

**Northwest Natural Gas Company**  
**Annual Meeting of Shareholders**  
**DoubleTree Hotel – Lloyd Center**  
**2:00 P.M., May 24, 2001**

**Introduction & Welcome: Richard G. Reiten**

Good afternoon and welcome to NW Natural's Annual Shareholders Meeting. I am Dick Reiten, CEO and Chairman of the Board of NW Natural. I will serve as chair of the meeting today.

I want to start by thanking you all for being here and for your commitment to this company. We know you have many investment options. That you have chosen NW Natural means a great deal to all of us who work on your behalf.

To say that these are interesting times in the energy industry is clearly an understatement. The collapse of California's deregulation program and the resulting upheaval in the West's electric and natural gas markets has created both new challenges and new opportunities for our company. You will hear about both today.

The past 12 months have proven that the best path through a time of turmoil is to stay focused on what you do best. That's what NW Natural did in 2000.

We continued our rigorous cost control efforts, grew our core business aggressively, and with the sale of Canor -- our Canadian energy exploration and production subsidiary -- redeployed more of our financial resources to support the growth of our core business.

Despite the turbulence in the energy industry, NW Natural had an exceptional year.

In a few minutes, Bruce DeBolt will provide the details of last year's performance. But let me start our meeting today with just a few highlights.

First, last year we set a new record for consolidated earnings applicable to common stock at \$47.8 million. This translated into earnings of \$1.88 a diluted share, up 11% from 1999. We recorded higher earnings per share in 1997, but on lower earnings and fewer shares outstanding.

We grew our customer base by 4.4%, about 3 times the national average for natural gas distribution companies.

We increased productivity by 6%, reducing costs per customer from \$188 in 1999 to \$176 in 2000.

And finally, our strong performance had a positive impact on our stock price. NW Natural's share price rose from a low of \$17.75 in March to a high of \$27.50 in December – a recovery of 55%.

These are the outcomes of a company that knows its strengths and weaknesses, and has a clear view of the path it must follow to succeed in today's energy industry. You're going to hear more on this subject today.

Here's what we have planned for you.

In a moment I will conduct the business portion of the meeting. Then Bruce DeBolt, our Chief Financial Officer, will present the financial results for 2000.

Next, Mark Dodson, our Senior Vice President for Public Affairs and General Counsel will talk to you about regulatory affairs and other topics key to our future. I will also have an announcement about Mark that I know will be of interest to you.

Finally, I will describe in more detail the opportunities we see ahead for our company and our industry. As always, you will have an opportunity to ask questions after these presentations.

Before we get started, I wanted to share with you a 2 minute presentation prepared by one of our employees that does a great job of capturing the 142-year legacy of NW Natural.

### **Business Portion of the Meeting**

And now for the business portion of our meeting. But, before getting started, I want to introduce the members of your Board of Directors, all of whom are present, and two of our retired directors who are with us today:

Richard L. Woolworth, Chairman and CEO of The Regence Group. Dick is our newest Board member, having joined the Board in September of last year.

Randall C. Papé, President and Chief Executive Officer of The Papé Group, Inc., Eugene, Oregon.

Russell F. Tromley, President and Chief Executive Officer of Tromley Industrial Holdings, Inc., Tualatin, Oregon.

Dwight A. Sangrey, Business Development Consultant.

Mary Arnstad, Managing Director of the Cascade Music Festival in Bend, Oregon.

Benjamin R. Whiteley, Chairman and CEO, Retired, of Standard Insurance Company, and the Board's Lead Director.

Melody C. Teppola, Managing Partner of National Builders Hardware Company.

Tod R. Hamachek, Chairman and CEO, Penwest Pharmaceuticals Company, Patterson, New York.

Thomas E. Dewey, Jr., Member of the firm of McFarland Dewey & Co., investment bankers, New York City.

Robert L. Ridgley, the retired Chairman of the Board and CEO of the Company.

Wayne D. Kuni, Chairman of Kuni Enterprises.

Richard B. Keller, President and CEO of Keller Enterprises, Vancouver, Washington.

We also have two of our retired directors with us today. They are:

Ronald T. Miller, Retired Chairman of the Board, who served as President and CEO of the Company from 1975 through 1984 and as a director for 18 years, retiring in 1992.

Carlton Woodard, Chairman of the Board of the South Lane Investment Corporation, Cottage Grove, Oregon. Cart served as a director for 20 years, retiring from the Board in 1996.

Before going on, I want to take a moment to let you know that this is Dick Keller's final meeting as an active NW Natural Director. Dick has reached that age at which our bylaws mandate retirement.

Yes, it's true. You finally become distinguished and a statesman and very wise – some people work the world 'old' into that! – and the rules say you can no longer serve on the Board. Strange, but true. However, in Dick's case, the good news is that he was wise at a very young age, and NW Natural has been the beneficiary.

During his 18 years of service on the Board, he has been a member of the Executive, Nominating, Pension and Retirement, and Organization and Executive Compensation Committees.

Let me give you just one example of the contribution he has made to our company.

As a member and Chairman of the Retirement and Pension Committees, the market value of the assets held by the Company's Retirement Trust Fund increased nearly six-fold, from about \$32 million to \$190 million at the end of 2000.

Dick's wife, Ruthie, has also been an important part of NW Natural. She has brought great energy and enthusiasm to her involvement in the company's affairs. We wish you both all the best, and we want you to know we are going to miss you. As a token of our appreciation, we have for you a framed certificate commemorating your service on the Board and a Resolution that highlights your many achievements for our Company.

At this time I would also like to introduce NW Natural's officer team, all of whom are present:

Mike McCoy – Executive Vice President, Customer and Utility Operations.

Bruce DeBolt – Senior Vice President, Finance, and Chief Financial Officer.

Mark Dodson – Senior Vice President, Public Affairs and General Counsel.

Lea Anne Doolittle – Vice President, Human Resources.

Gregg Kantor – Vice President, Public Affairs and Communications.

Steve Feltz – Treasurer and Controller.

C. J. Rue – Secretary and Assistant Treasurer.

Also with us is Donald L. Irving, partner with the firm of PricewaterhouseCoopers LLP, independent certified public accountants, which is the firm nominated for election as the Company's independent auditors for the year 2001.

Do you wish to make a statement, Mr. Irving?

(Statement by Mr. Irving.)

Thank you, Mr. Irving.

The 2001 Notice of Meeting and Proxy Statement was mailed to all holders of our Common Stock in April. The Notice of Meeting sets forth the following three business matters to be transacted at this meeting:

- The election of one Class I Director to a two-year term ending in 2003, and the election of four Class II Directors to a three-year term ending in the year 2004;
- A proposal to approve the Company's Long-Term Incentive Plan; and

- The election of PricewaterhouseCoopers LLP as independent auditors for the year 2001.

Following the transaction of this formal business, and the presentations by the officers, you will have an opportunity to ask questions.

[The final number of shares voted on the three matters acted upon in the business portion of the meeting will be printed in the summary meeting report that will be mailed to all shareholders.]

Bruce DeBolt will now report on our financial results for the past year.

### **Financial Results: Bruce R. DeBolt**

Thanks, Dick, and good afternoon, fellow shareholders.

NW Natural had another great year in 2000. It was a year when the Company set some new records, both operationally and financially. Here are just a few.

- As Dick said, we set a new record for earnings on common stock at \$47.8 million, up 12 percent from 1999. Earnings per share were \$1.88, our second highest on record.
- We set a new record for utility margin revenues, at \$258 million.
- And NW Natural paid record dividends of \$31.2 million to common shareholders.

Here's a closer look at our earnings applicable to common stock over the past six years, showing the record result in 2000 as well as the 25 percent increase over that period.

We use this summary slide in presenting NW Natural's story to the financial community many times each year. It hints of some opportunities we see for this and coming years and explains the continuing rationale for an investment in NW Natural.

- The customer growth in our core system alone supports earnings growth of 5-plus percent a year.
- Our gas storage assets add to earnings growth potential and shareholder value.
- And there is immediate earnings potential in the electric power generation market.
- The result is a high total return potential, and a fundamental story that we believe warrants a premium price/earnings multiple in the stock market.

NW Natural's growth was both rapid and steady during the late 1990s. We've added more than 110 thousand customers just in the past five years, increasing our customer base by 25 percent. They included more than 22 thousand new customers in 2000.

Our customer growth rate in 2000 was 4.4 percent, about three times the national average for customer growth in the gas distribution industry. The strong regional economy and our successful marketing efforts have generated annual customer additions of more than 4 percent for 12 years in a row.

What distinguishes NW Natural from many of our peers is our ability to grow *profitably*.

Indeed, there's more to profitable growth than just new customer counts. We are successfully targeting the customer prospects with the highest margins and the lowest costs to connect. We are limiting investments in non-revenue producing assets. And some recent changes in rate design have reduced our traditional earnings sensitivity due to weather and to changes in customers' consumption patterns.

Our new construction market has remained strong, at 63 percent of customer additions in 2000. The 7,800 residential and commercial customers who converted from oil and electricity last year were continuing to respond to the message that natural gas is their best fuel choice in terms of reliability, comfort, efficiency and economy. That's despite the significant increases in gas commodity costs we have experienced in the past three years.

All customer categories made solid contributions to the Company's utility margin revenues in 2000. Thanks to 5 percent colder than average weather, residential and commercial customer growth and a healthy industrial market, the new record for margin revenues exceeded last year's prior record results by 6 percent.

We achieved the strong results in margin despite a small decline in total gas deliveries from last year. This slide shows that our sales and transportation volumes have been consistently higher than a billion therms in each of the past six years, confirming NW Natural's position as the largest gas distribution company in the Pacific Northwest.

This slide shows the dramatic increases in cost of purchased gas we have experienced in the past few years. Gas costs in 2001 are even higher, reflecting the rapid increase in commodity prices last summer and fall.

NW Natural's fiscal year 2001 got off to a good start, but it's not a year without challenges.

- Earnings from continuing operations in the first quarter were 99 cents a share, compared to \$1.12 in the first quarter of 2000.

- Weather in the first quarter was close to average, but customers' consumptions per degree day were reduced by the impact of rate increases due to our higher cost of purchased gas. The combined impact of the lower consumption patterns and warmer weather than last year reduced margin in the first quarter by the equivalent of 17 cents a share.
- On the bright side, our gas costs for the quarter were reduced by \$74 million through gains from gas swaps and caps realized under our commodity hedging program. This helped to eliminate the need for further rate increases to customers during the last heating season and limited the cost exposure to stockholders.
- Our other operating expenses continue to be under control.
- And our underground gas storage services are adding to profitability.

This slide shows the details of the recent decline in residential unit consumptions. The gold bars report the averages for each of the past five years, and the blue bars the averages for the first calendar quarters of each year. Due to the higher commodity prices, and efforts throughout the region to conserve energy, residential customers used about 7 percent less gas per degree day in the first quarter of 2001 than they did in the first quarter of 2000.

This slide is the equivalent consumption pattern for commercial customers, whose consumptions are down about 5 percent from last year. Mark Dodson will describe for you the new regulatory initiatives we are pursuing to help address this issue.

A growing utility means an active capital program. We invested \$88 million in the business in 2000, including completion of a new storage reservoir and further improvements in the control facilities at our Mist Storage Facility. This year's initial capital budget of \$74 million includes new customer additions, system improvements and the next phase of Mist Storage expansion.

This slide shows the cash flows we generate from operations, as opposed to external financing, to meet the Company's investing needs. In 2000, cash from operations contributed \$87 million, more than the year's capital budget and up from 84 percent of the utility capital budget in 1998 and only 40 percent in 1997. This year we again expect to generate more cash from operations than the capital budget. The higher cash flows will reduce costs and improve returns.

I am pleased to report that although we have invested more than \$500 million in the utility business in the past six years, NW Natural's balance sheet continues to be in great shape. Total capitalization at year-end 2000 was approaching \$900 million, up from about \$600 million at the end of 1994. Common equity represented about 51 percent of the total, consistent with our "A" rating from the three rating agencies that evaluate NW Natural's debt securities. Our strong balance sheet

positions us well to take advantage of any corporate growth opportunities that may arise.

2000 was a good year to be a NW Natural shareholder. During last year's Annual Meeting, I explained that the price of NW Natural's stock had been depressed by a combination of factors including increases in short-term interest rates, relatively slower growth in earnings in the utility sector, a general lack of interest in stocks that pay dividends and, especially, a lack of "dot com" appeal.

What a difference a year can make! Interest rates now are going down; utility earnings growth is more in line with earnings growth in the economy as a whole; the "total return stock" is once again an honorable thing to own; and, well, you know what happened to the dot coms. An investor who bought shares of NW Natural at the end of 1999 realized a total return of 27.6 percent in 2000, making your stock about the best place to be during the market turmoil for which we will remember that remarkable year.

In conclusion, this slide is a reminder of the Company's dividend record. 2000 was NW Natural's 45<sup>th</sup> consecutive year of increases in dividends paid. Your Board and management understand the value of the Company's record of steady dividend growth. We also know that in order to maintain the Company's financial strength, we must continue to finance as much as possible from inside sources of cash.

We cannot tell you whether there will be another increase in the quarterly dividend rate this year. We *can* tell you that management and the Board will give the amount of the dividend their careful consideration before year-end.

Now, here's Dick to introduce Mark Dodson.

**Mr. Reiten:**

Now I want to introduce Mark Dodson and make an announcement about the new role he will play in our company's future.

The Board of Directors at its April meeting selected Mark to be NW Natural's President and Chief Operating Officer. Effective immediately, he will be responsible for the day-to-day operations of the company.

His service in this new position will allow me to focus more of my energies on the strategic direction of the company and on the very real opportunities we have for expanding our business.

Mark is an exceptional individual. The son of a Baptist minister, he practiced law for 17 years, becoming one of this state's most prominent lawyers. He has served as counsel for many of Oregon's largest corporations and has been intimately involved in the state's political environment, providing advice to elected officials at all levels of our government.

Over the last four years, Mark has served as NW Natural's Senior Vice President of Public Affairs and General Counsel. He has done a remarkable job, and it is a great pleasure for me to introduce him to you today as our new President and Chief Operating Officer.

Mark.

### **Regulatory Affairs and President's Report: Mark S. Dodson**

Thank you, Dick, and thank you to the Board of Directors. It is a great honor to assume this position, particularly in light of those who have held the post before me such as Dick Reiten, Bob Ridgley and Ron Miller. I can do my part to uphold that distinction. But the challenges ahead are considerable and only one thing is certain: *change is already here and more change is coming.*

What does it mean to be President of a 142-year-old company in an industry that is midway through a revolution? How will an unprecedented energy crisis impact our company?

Last year, California utilities, desperately short of electricity, paid exorbitant prices for power in the wholesale market – then could not fully recover those costs. Whoever would have believed that two of this country's stalwart utilities – Southern California Edison and Pacific Gas & Electric – would plummet toward bankruptcy?

As California continues to shop in our electricity market, ratepayers here will see the fallout and, when electricity supplies are short, rates will continue to go up.

The natural gas industry is affected as well. The more natural gas is used to create electricity, the more supplies are short for our own customers. Until gas supplies and pipeline capacities catch up, gas prices are likely to remain high. Industry analysts suggest that will not happen for another 18 to 24 months.

These are tumultuous times. But we needn't be in turmoil. There are three principles that should guide this company.

#### **First: Focus on the fundamentals.**

As Dick said, we must concentrate on what we do best. Two of the things we do best are *marshalling our resources* and *taking care of our customers*.

The first time I had an opportunity to address this group was at the annual meeting two years ago when I described the new gas purchase program that had taken us over a year to convince our regulators to authorize. This year, when gas prices soared, we used that program along with gas storage to manage the costs of our gas supplies. By employing these practices, our Gas Supply Department saved you – the shareholders and our customers -- more than \$100 million last year alone.

That obviously meant lower price increases for customers. While we regret any price increase, back east and even in Washington, some consumers saw their bills go up 70%. So we marshaled our resources and we took care of our shareholders and our customers.

Indeed, in these times when customers are confused and overwhelmed by all the headiness, our relationship with them is critical. Two weeks ago I got an emergency call from the field and was told the police had just arrived on the scene. I was trying to encourage an employee to let the police handle a situation I considered dangerous.

“Look, all I want is to do the right thing for these people.” Well, if you have over 1,000 people coming in to work every morning trying to do the right thing for your customers you are going to have survey results such as these from Davis & Hibbits, which show that we are perceived as providing better service than any of our competitors in the electric industry. This chart is taken from a recent poll on service, but it is consistent with focus groups and surveys we have taken consistently for years.

**Our second guiding principle is: Don't compromise on reliability and safety.**

NW Natural has one of the safest and most reliable distribution systems in North America. And we want to keep it that way. If there is one lesson *California should have taught the nation* it is to keep investing in our energy systems.

The year 2000 was a milestone year for safety at NW Natural. We completed the *replacement of our entire low-pressure pipe*, mainly cast iron. This will also save on maintenance and leakage and ultimately benefit the shareholder.

To our knowledge, we are the only natural gas local distribution company in the nation to have replaced all of its outdated, cast-iron pipe system.

Now we are on to the next phase: replacing all of our remaining bare steel pipe. We hope to receive regulatory approval for this project as well, so that none of our system improvements are being done at shareholder expense.

If you would like to learn more about our pipeline safety efforts, be sure to visit the display in the exhibit area after the meeting. You'll also find exhibits on natural gas prices and supply, Mist underground storage, and the NW Natural web site.

**Our third guiding principle is to: Continue shaping our own future.**

This is a company that has proven it can be fast and flexible. It is also a company that plans for the future and keeps sight of its long-term goals. The gas purchase and hedging program we used so successfully last year is now being

copied by other companies across the nation. How will we continue to shape our own future?

***We will strategically manage our growth for the benefit of shareholders.***  
We are looking at our core market and the relative costs of adding customers under various scenarios. Our goal is to refine our marketing and construction cost approaches to assure we're going after the most profitable customers first.

***We will also position the company to achieve higher shareholder return.***  
We are currently proposing two public policy changes.

We authored a bill that would require our regulators to consider the need for Oregon utilities to compete in the national markets for capital, so that we can continue to attract the funds necessary to invest in our system. I am happy to report that last week this bill passed the Oregon House by a vote of 59-0. That is a strong statement that our state leadership agrees with our message.

Second, we will propose a new 3-to-5 year regulatory mechanism that we call a "conservation tariff." The tariff would remove financial penalties we currently incur if we promote the energy efficiency our customers want. It would also make our revenues less sensitive to weather.

If approved, the tariff would – for the first time -- align our customers' interests in reducing their energy use with our shareholders' interests in a healthy return. It would stabilize our earnings, making them more predictable and less vulnerable to swings in customer usage.

These are the three principles to guide us through these challenging times:

- **Focus on the fundamentals.**
- **Don't compromise on reliability and safety.**
- **Continue to shape our own future.**

In closing, let me make a personal comment about my decision to work at NW Natural almost four years ago. I must confess that my original reasons for joining this company are sitting in front of me.

They are not only the officers, but also the directors whom I had watched for over 20 years from outside this company. These people helped shape many positive developments in Oregon. What I did not know then, and you cannot see now, is how deep NW Natural is in Company Heroes. As opposed to big national or international utilities, all of our employees wake up in the morning and read our local newspapers and when they tuck their children in at night they expect them to grow up right here. So, when you see or hear an ad that says, "***We Grew Up Here,***" it is more than a slogan or a logo. It is a statement that resonates with our employees.

I believe that is why our employees provide such superior service. They know our customers are our future.

Even though our industry is in uncharted territory and we are sometimes forced to operate by rules invented in California, we at NW Natural know who we are. We know what we do best and through the courage of our convictions we will create our own path to an even better and brighter future.

Justice Oliver Wendell Holmes once said, “What lies behind us and what lies before us are tiny matters compared to what lies within us.”

We have it in us to make NW Natural a bigger, fundamentally stronger and better company tomorrow than it is today.

*Indeed – we already are well on our way.*

### **Concluding Remarks: Richard G. Reiten**

Last year we proved that there is great strength in knowing what you do best.

Despite skyrocketing natural gas prices, despite the energy upheaval in California and elsewhere in the West, we stayed focused on our core business and ended 2000 stronger and better prepared to seize the opportunities that exist in today’s evolving energy industry.

At last year’s annual meeting, we said we would build on our core business in 2000. And that’s exactly what we did.

- We sold Canor, our Canadian energy exploration and production subsidiary.
- We continued to grow our customer base more than 3 times the national average.
- We drove our productivity to levels far above our target for the year – a 6% gain, including absorbing inflation in our costs.
- As Mark described, we replaced the last segment of the company’s high maintenance 100-year-old cast iron distribution system.
- We completed an expansion of our Mist gas storage facility on time and on budget, developed a new storage pool and began the siting process for a major pipeline expansion that will significantly increase the deliverability of our storage facilities.
- We settled our general rate case in Washington and secured fair regulatory treatment in Washington and Oregon for gas costs, the Mist storage project and new state cost allocations.
- We instituted an on-the-bill financing program that drew an overwhelming response from customers, began joint meter reading with Portland General

Electric to reduce our meter reading costs, and initiated a new performance-based management system for non-bargaining unit employees, which strongly ties salary and incentive awards to individual performance.

Last year, we traveled a road we know well, and the result was a stronger company.

So, where do we go from here?

While the landscape around us is changing, the path to success is not. Next year, we must remain focused on what we do best, managing a highly-efficient, customer-oriented natural gas distribution company.

But that doesn't mean ignoring new ways to grow our company. In fact, the turbulence of today's energy marketplace is creating more opportunities than ever before. Where those opportunities fit with our assets and core competencies, we will seize them.

Last fall, we began a company-wide effort to update our 5-year strategic plan. It will be complete in the next several months and will focus the company on how it can best manage its assets and capital investments to maximize returns.

Customer growth at rates far above the national average will continue to be key to our business strategy. But as fundamental as this is to our future, we must increasingly make sure that every customer we add is profitable now, not later.

We are also exploring new pathways to earnings growth beyond our core business. One of the most immediate is the offering of gas storage services to other companies in the West and British Columbia. Storage is a valuable tool for managing gas costs and supplies, particularly when prices are volatile.

Last week, the Federal Energy Regulatory Commission approved our application to provide gas storage services in the interstate market. And we have four companies already waiting to purchase storage services from us.

We intend to grow this area of our business and are looking at developing an "expanded" stand-alone business to develop and sell additional storage services to utilities and other large energy consumers in the next two to three years.

The region's shortage of electricity presents a near-term opportunity. Public utilities and large industries throughout our service territory are racing to add electric generating facilities to protect against expected shortages and price increases this summer and coming winter.

In most cases, these are small gas-fired turbines or reciprocating engines; and in most cases, we are the only available source of natural gas.

In April, we signed one-year service agreements to help Clark Public Utilities in Vancouver and Wah Chang, a metals manufacturer in Albany, generate additional electricity. These agreements will add to our earnings this year.

We have also had dozens of calls from other potential developers of electric generators looking for natural gas supply packages. Not all of these projects will be built. But many will, and we expect to sign more service agreements in the months ahead.

Longer term, we believe distributed generation will be a growth opportunity. Locating electric generation near load centers and end use have spurred interest in natural gas fuel cells, micro-turbines and reciprocating engines.

We are embarking on a number of pilot projects to test the viability of these emerging technologies. And though they may not be commercially viable for several years, the opportunity they present to NW Natural is enormous.

Finally, our path to greater earnings will not overlook potential mergers and acquisitions. As I've said before, we will remain alert to opportunities, where they fit with our assets and core competencies, and where they provide meaningful, near-term earnings growth.

The energy industry is in the midst of a transformation. Price and supply issues, for both electricity and natural gas, are reshaping consumer expectations. I've mentioned some of the opportunities; you need to hear the challenges as well.

NW Natural raised its rates in Oregon and Washington in the fall of 2000 to cover the higher cost of the natural gas we purchase and deliver to our customers.

While many people thought that rising natural gas prices were responsible for the increase in electricity prices in the West, in fact, the reverse was true.

California's shortage of electric generation plants forced the full-time use of old, very inefficient natural gas turbines, which were previously deployed only for meeting peak loads.

These plants consumed massive amounts of natural gas, straining pipeline capacity and supplies. And the result was higher gas prices throughout the West.

Last fall, we winced at having to raise our prices by 20%. As it turns out, it was among the lowest increase of any gas utility in the country, and the lowest in the Northwest.

We were able to keep our increase down by using long-term contracts, Mist storage, gas price hedging and other gas purchase techniques. We are proud of what we were able to save our customers this past winter.

While natural gas prices have moderated some after peaking in late 2000, they are unlikely to fall significantly until major new supplies come online. That is probably 18 to 24 months away.

In the meantime, NW Natural will continue to rely on storage, price hedging programs and other supply management strategies to protect our customers and maintain our price advantage.

But make no mistake, despite last year's price increases, natural gas is still the best buy for customers. In most parts of NW Natural's service area, natural gas is up to 48% less expensive than electricity for heating space and water.

And that gap will widen as electric utilities in our region pay more for power this summer and coming winter. The estimates for electricity price increases coming before the end of the year -- for both public and private utilities -- are significant.

Nevertheless, as Bruce described earlier, the increase in natural gas prices has resulted in a decline in the average amount of natural gas each customer uses. This impacted both our first quarter earnings and our stock price.

As you just heard, we are working with our regulators to develop a mechanism that will ensure the interests of our company and shareholders are aligned with those of consumers, who quite naturally want to lower their bills.

NW Natural supports the efficient use of energy and the responsible stewardship of resources. And we believe our regulators and consumers will want us to have the financial incentives necessary to make that philosophy a strong part of our business activities.

Today, we believe our stock price does not accurately reflect our prospects for 2001. Since our first quarter earnings announcement, which highlighted the decline in consumption, we concluded the service agreements with Clark Public Utilities and Wah Chang, which I mentioned earlier.

As I said, we expect both will add to our earnings this year.

We will also see earnings opportunities in 2001 from our new interstate storage business and from industrial customers on transportation tariffs coming back to us to purchase their gas supplies, as a result of our very successful gas purchase program last year.

So, with these additions to earnings, we still have an opportunity to meet our financial targets for 2001, despite lower consumption.

I would also say that our stock price does not accurately reflect our prospects for the years ahead.

NW Natural is exceptionally well positioned to benefit from the changes sweeping through the energy marketplace. We have one of the nation's most

efficient gas distribution companies, one the fastest growing service territories, a product in high demand, and talented and committed employees.

I also have to tell you that the management team working on your behalf is one of the most gifted you will find in our industry. And I am proud to serve with them.

In so many ways, this is a company poised to succeed in an era of change and uncertainty. We know who we are. And we know the path we must follow to deliver superior results to our shareholders and to the customers and communities we serve.

Let me finish with a 'thank you.'

- To our employees for their commitment and hard work;
- To our Board for their guidance and counsel;
- And to you, our shareholders, for your patience and support as we work to position the company for a successful future.

On behalf of all of us at NW Natural, we truly appreciate the opportunity you give us to guide this 142-year-old company into the future.

Thank you.

Questions?

**Note relating to forward-looking statements:**

*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, economic factors, and weather conditions. Some statements in this presentation may be forward looking, and actual results may differ materially as a result of these uncertainties. For a fuller description of these uncertainties and risk factors, please refer to the Company's filings with the Securities and Exchange Commission on Forms 10-K and 10-Q.*

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