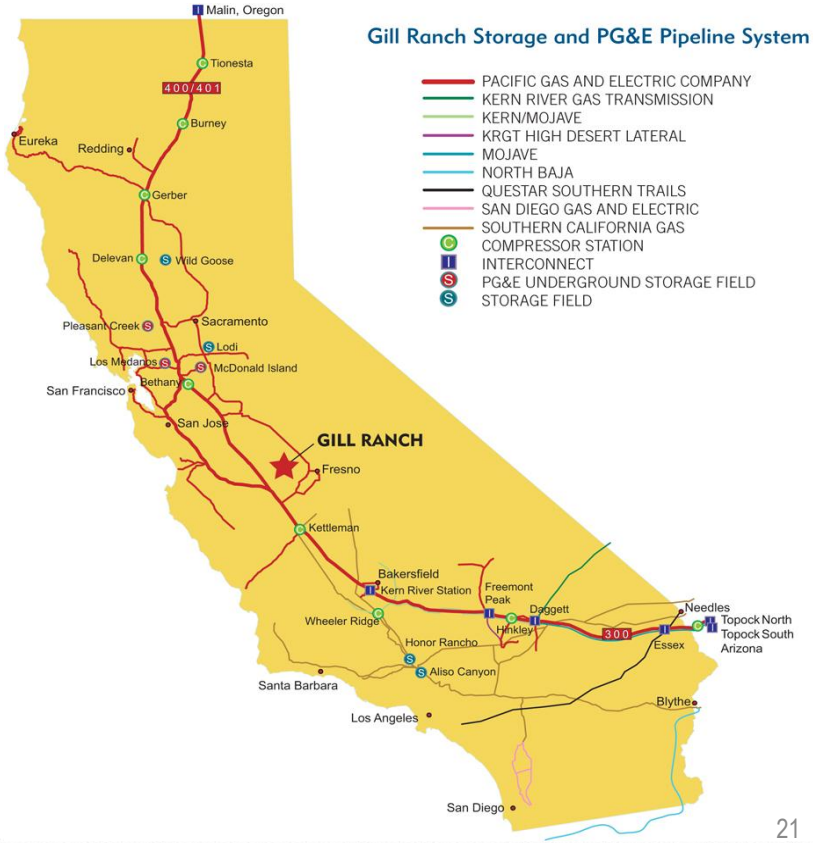
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Maps Continued

Proposed Regional Pipeline



Gill Ranch Storage



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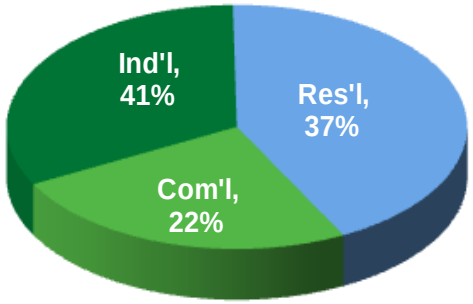
Environmental Stewardship

- Core value to operate in environmentally responsible way
- Legacy manufactured gas plants being remediated with focus on cost management and regulatory recovery
- Received $150 million of insurance proceeds
- Regulatory treatment of proceeds and environmental expenditures will be determined through the site remediation and recovery mechanism (SRRM) docket with resolution expected in 2014
- Recoveries improve NWN's liquidity position in 2014; reducing short-term borrowing and redeeming $50 million of FMBs due in July

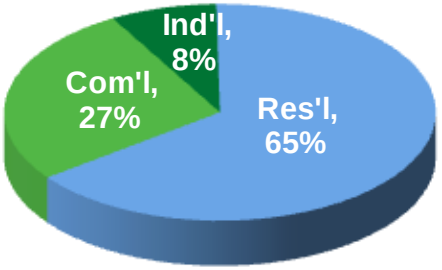


Historical Financial Metrics

Utility Volumes by Class



Utility Margin by Class



	Q1 2014	2013	2012	2011
EPS	$1.40	$2.24	$2.18	$2.36
Utility Margin	$130.3M	$353.9M	$344.5M	$343.0M
Storage Op. Income	$3.6M	$14.7M	$13.2M	$9.1M
Net Income	$37.9M	$60.5M	$58.8M	$63.0M
Utility Customers	698,372	694,873	685,941	679,543
Customer Growth Rate	1.3%	1.3%	0.9%	0.8%
Book Value Per Share	$28.73	$27.77	$27.11	$26.62
Institutional Ownership	59%	56%	61%	52%

Customer Growth



- Growth rate above 1% for first time since 2008
- Home prices up 13% at Q1 2014 over prior year
- Single-family new construction in Oregon expected to increase about 10% in 2014

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Regulatory Summary

	Oregon	Washington
Authorized Rate Structure:		
Rate Base (2013 average)	$1,100 million	$120 million
ROE	9.5%	10.1%
ROR	7.8%	8.4%
Debt/Equity Ratio	50% / 50%	49% / 51%
Key Regulatory Mechanisms:		
PGA	X	X
Incentive Sharing (PGA, Asset Optimization)	X	
Weather Normalization	X	
Decoupling	X	
Pipeline safety cap-ex tracker (SIP)	X	
Pension Expense Deferral	X	
Environmental Cost Deferral	X	X
Environmental Cost Recovery (SRRM)	X	

Segment Information

Dollars and Shares in Millions	Q1 2014	Q1 2013	Change	2013	2012	Change
EPS	$1.40	$1.40	$0.00	$2.24	$2.18	$0.06
Utility Margin	$130.3	$127.3	$3.0	$353.9	$344.5	$9.4
Utility O&M	$33.2	$31.8	$1.4	$128.9	$121.5	$7.4
Utility Depreciation	$18.0	$17.2	$0.8	$69.4	$66.5	$2.9
Gas Storage Net Income	$1.6	$1.6	$0.0	$5.6	$4.5	$1.1
Tax Items	$0.6	$0.0	$0.6	$0.0	$2.7	$2.7
Consolidated Tax Rate	41.6%	40.8%	0.8%	40.8%	42.5%	1.7%
Diluted Shares	27.1	27.0	0.1	27.0	26.9	0.1

Contact Information

For Investor information, please contact:
Bob Hess, Director, Investor Relations
Email: bob.hess@nwnatural.com
Phone: 503-220-2388
Cell: 503-367-2616

About NW Natural
NW Natural (NYSE: NWN) is headquartered in Portland, Ore., and provides natural gas service to about 698,000 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 $2.8 billion in total assets. NW Natural and its subsidiaries currently own and operate underground gas storage facilities with storage capacity of approximately 31 Bcf in Oregon and California. Additional information is available at www.nwnatural.com



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