NORTHWEST NATURAL GAS CO
Form DEF 14A
April 20, 2009

SCHEDULE 14A (RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under § 240.14a-12

NORTHWEST NATURAL GAS COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials:

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

220 NW SECOND AVENUE

PORTLAND, OR 97209

April 20, 2009

To the Shareholders of Northwest Natural Gas Company:

We cordially invite you to attend the 2009 Annual Meeting of Shareholders of Northwest Natural Gas Company (NW Natural), which will be held in Meeting Rooms F 150 and F 151 at the Oregon Convention Center, 777 NE Martin Luther King Jr. Blvd., Portland, Oregon, 97232 on Thursday, May 28, 2009, commencing at 2:00 p.m., Pacific Daylight Time. We look forward to greeting as many of our shareholders as are able to join us.

At the meeting you will be asked to consider and vote upon: (1) the election of three Class I directors for terms of three years and one Class III director for a term of two years; and (2) the ratification of the appointment of PricewaterhouseCoopers LLP as NW Natural s independent registered public accountants for the fiscal year 2009. Your Board of Directors unanimously recommends that you vote **FOR** each of Proposals 1 and 2.

In connection with the meeting, we enclose a notice of the meeting, a proxy statement, a proxy card and an admission ticket for you and one guest to attend the meeting. Detailed information relating to NW Natural s business activities and operating performance is contained in our 2008 Annual Report, which is also enclosed.

It is important that your shares are represented and voted at the meeting. Whether or not you plan to attend, please vote your shares in one of three ways: via internet, telephone or mail. Instructions regarding telephone and internet voting are included on the proxy card. If you elect to vote by mail, please sign, date and return the proxy card in the enclosed postage-paid envelope. Your proxy may be revoked at any time before it is exercised in the manner set forth in the proxy statement.

Sincerely,

/s/ Russell F. Tromley	/s/ Gregg S. Kantor
Russell F. Tromley	Gregg S. Kantor
Chairman of the Board	President and Chief Executive Officer

Table of Contents

Table of Contents

NORTHWEST NATURAL GAS COMPANY

ONE PACIFIC SQUARE

220 NW SECOND AVENUE

PORTLAND, OREGON 97209

(503) 226-4211

NOTICE OF 2009 ANNUAL MEETING OF SHAREHOLDERS

Portland, Oregon, April 20, 2009

To our Shareholders:

The 2009 Annual Meeting of Shareholders of Northwest Natural Gas Company (NW Natural) will be held in Meeting Rooms F 150 and F 151 at the Oregon Convention Center, 777 NE Martin Luther King Jr. Blvd., Portland, Oregon, 97232 on Thursday, May 28, 2009, at 2:00 p.m. Pacific Daylight Time, for the following purposes:

1. to elect three Class I directors for terms of three years and one Class III director for a term of two years;

2. to ratify the appointment of PricewaterhouseCoopers LLP as NW Natural s independent registered public accountants for the fiscal year 2009; and

3. to transact such other business as may properly come before the meeting or any adjournment thereof.

If you were a holder of record of NW Natural Common Stock at the close of business on April 8, 2009, the record date set for the annual meeting, you will be entitled to vote upon all matters properly submitted to shareholder vote at the meeting.

Our Board of Directors is soliciting the proxies of all holders of NW Natural Common Stock who may be unable to attend the meeting in person. These proxies also will instruct the relevant fiduciary under NW Natural s Dividend Reinvestment and Direct Stock Purchase Plan or Retirement K Savings Plan to vote any shares held for shareholders benefit under those plans, as indicated on the proxies. A proxy and a stamped return envelope are enclosed for your use. No postage is needed if mailed in the United States. Instructions regarding telephone and internet voting also are included in the enclosed proxy card.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 28, 2009

This proxy statement and our 2008 Annual Report are available on our website at **www.nwnatural.com**.

Your vote is very important to us.

We urge you to vote by promptly marking, signing, dating and returning the enclosed proxy card, or by granting a proxy by telephone or the internet in accordance with the instructions in the enclosed proxy card, as soon as possible. Your prompt vote will save us the additional expense of further requests to ensure the presence of a quorum. You may vote in person at the meeting whether or not you previously have returned your proxy.

By Order of the Board of Directors,

/s/ MardiLyn Saathoff
MardiLyn Saathoff
Chief Governance Officer and Corporate Secretary

Table of Contents

PROXY STATEMENT

NORTHWEST NATURAL GAS COMPANY

April 20, 2009

Table of Contents

Table of Contents

NORTHWEST NATURAL GAS COMPANY

ONE PACIFIC SQUARE

220 NW SECOND AVENUE

PORTLAND, OREGON 97209

(503) 226-4211

2009 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 28, 2009

PROXY STATEMENT

The Board of Directors of Northwest Natural Gas Company (NW Natural) is soliciting the proxies of all holders of NW Natural Common Stock who may be unable to attend in person the Annual Meeting of Shareholders to be held in Meeting Rooms F 150 and F 151 at the Oregon Convention Center, 777 NE Martin Luther King Jr. Blvd., Portland, Oregon, 97232 on Thursday, May 28, 2009, at 2:00 p.m. Pacific Daylight Time. We request that you sign and return the enclosed proxy promptly. Alternatively, you may grant your proxy by telephone or the internet.

NW Natural s Annual Report for the fiscal year ended December 31, 2008, including audited financial statements, is being mailed to all shareholders, together with this proxy statement and the accompanying proxy card, commencing April 20, 2009.

The close of business on April 8, 2009 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

VOTING BY PROXY AND HOW TO REVOKE YOUR PROXY

You may vote your shares either in person or by duly authorized proxy. You may use the proxy card accompanying this proxy statement if you are unable to attend the meeting in person or you wish to have your shares voted by proxy even if you do attend the meeting. If you are a registered shareholder, you may vote by telephone, internet or mail, or you may vote your shares in person at the meeting. To vote:

By telephone (do not return your proxy card)

On a touch-tone telephone, call the toll-free number indicated on your proxy card. Telephone voting is available 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on May 27, 2009.

Have your proxy card available when you call.

Follow the simple recorded instructions. You will be prompted to enter your 12-digit Control Number located on your proxy card.

By internet (do not return your proxy card)

Go to **www.proxyvote.com**. Internet voting is available 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on May 27, 2009.

Have your proxy card available.

Follow the simple instructions. You will be prompted to enter your 12-digit Control Number located on your proxy card.

By mail

Mark your choice on your proxy card. If you properly execute your proxy card but do not specify your choice, your shares will be voted FOR Proposals 1 and 2, as recommended by NW Natural s Board of Directors.

Table of Contents

Date and sign your proxy card.

Mail your proxy card in the enclosed postage-paid envelope. If your envelope is misplaced, send your proxy card to Northwest Natural Gas Company, c/o Broadridge Proxy Services, 51 Mercedes Way, Edgewood, NY 11717.

You may revoke your proxy at any time before the proxy is exercised: (1) by delivering a written notice of revocation; (2) by filing with the Corporate Secretary a subsequently dated, properly executed proxy; (3) by voting after the date of the proxy by telephone or the internet; or (4) by attending the meeting and voting in person. Your attendance at the meeting, by itself, will not constitute a revocation of a proxy. You should address any written notices of proxy revocation to:

Northwest Natural Gas Company

220 NW Second Avenue

Portland, OR 97209

Attention: Corporate Secretary

If your shares are held in nominee or street name by a bank or broker, you should follow the directions on the instruction form you receive from your bank or broker as to how to vote, change your vote, or revoke your proxy. If you want to vote those shares in person at the annual meeting, you must bring a signed proxy from the broker, bank, or other nominee giving you the right to vote the shares. Revocation of proxies for shares held through a broker, bank, or other nominee must be made through the appropriate nominee in accordance with its instructions.

If an adjournment of the meeting occurs, it will have no effect on the ability of shareholders of record as of the record date to exercise their voting rights or to revoke any previously delivered proxies.

VOTING YOUR SECURITIES

The 26,504,188 shares of Common Stock outstanding on April 1, 2009 were held by 7,581 shareholders residing in 50 states, the District of Columbia and a number of foreign countries.

Each holder of Common Stock of record at the close of business on April 8, 2009 will be entitled to one vote for each share of Common Stock so held on all matters properly submitted at the meeting. Such holder will be entitled to cumulative voting for directors; that is, to cast as many votes for one candidate as shall equal the number of shares held of record multiplied by the number of directors to be elected, or to distribute such number of votes among any number of the candidates.

A majority of the shares of Common Stock outstanding at the close of business on April 8, 2009 must be represented at the meeting, in person or by proxy, to constitute a quorum for the transaction of business.

It is important that your shares be represented at the meeting. You are urged, regardless of the number of shares held, to sign and return your proxy. Alternatively, you may grant your proxy by telephone or the internet as described above.

Table of Contents

ATTENDING THE ANNUAL MEETING

If you plan to attend the annual meeting, please detach and retain the admission ticket attached to your proxy card. As space is limited, you may bring only one guest to the meeting. If you hold your stock through a broker, bank, or other nominee, please bring evidence to the meeting that you owned NW Natural Common Stock as of the record date, April 8, 2009, and we will provide you with an admission ticket. If you receive your annual meeting materials electronically and wish to attend the meeting, please follow the instructions provided on-line for attendance. A form of government-issued photograph identification will be required to enter the meeting. To permit as many shareholders as possible to participate, only shareholders or their valid proxy holders may submit questions at the meeting. Large bags and packages, cameras, recording equipment, and other electronic devices will not be permitted in the meeting. A map with driving directions appears on the inside cover of this proxy statement.

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

NW Natural s Restated Articles of Incorporation provide that the Board of Directors be composed of not less than nine nor more than 13 directors, with the exact number of directors to be determined by the Board. On February 26, 2009, the Board fixed the number of directors at eleven to eliminate the vacant position resulting from the untimely death of Randall C. Papé on November 6, 2008. Mr. Papé had been a director since 1996 and served on a variety of board committees, most recently on the Finance and Governance Committees. The Company s management and Board of Directors express their deepest gratitude and appreciation for Mr. Papé s friendship, leadership and over twelve years of service for the benefit of the Company and its shareholders.

Our Chairman of the Board, Mr. Russell Tromley, will chair the 2009 Annual Shareholders Meeting. Mr. Tromley has been a director since 1994 and during that time has served on various committees. Currently, Mr. Tromley serves as Chair of the Governance Committee and as a member of the Audit Committee and the Organization and Executive Compensation Committee. Mr. Tromley became Chairman of the Board in 2008.

The Restated Articles also provide that the Board of Directors be divided into three classes and that the number of directors in each class be as nearly equal in number as possible. Members of each class are elected to serve a three-year term with the terms of office of each class ending in successive years. The term of Class I directors expires with this year s Annual Meeting. Messrs. Timothy P. Boyle, Mark S. Dodson and George J. Puentes are nominees for election to the Board as Class I directors to serve until the 2012 Annual Meeting or until their successors have been duly qualified and elected. Messrs. Boyle and Dodson were elected by the shareholders at the 2006 Annual Meeting. Mr. Puentes was elected to the Board as a Class I director on July 27, 2007 and reelected by the shareholders for the remainder of the Class I term at the 2008 Annual Meeting. Mr. Gregg S. Kantor was elected to the Board of Directors as a Class III director on September 25, 2008. Mr. Kantor is nominated for election to the Board as a Class III director to serve until the 2011 Annual Meeting or until his successor has been duly qualified and elected. In case any of the nominees should become unavailable for election for any reason, the persons named in the proxy will have discretionary authority to vote for a substitute. Management knows of no reason why any of the nominees would be unable to serve if elected.

Vote Required

Under Oregon law, if a quorum of shareholders is present at the Annual Meeting, the four nominees who receive the greatest number of votes cast at the meeting shall be elected directors. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote for directors.

The Board of Directors recommends the election of the nominees listed below.

Table of Contents

INFORMATION CONCERNING NOMINEES

AND CONTINUING DIRECTORS

NOMINEES FOR ELECTION TO BOARD OF DIRECTORS

Class I

(For a term ending in 2012)

Timothy P. Boyle

President and Chief Executive Officer, Columbia Sportswear Company, Portland, Oregon

Age: 59

Director since: 2003

Board Committees: Public Affairs and Environmental Policy, Strategic Planning

Since 1989, Mr. Boyle has served as President and Chief Executive Officer of Columbia Sportswear Company, an active outdoor apparel and footwear company headquartered in Portland, Oregon. He began working with Columbia Sportswear Company in 1970. Mr. Boyle is a member of the boards of directors of Columbia Sportswear Company, Craft Brewers Alliance Inc. and Oregon Trout and is a trustee of Reed College, the Youth Outdoor Legacy Fund and a past member of the Young Presidents Organization. He also is a past trustee of the University of Oregon Foundation and Vice Chairman of its capital campaign committee. He earned a Bachelor of Science degree in Journalism from the University of Oregon.

Mark S. Dodson

Former Chief Executive Officer, NW Natural, Portland, Oregon

Age: 64

Director since: 2003

Board Committees: Public Affairs and Environmental Policy, Strategic Planning

Mr. Dodson served as President and Chief Executive Officer of NW Natural from January 1, 2003 to April 30, 2007 when he relinquished his position as President and continued to serve as Chief Executive Officer until his retirement on December 31, 2008. From 2001 to January 2003, Mr. Dodson served as President, Chief Operating Officer and General Counsel of NW Natural. Mr. Dodson joined NW Natural in 1997 as Senior Vice President of Public Affairs and General Counsel, following a 17-year career with the Portland law firm Ater Wynne Hewitt Dodson & Skerritt LLP. Mr. Dodson currently serves on the board of directors of Energy Insurance Mutual. He also has worked on affordable housing issues as a board member and Chairman of the Neighborhood Partnership Fund. Mr. Dodson was formerly the Chair of the Portland Business Alliance and the Oregon State Board of Higher Education. He currently serves as a member of the board of directors of Waseda University USA, and headed the Oregon Governor s Task Force on Scholarship and Student Aid. He earned an undergraduate degree from Harvard University and a law degree from Boalt College of Law at the University of California, Berkeley.

Table of Contents

George J. Puentes

President, Don Pancho Authentic Mexican Foods, Inc., Salem, Oregon

Age: 61

Director since: 2007

Board Committees: Finance, Public Affairs and Environmental Policy

Mr. Puentes serves as President of Don Pancho Authentic Mexican Foods, Inc., a manufacturer of tortillas and other foods, which he founded in Salem, Oregon in 1979. Mr. Puentes served on the board of directors of the Federal Reserve Bank of San Francisco, Portland branch. He also serves as a trustee of the Meyer Memorial Trust. Mr. Puentes earned a Bachelor of Science degree in business management from San Jose State University.

Class III

(For a term ending in 2011)

Gregg S. Kantor

President and Chief Executive Officer, NW Natural, Portland, Oregon

Age: 51

Director since: 2008

Board Committees: None

Mr. Kantor became President and Chief Executive Officer of NW Natural on January 1, 2009. Previously, Mr. Kantor served as President and Chief Operating Officer of NW Natural from May 2007 to December 2008, and as Executive Vice President from December 2006 to April 2007. He also served as Senior Vice President of Public and Regulatory Affairs from 2003 to 2006, as Vice President of Public Affairs and Communications from 1998 to 2003, and as Director of Public Affairs and Communications from joining the Company in 1996 to 1998. Mr. Kantor is a member of the Oregon Global Warming Commission, and a board member of the Oregon Business Council, the Portland Business Alliance, the United Way of the Columbia-Willamette, the Portland Schools Foundation and the Leaders Roundtable. Mr. Kantor earned a Bachelor of Arts in Geography and Environmental Studies from the University of California at Santa Barbara and a Masters of Urban Planning from the University of Oregon.

Table of Contents

MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE

Class II

(For a term ending in 2010)

Tod R. Hamachek

Former Chairman and Chief Executive Officer, Penwest Pharmaceuticals Company, Seattle, Washington

Age: 63

Director since: 1986

Board Committees: Audit, Governance, Strategic Planning (Chair)

Mr. Hamachek served as Chairman and Chief Executive Officer of Penwest Pharmaceuticals Company from October 1997 to February 2005. Penwest, which was spun off from Penford Corporation in 1998, is located in Danbury, Connecticut and is engaged in the research, development and commercialization of novel drug delivery products and technologies. From 1985 until 1998, Mr. Hamachek served as President and Chief Executive Officer of Penford Corporation, a diversified producer of specialty paper, food starches and pharmaceutical ingredients. He is a director of The Seattle Times Company and The Blethen Corporation (the majority owner of The Seattle Times Company). Mr. Hamachek is a member of the board of directors of Virginia Mason Medical Center and Virginia Mason Hospital System in Seattle, Washington and The Sun Valley Center for The Arts and The Humanities in Ketchum, Idaho. He is a graduate of Williams College and Harvard Business School.

Jane L. Peverett

Former President and Chief Executive Officer, British Columbia Transmission Corporation, Vancouver, British Columbia, Canada

Age: 50

Director since: 2007

Board Committees: Audit, Organization and Executive Compensation, Strategic Planning

From 2005 to January 2009, Ms. Peverett served as President and Chief Executive Officer of British Columbia Transmission Corporation (BCTC), an electric utility in Vancouver, British Columbia. Between 2003 and 2005, she served as Chief Financial Officer of BCTC. Prior to joining BCTC, from 1988 through 2003, Ms. Peverett held various senior positions with Union Gas Limited of Toronto, Ontario, including serving as its President and Chief Executive Officer between 2001 and 2003. Ms. Peverett serves on the board of directors of EnCana Corporation, the B.C. Business Council, British Columbia Ferry Services Inc., and the Canadian Electricity Association. Ms. Peverett earned a Bachelor of Commerce degree from McMaster University and a Master of Business Administration degree from Queen s University. She is a certified management accountant.

Table of Contents

Kenneth Thrasher

Chairman and Chief Executive Officer, Compli, Portland, Oregon

Age: 59

Director since: 2005

Board Committees: Audit, Organization and Executive Compensation, Public Affairs and Environmental Policy (Chair)

Since 2002, Mr. Thrasher has served as Chairman and Chief Executive Officer of Alternative Solutions, Inc. (dba Compli), a software solution provider for management of compliance in employment, regulatory, environmental, health and safety and corporate governance practices. Prior to joining Compli, Mr. Thrasher served 19 years in executive positions with Fred Meyer, Inc., including serving as President and Chief Executive Officer from 1999 to 2001 and as Executive Vice President and Chief Administrative Officer from 1997 to 1999. Mr. Thrasher serves on the boards of directors of Compli, The Jensen Fund, Friends of the Children, Oregon Mentors, the Children s Institute, the Portland State University Foundation, the Leaders Roundtable, the OSU College of Education Advisory Board, and is a senior director on the Oregon Business Council. Mr. Thrasher earned a Bachelor of Science degree in Business Administration from Oregon State University. During 2008 and eight years prior he served as a member of the board of directors for the Oregon Coast Aquarium, for which his term expired on October 25, 2008.

Russell F. Tromley

Chairman of the Board of NW Natural; Chairman and Chief Executive Officer, Tromley Industrial Holdings, Inc., Tualatin, Oregon

Age: 69

Director since: 1994

Board Committees: Audit, Governance (Chair), Organization and Executive Compensation

Mr. Tromley became Chairman and Chief Executive Officer of Tromley Industrial Holdings, Inc. in 2005 after having served as President and Chief Executive Officer since the company s formation in 1990. Tromley Industrial Holdings is involved in the manufacture and sale of equipment for the foundry and steel industry, industrial equipment leasing and industrial and retail business property investments. Mr. Tromley is a past President of the Casting Industry Suppliers Association and of the Arlington Club, and is a non-lawyer arbitrator for, and a member of the House of Delegates of, the Oregon State Bar Association. He was a founding director of The Bank of the Northwest, and served on the advisory board of Pacific Northwest Bank of Oregon and as a director emeritus of the Evans Scholars Foundation and the Western Golf Association. Mr. Tromley attended the University of Washington and Harvard Business School.

Table of Contents

Class III

(For a term ending in 2011)

Martha L. Stormy Byorum

Senior Managing Director, Stephens Cori Capital Advisors, New York, New York

Age: 60

Director since: 2004

Board Committees: Audit, Finance (Chair)

In January 2005, Ms. Byorum became Senior Managing Director of Stephens Cori Capital Advisors, a division of Stephens, Inc., a private investment banking firm founded in 1933. From 2003 to 2004, Ms. Byorum served as Chief Executive Officer of Cori Investment Advisors, LLC, which was spun off from Violy, Byorum & Partners (VB&P) in 2003. VB&P was the leading independent strategic advisory and investment banking firm specializing in Latin America. Prior to co-founding VB&P in 1996, Ms. Byorum had a 24-year career at Citibank, where, among other things, she served as Chief of Staff and Chief Financial Officer for Citibank s Latin American Banking Group from 1986-1990, overseeing $15 billion of loans and coordinating activities in 22 countries. She later was appointed the head of Citibank s U.S. Corporate Banking Business and a member of the bank s Operating Committee and Customer Group with global responsibilities. A graduate of Southern Methodist University and the Wharton School at the University of Pennsylvania, she is a Life Trustee of Amherst College, a Trustee Emeritus of the Folger Shakespeare Library and a board member of Aeterna-Zentaris Laboratories, Inc., a biopharmaceutical company, and M&F Worldwide Corp.

John D. Carter

Chairman of the Board, Schnitzer Steel Industries, Inc., Portland, Oregon

Age: 63

Director since: 2002

Board Committees: Audit (Chair), Finance, Governance

Mr. Carter served as President and Chief Executive Officer of Schnitzer Steel Industries Inc. from May 2005 to December 2008 when he was appointed Chairman of the Board. From 2002 to May 2005, Mr. Carter was engaged in a consulting practice focused primarily on strategic planning in transportation and energy for national and international businesses, as well as other small business ventures. From 1982 to 2002, Mr. Carter served in a variety of senior management capacities at Bechtel Group, Inc., including Executive Vice President and Director, as well as President of Bechtel Enterprises, Inc., a wholly owned subsidiary of Bechtel Group, Inc., and other operating groups. Prior to his Bechtel tenure, Mr. Carter was a partner in a San Francisco law firm. He is Chairman of the Board of Schnitzer Steel Industries, and a director of FLIR Systems, Inc., and privately-owned Kuni Automotive in the U.S. In the United Kingdom, he served as a director of London & Continental Railways until February 2006, and, until December 2005, served as a director of Cross London Rail Links, Ltd. He is a graduate of Stanford University and Harvard Law School.

9

Table of Contents

C. Scott Gibson

President, Gibson Enterprises, Portland, Oregon

Age: 56

Director since: 2002

Board Committees: Governance, Organization and Executive Compensation (Chair), Public Affairs and Environmental Policy

Mr. Gibson has been President of Gibson Enterprises, a venture capital firm, since its formation in 1992. In 1983, Mr. Gibson co-founded Sequent Computer Systems and served as its President from 1988 until March 1992. Before his tenure at Sequent, Mr. Gibson served as General Manager for the Memory Components Division of Intel Corporation. Mr. Gibson serves as Chairman of the Board of Radisys Corporation and as a director of TriQuint Semiconductor, Pixelworks and Verigy Pte. He also serves as a member of the Board of Trustees of the Oregon Community Foundation, and the Franklin W. Olin College of Engineering, and is Vice Chair of the Oregon Health and Science University governing board. Mr. Gibson earned a Bachelor of Science degree in Electrical Engineering and a Masters in Business degree from the University of Illinois.

Table of Contents

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Meeting Attendance

The Board of Directors conducts its annual organization meeting on the same date as the Annual Meeting of Shareholders, which all of the directors are encouraged to attend. In 2008, all of our directors attended the Annual Meeting of Shareholders.

During 2008, there were six meetings of our Board, each of which included an executive session of non-management directors. No director attended fewer than 75 percent of the aggregate meetings of our Board and Committees on which he or she served.

Independence

The Board of Directors has adopted Director Independence Standards to comply with New York Stock Exchange (NYSE) rules. The Director Independence Standards, amended as of September 25, 2008, are available on our website at **www.nwnatural.com** and are available in print to any shareholder who requests them. No director is deemed independent unless the Board affirmatively determines that the director has no material relationship with NW Natural either directly or as a partner, shareholder or officer of an organization that has a relationship with NW Natural. The Board applies NW Natural s Director Independence Standards as well as additional qualifications prescribed under the listing standards of the NYSE and applicable state and federal statutes. Annually, the Board determines whether each director meets the criteria of independence. In February 2009, the Board determined that nine of the eleven directors met the independence criteria. They are directors Boyle, Byorum, Carter, Gibson, Hamachek, Peverett, Puentes, Reiten, Thrasher and Tromley. Mr. Papé, former director, was also deemed to have met the criteria of independence prior to his untimely death in 2008. For a discussion of transactions considered by the Board in determining independence, see Transactions with Related Persons, below.

Other than with respect to Mr. Papé, as described below in Transactions with Related Persons, there were no significant related party transactions, relationships or arrangements that were considered by the Board in determining that the directors are independent.

Board Nominations

The Board is responsible for selecting candidates for Board membership and the Governance Committee has been assigned the responsibility of recommending to the Board of Directors nominees for election as directors. The Governance Committee did not use a third party to assist in finding candidates. The Governance Committee, with recommendations and input from the Chairman of the Board, the CEO and other directors, evaluates the qualifications of each director candidate in accordance with the Director Selection Criteria established by the Board. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of NW Natural, the existing and prospective business environment faced by NW Natural and the long-term interests of shareholders. In conducting its assessment, the Governance Committee considers a variety of criteria, including the following:

Integrity. Directors should have proven integrity and be of the highest ethical character and share NW Natural s values.

Reputation. Directors should have reputations, both personal and professional, consistent with NW Natural s image and reputation.

Judgment. Directors should have the ability to exercise sound business judgment on a broad range of issues.

Knowledge. Directors should be financially literate and have a sound understanding of business strategy, business environment, corporate governance and Board operations.

Experience. Directors should be or have been in a generally recognized position of leadership in the nominee s field of endeavor and have a proven track record of excellence in their field.

Maturity. Directors should value Board and team performance over individual performance, possess respect for others and facilitate superior Board performance.

Commitment. Directors should be able and willing to devote the required amount of time to NW Natural s affairs, including preparing for and attending meetings of the Board and its Committees, and should not be over-committed by service on multiple other boards. Directors should be actively involved in the Board and its decision-making.

Skills. Directors should be selected so that the Board has an appropriate mix of skills in core areas such as: accounting, finance, government relations, technology, management, compensation, crisis management, strategic planning and industry knowledge.

Diversity. Directors should be selected so that the Board of Directors is a diverse body. Diversity in this context includes considerations of geographic location, gender, race and professional background.

Age. In accordance with NW Natural s Bylaws, the Board s retirement age is 70. As such, directors must be able, and should be committed, to serve on the Board for an extended period of time.

Independenc**e**. Directors should neither have, nor appear to have, a conflict of interest that would impair the director s ability to represent the interests of all NW Natural s shareholders and to fulfill the responsibilities of a director.

Ownership stake. Directors should be committed to having a meaningful, long-term equity ownership stake in NW Natural and be willing to comply with our stock ownership guidelines.

Shareholder Nominations

Shareholders recommendations for director-nominees may be submitted to NW Natural s Corporate Secretary for consideration by the Governance Committee. In evaluating shareholder recommendations for director-nominees, the Governance Committee applies the same Director Selection Criteria discussed above. NW Natural s Restated Articles of Incorporation provide that no person, except those nominated by the Board, shall be eligible for election as a director at any annual or special meeting of shareholders unless a written request that his or her name be placed in nomination, together with the written consent of the nominee, shall be received from a shareholder of record entitled to vote at such election by the Corporate Secretary of NW Natural on or before the later of (a) the thirtieth day prior to the date fixed for the meeting, or (b) the tenth day after the mailing of the notice of that meeting.

Committees

There are six standing Committees of the Board: Audit, Finance, Governance, Organization and Executive Compensation, Public Affairs and Environmental Policy, and Strategic Planning. Each of the Committees operates according to a formal written charter, all of which are reviewed annually and are available on our website at **www.nwnatural.com**. Copies of the charters are also available in print to any shareholder upon request. The performance of each committee is reviewed annually. Each committee may obtain advice and assistance from internal or external legal, accounting or other advisors, when appropriate, and each committee has the opportunity to meet in executive session with non-management directors at the end of each committee meeting.

Table of Contents

Audit Committee

The Audit Committee is composed of directors Byorum, Carter, Hamachek, Peverett, Thrasher and Tromley, each of whom is an independent director as defined under current NYSE listing standards and NW Natural s Director Independence Standards. Based on its review of relevant information, the Board has determined that Mr. Carter is an audit committee financial expert and independent as those terms are defined under applicable Securities and Exchange Commission (SEC) rules. Mr. Carter serves as Chair of the Committee and was appointed to that position in May 2005.

The Audit Committee is responsible for overseeing matters relating to accounting, financial reporting, internal control and auditing. The Audit Committee is also responsible for the appointment, compensation, oversight and review of the independent registered public accounting firm, and reviews the corporate audit and other internal accounting control matters with the independent auditor. A more detailed description of the Audit Committee s responsibilities is included in the Report of the Audit Committee, below. The Audit Committee reports regularly to the Board. The Audit Committee held eight meetings during 2008. Mr. Carter presides at all executive sessions of the Audit Committee.

Finance Committee

The Finance Committee is responsible for reviewing strategies and making recommendations to the Board with respect to our financing programs, financial policy matters and material regulatory issues. The Finance Committee is composed of directors Byorum, Carter, and Puentes. Mr. Papé was on the Committee until his death on November 6, 2008 and his position on this Committee has not been filled. Ms. Byorum was appointed Chair of the Committee in May 2008. The Finance Committee held three meetings in 2008.

Governance Committee

The Governance Committee is empowered, during intervals between Board meetings, to exercise all of the authority of the Board in the management of NW Natural, except as otherwise may be provided by law. The Committee, which serves as the nominating committee, makes recommendations to the Board regarding nominees for election to the Board, establishes criteria for Board and Committee membership and policies that govern the Board s activities, including the Corporate Governance Standards discussed below, and evaluates Board and individual director performance. It also considers any questions of possible conflicts of interest of Board members and senior executives and, jointly with the Organization and Executive Compensation Committee, considers CEO succession plans. This Committee is composed of directors Carter, Gibson, Hamachek, and Tromley, each of whom is an independent director as defined under current NYSE listing standards and NW Natural s Director Independence Standards. Mr. Papé served on the Committee until his death on November 6, 2008, and his position on this Committee has not been filled. During his service on the Committee in 2008, Mr. Papé was an independent director as defined under current NYSE listing standards and NW Natural s Director Independence Standards. The Governance Committee held five meetings in 2008. Mr. Tromley was appointed chair of the Committee in May 2008 and he presides at all executive sessions of the Governance Committee and executive sessions of the non-management directors of the Board.

Organization and Executive Compensation Committee

The Organization and Executive Compensation Committee reviews the performance of the CEO and other executive officers, makes recommendations to the Board relating to executive compensation programs and benefit plans, and oversees the administration of the Restated Stock Option Plan, the Long-Term Incentive Plan, the Executive Deferred Compensation Plan, the Executive Annual Incentive Plan, the Directors Deferred Compensation Plan and the Deferred Compensation Plan for Directors and Executives. This Committee also makes recommendations to the Board regarding Board compensation, and organization and executive succession matters. The Committee is composed of directors Gibson, Peverett, Thrasher and Tromley, each of whom is an independent director as defined under current NYSE listing standards and NW Natural s Director Independence Standards. Each member of this Committee also meets the criteria for a non-employee director under applicable SEC rules and the criteria for outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended (Internal Revenue Code). Mr. Gibson was appointed Chair of the Committee in May 2008 and he presides at all executive sessions of the Organization and Executive Compensation Committee. The Committee held four meetings in 2008. For additional information regarding this Committee, see Executive Compensation Compensation Discussion and Analysis Overview Organization and Executive Compensation Committee, below.

Public Affairs and Environmental Policy Committee

The Public Affairs and Environmental Policy Committee reviews our policies and practices relating to significant public and political issues that may impact our business operations, financial performance or public image. The Committee oversees our programs and policies relating to civic, charitable and community affairs, safety and equal employment opportunities. The Committee also reviews and recommends to the Board appropriate environmental policies and advises the Board concerning the status of our compliance with environmental regulations. The Committee makes recommendations to the Board to ensure that we fulfill our objectives in a manner consistent with the responsibilities of good corporate citizenship. The Committee is composed of directors Boyle, Dodson, Gibson, Puentes, and Thrasher. Mr. Dodson was appointed to the Committee in May 2008. Mr. Thrasher serves as Chair of the Committee and was appointed to that position in May 2008. The Public Affairs and Environmental Policy Committee held three meetings in 2008.

Strategic Planning Committee

The Strategic Planning Committee is responsible for reviewing and making recommendations to the Board regarding NW Natural s long-term strategic goals, objectives and plans for the purpose of creating and maintaining long-term shareholder value. The Committee is composed of directors Boyle, Dodson, Hamachek and Peverett. Mr. Dodson was appointed to the Committee in May 2008. Mr. Hamachek serves as Chair of the Committee and was appointed to that position in May 2008. The Strategic Planning Committee held three meetings in 2008.

Table of Contents

CORPORATE GOVERNANCE STANDARDS

The Board of Directors maintains Corporate Governance Standards that provide NW Natural and its Board of Directors with guidelines designed to ensure that business is conducted with the highest level of integrity. The Corporate Governance Standards are reviewed annually by the Governance Committee to determine if changes should be recommended to the Board of Directors. The Corporate Governance Standards, amended as of September 25, 2008, are available on our website at **www.nwnatural.com** and are available in print to any shareholder who requests a copy. Among other matters, the Corporate Governance Standards include the following guidelines:

A substantial majority of the Board should be independent as determined annually by the Board in accordance with NW Natural s Director Independence Standards.

The Governance Committee, the Audit Committee and the Organization and Executive Compensation Committee consist entirely of independent directors, as that term is defined by NYSE listing standards and NW Natural s Director Independence Standards.

The Governance Committee recommends director nominees to the full Board in accordance with the Director Selection Criteria.

Unless otherwise determined by the Board, directors must retire from the Board at the first annual meeting of shareholders after reaching age 70.

The Board and Committee structure and function, including expectations for meeting attendance and preparation.

Open and complete director access to NW Natural s senior management and Board and Committee access to independent counsel, accountants or other advisors, as appropriate.

Annual assessment of the performance and effectiveness of the Board, including Board Committees, as managed by the Governance Committee and reviewed by the full Board for discussion. In addition, the Governance Committee annually conducts peer reviews of directors prior to the end of their term of office.

Annually the Board reviews and approves the strategic plan and one-year capital expenditure plans.

The Governance Committee recommends Committee members for appointment by the Board and Committee membership is periodically rotated.

The Board holds an executive session of non-management directors at the end of each Board meeting; the chair of the Board presides at these executive sessions.

The CEO reports at least annually to the Board regarding succession planning and management development. The Organization and Executive Compensation Committee, is responsible for planning for succession and submitting its recommendations to the Board of Directors with respect to CEO selection, and is responsible, in consultation with the Governance Committee, for selecting the Chief Executive Officer.

The Organization and Executive Compensation Committee recommends to the Board reasonable director compensation. Directors who are also employees of NW Natural receive no additional compensation for their service as directors.

Stock ownership guidelines for directors that provide for ownership of NW Natural shares, including shares credited to the directors deferred compensation accounts valued at the lesser of $300,000 or five times a director s annual retainer fee.

Stock ownership guidelines for executives. See Executive Compensation Discussion and Analysis Stock Ownership Guidelines, below.

Table of Contents

Director orientation and continuing education expectations to familiarize and enable directors to develop and maintain skills necessary or appropriate for the performance of their duties.

Incentive compensation plans link pay to measured financial and other goals set in advance by the Board.

The Code of Ethics and Financial Code of Ethics policies, both of which, together with any amendments, are available on our website at **www.nwnatural.com.** Copies are also available in print to any shareholder who requests a copy. In addition, the Board of Directors has adopted procedures for the receipt, retention and treatment of concerns of our employees, shareholders, customers and other interested parties regarding accounting, financial reporting, internal controls, auditing or other matters. Concerns may be submitted in writing to the non-management directors of NW Natural, c/o Corporate Secretary, 220 NW Second Avenue, Portland OR 97209, or by calling 1-800-541-9967 or sending an e-mail to **directors@nwnatural.com**. Employees may also submit concerns anonymously pursuant to the Code of Ethics hotline, located on our internal website. Our Director of Internal Audit handles matters reported on the internal hotline and reports to the Audit Committee on hotline activity.

The Corporate Secretary will refer concerns that come before the Corporate Secretary relating to accounting, financial reporting, internal accounting controls or auditing matters to the chair of the Audit Committee and the chair of the Governance Committee, and all other concerns to the chair of the Governance Committee. The Corporate Secretary reports to the Governance Committee regarding concerns submitted to the non-management directors of NW Natural.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires NW Natural s directors and executive officers to file initial reports of ownership and changes in ownership of NW Natural Common Stock with the SEC. As required, we are disclosing the following late or missed filings: In March 2008 one Form 4 was filed late for each of Ms. Byorum and Mr. Gibson covering one transaction each in which Common Stock was purchased in connection with the Company s Deferred Compensation Plan for Directors and Executives, and in December 2008 one Form 4 was filed late for Ms. Kirkpatrick, our Vice President and General Counsel, related to 65 shares of Common Stock purchased by her spouse. Otherwise, based solely on a review of the copies of reports furnished to us and written representations that no other such reports were required, we believe that all directors and executive officers timely filed all other reports required under Section 16(a) of the Securities Exchange Act of 1934, as amended.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

There are no Compensation Committee interlocks or insider participation which SEC regulations or NYSE listing standards require to be disclosed in this proxy statement.

Table of Contents

TRANSACTIONS WITH RELATED PERSONS

The Board adopted a written policy on the review of related person transactions (Transactions with Related Persons Policy) specifying that certain transactions involving directors, nominees, executive officers, significant shareholders and certain other related persons in which NW Natural is or will be a participant, and are of the type required to be reported as a related person transaction under Item 404(a) of SEC Regulation S-K, shall be reviewed by the Audit Committee. The policy also establishes a requirement for directors, nominees and executive officers to report transactions involving a related person that exceed $5,000 in value. Pursuant to its Charter, the Audit Committee is responsible for reviewing related person transactions.

Under the Transactions with Related Persons Policy, the Audit Committee reviews the material facts and circumstances of any transaction that may require reporting under Item 404(a) of SEC Regulation S-K to determine: (i) whether or not the transaction is in the Company s best interest; and (ii) whether or not the transaction should be authorized or approved. Upon review of a transaction, the Audit Committee may approve or disapprove the transaction and direct the officers of the Company to take appropriate action. The Audit Committee may also refer the matter to the full Board of Directors with its recommendation for disposition. We are not aware of any transactions entered into during the last fiscal year that did not follow the procedures outlined in the policy.

The Papé Group

From time to time, NW Natural conducts business with affiliates of The Papé Group, Inc., of which former director Randall C. Papé was President, Chief Executive Officer and a major shareholder. Mr. Papé was a director from 1996 until his untimely death on November 6, 2008.

In May 2008, in accordance with the policy described above, NW Natural entered into a lease extension with Papé Properties Inc. for NW Natural s Coos Bay resource center for a term ending May 31, 2009. The original term of the lease expired May 31, 2007. The original base rent for the lease was $5,500 per month, with escalations equal to the change in the Consumer Price Index beginning the 25^{th} month of the term of the lease. NW Natural paid $77,201 in connection with the lease in 2008. The lease included an option to purchase which NW Natural declined to exercise prior its expiration. NW Natural is currently considering whether to further extend the lease.

From time to time, we also purchase equipment from and employ the services of certain affiliates of The Papé Group. In 2008, we paid $341,119 for such equipment and services, none of which were subject to installment payments. Although we are not aware of Mr. Papé having a direct interest in these transactions, we have assumed that, as a major shareholder of The Papé Group, the dollar value of the amount of his interest in the transactions approximates the amount of NW Natural s payments. Based upon a review of the transactions, including independent determinations that the aggregate amount of the transactions represented less than one percent of The Papé Group s consolidated revenue for 2008, the Audit Committee has affirmatively determined that these transactions were not material, and were arm s length transactions entered into in the ordinary course of business, consistent with terms that could have been obtained from unaffiliated third parties. The Board considered these transactions in assessing Mr. Papé s independence and determined that these transactions did not affect Mr. Papé s designation as an independent director during his service as a director in 2008.

Table of Contents

Compensation to Spouse of a Named Executive Officer

Ted Smart, the husband of Lea Anne Doolittle, Senior Vice President, has been an employee of NW Natural since February 2006. In November 2006, Mr. Smart moved from his position as a senior auditor to purchasing manager. Ms. Doolittle was not involved in decisions regarding Mr. Smart s hiring or promotion. Cash compensation paid to Mr. Smart in 2008 was approximately $149,000 and is expected to be approximately $130,000 in 2009. Mr. Smart reports to David Anderson, Senior Vice President and Chief Financial Officer. Compensation paid to Mr. Smart is reviewed periodically by our Audit Committee in accordance with our written policy on transactions with related persons.

Table of Contents

SECURITY OWNERSHIP OF COMMON STOCK OF CERTAIN BENEFICIAL OWNERS

The following table shows ownership of Common Stock of NW Natural on December 31, 2008 by each person who, to our knowledge, owned beneficially more than 5 percent of NW Natural Common Stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, NA Barclays Global Fund Advisors Barclays Global Investors, Ltd. 400 Howard Street San Francisco, CA 94105	1,749,727[1]	6.61%

[1] Based on information set forth on Schedule 13G filed February 5, 2009, with the SEC by Barclays Global Investors, NA. Of the total amount of beneficial ownership, the reporting group has sole voting power as to 1,323,139 shares and sole dispositive power as to 1,749,727 shares. These shares are held as follows: Barclays Global Investors, NA holds 536,028 shares, of which it holds sole voting power as to 427,663 shares and sole dispositive power as to 536,028 shares; Barclays Global Fund Advisors holds 1,195,987 shares, of which it holds sole voting power as to 894,656 shares and sole dispositive power as to 1,195,987 shares; and Barclays Global Investors, Ltd. holds 17,712 shares, of which it holds sole voting power of 820 shares and sole dispositive power as to 17,712 shares.

Table of Contents

BENEFICIAL OWNERSHIP OF COMMON STOCK BY DIRECTORS

AND EXECUTIVE OFFICERS

Set forth below is certain information with respect to beneficial ownership of NW Natural s Common Stock as of December 31, 2008 by all directors and nominees, each of the Named Executive Officers named in the Summary Compensation Table below and all directors and executive officers as a group. Options that are not exercisable, shares held in deferred compensation accounts that are not scheduled to be distributed, and other rights to acquire NW Natural common stock that are not vested, in each case within 60 days of December 31, 2008, are not included in the table, but are included in the footnotes below.

Name of Beneficial Owner	Number of Shares[1]	Percent of Outstanding Common Stock
Officers		
Mark S. Dodson (also a director)	118,815[2]	*
Gregg S. Kantor (also a director)	31,529[3]	*
David H. Anderson	46,978[4]	*
Lea Anne Doolittle	18,089[5]	*
Margaret D. Kirkpatrick	14,803[6]	*
Directors		
Timothy P. Boyle	10,002[7]	*
Martha L. Stormy Byorum	5,360[8]	*
John D. Carter	28,838[9]	*
C. Scott Gibson	1,988[10]	*
Tod R. Hamachek	6,756[11]	*
Jane L. Peverett	3,234[12]	*
George J. Puentes	3,143[13]	*
Kenneth Thrasher	4,000[14]	*
Russell F. Tromley	7,197[15]	*
All directors and officers as a a group (19 in number)	361,596[16]	1.4

* The total for each individual is less than 1.0 percent.
Based on the total number of shares beneficially owned on December 31, 2008 (including shares owned as of December 31, 2008, options exercisable within 60 days after December 31, 2008 and shares held in deferred compensation accounts that would be received by directors and Named Executive Officers within 60 days of December 31, 2008, if the director or Named Executive Officer ceased service with NW Natural on that date).

1 Unless otherwise indicated, beneficial ownership includes both sole voting power and sole investment power. Shares under the Directors Deferred Compensation Plan (DDCP), the Executive Deferred Compensation Plan (EDCP) and the Deferred Compensation Plan for Directors and Executives (DCP) that would be received by directors and Named Executive Officers within 60 days of December 31, 2008, if the director or Named Executive Officer ceased service with NW Natural on that date are included in the table. The remaining shares under the DDCP, EDCP and DCP are not included in the table as they represent under the terms of the plans, rights to receive shares that would not be distributed until a date that is later than 60 days after December 31, 2008.

2 Includes 3,308 shares held jointly with his wife and 558 shares held indirectly under the Retirement K Savings Plan (RKSP). This amount also includes 71,000 shares which Mr. Dodson has the right to acquire within 60 days through the exercise of options under the Restated Stock Option Plan (Restated SOP), 53,750 shares of which, pursuant to the terms of the Restated SOP, became fully exercisable on January 1, 2009, which was the day after Mr. Dodson s retirement.

3 Includes 15,750 shares which Mr. Kantor has the right to acquire within 60 days through the exercise of options under the Restated SOP and 2,697 shares held indirectly under the RKSP.

4 Includes 5,205 shares held jointly with Mr. Anderson s spouse, 27,500 shares which Mr. Anderson has the right to acquire within 60 days through the exercise of options under the Restated SOP, 277 shares held indirectly under the RKSP, 47 shares credited to the EDCP and 1,000 restricted Long-Term Incentive Plan shares that are subject to forfeiture. Does not include 4,690 shares credited to the DCP.

Table of Contents

[5] Includes 183 shares held by Ms. Doolittle s spouse, 5,831 shares held indirectly under the RKSP, 39 shares held indirectly under the RKSP by her spouse, 113 shares credited to the EDCP, 7,750 shares which Ms. Doolittle has the right to acquire within 60 days through the exercise of options under the Restated SOP and 600 shares which Ms. Doolittle s spouse has the right to acquire within 60 days through the exercise of options under the Restated SOP. Does not include 282 shares credited to EDCP.

[6] Includes 12,750 shares which Ms. Kirkpatrick has the right to acquire within 60 days through the exercise of options under the Restated SOP, 194 shares held indirectly under the RKSP, and 65 shares held by Ms. Kirkpatrick s spouse.

[7] Includes 9,294 shares credited to the DCP and 318 shares credited to the DDCP. Does not include 2,870 shares credited to the DDCP.

[8] Includes 4,158 shares credited to the DCP and 967 shares credited to the DDCP.

[9] Includes 11,105 shares credited to the DCP and 5,231 shares credited to the DDCP.

[10] Includes 110 shares held by Mr. Gibson s spouse, 590 shares credited to the DCP and 197 shares credited to the DDCP. Does not include 5,325 shares credited to the DCP and 1,780 shares credited to the DDCP.

[11] Includes 303 shares credited to the DCP and 1,605 shares credited to the DDCP. Does not include 2,745 shares credited to the DCP and 14,451 shares credited to the DDCP.

[12] Includes 2,234 shares credited to DCP.

[13] Includes 2,143 shares credited to the DCP. Does not include 409 shares credited to the DCP.

[14] Shares held jointly with Mr. Thrasher s spouse and that secure a personal line of credit.

[15] Includes 27 shares held by Mr. Tromley s spouse and 598 shares credited to the DDCP. Does not include 5,385 shares credited to the DDCP.

[16] Includes 60,864 shares held by executive officers not named above, of which 6,642 shares are held jointly with spouse or are held as custodian for children, 6,267 shares are held indirectly under the RKSP and 34,000 shares which the executive officers not named above have the right to acquire within 60 days through the exercise of options under the Restated SOP.

Table of Contents

EXECUTIVE COMPENSATION

REPORT OF THE ORGANIZATION AND EXECUTIVE COMPENSATION COMMITTEE

The Organization and Executive Compensation Committee of the Board of Directors (Committee) is responsible for discharging the responsibilities of the Board of Directors relating to the compensation of executives by ensuring that the Chief Executive Officer and other senior executives are compensated appropriately and in a manner consistent with the stated compensation philosophy of NW Natural and the requirements of the appropriate regulatory authorities.

The Committee is responsible for producing this report and for providing input and guidance to management in the preparation of the Compensation Discussion and Analysis following this report. In fulfilling its responsibilities, the Committee has reviewed and discussed the Compensation Discussion and Analysis with management.

In reliance on the review and discussion referred to above, the Committee recommended to the Board of Directors (and it has approved and directed) that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into NW Natural s Annual Report on Form 10-K for the year ended December 31, 2008.

Respectfully submitted on February 25, 2009 by the Organization and Executive Compensation Committee of the Board of Directors:

C. Scott Gibson, Chair	Kenneth Thrasher
Jane L. Peverett	Russell F. Tromley

22

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Overview

Organization and Executive Compensation Committee.

The Organization and Executive Compensation Committee (Committee) operates pursuant to a written charter that is available at our website and may be accessed at **www.nwnatural.com**. Under the Charter, the Committee is primarily responsible for:

- discussing and reviewing the management of NW Natural relating to its organization and to executive personnel and their compensation;
- producing an annual compensation committee report for inclusion in NW Natural s proxy statement; and
- providing input and guidance to management in the preparation of the Compensation Discussion and Analysis also to be included in NW Natural s proxy statement.

The Committee also periodically reviews with the Chief Executive Officer and the Senior Vice President responsible for human resources, NW Natural s succession planning process, including the identification of potential internal and external candidates for executive positions. The Committee s policies and decisions applicable to the compensation of all of the Named Executive Officers (listed below) are generally similar in all material respects.

Delegation of Authority. The Board of Directors has delegated to the Committee its full authority to grant stock options under the terms of the Restated Stock Option Plan and to grant awards under the terms of the Long-Term Incentive Plan. Both of these plans have been approved by our shareholders. With respect to other components of the Named Executive Officers compensation, the Committee submits its recommendations to the Board for approval. Day-to-day administration of director and executive compensation plans has been delegated, under the terms of the plans, to certain officers, with oversight provided by the Committee.

Management s Role. Management provides support to the Committee in a number of ways to facilitate executive compensation decisions, including working with outside counsel on plan design changes, preparing reports and materials, communicating with outside advisors, administering plans and implementing the Board s and Committee s decisions. The Senior Vice President responsible for human resources is the primary management contact for the Committee. The Chief Executive Officer makes recommendations to the Committee regarding plan design, salary increases, incentive awards and other executive compensation decisions for executives other than himself.

Use of Consultants. The Committee has engaged Towers Perrin, an independent compensation consulting firm (Consultant), to assist in the evaluation of the competitiveness of our executive compensation programs and to provide overall guidance to the Committee in the design and operation of these programs. The Consultant reports directly to the Committee chair, and the chair reviews all invoices submitted by the Consultant. At the direction and under the guidance of the Committee chair, the Consultant works with management to develop recommendations for executive compensation and executive programs to submit to the Committee for its consideration.

Table of Contents

Our Named Executive Officers

For purposes of this report, our Named Executive Officers include the following individuals:

Name	Title
Mark S. Dodson*	Chief Executive Officer
Gregg S. Kantor*	President and Chief Operating Officer
David H. Anderson	Senior Vice President and Chief Financial Officer
Lea Anne Doolittle	Senior Vice President
Margaret D. Kirkpatrick	Vice President and General Counsel

* In May 2008 Mr. Kantor was named as successor to Mr. Dodson upon his retirement as Chief Executive Officer on December 31, 2008. Effective January 1, 2009, Mr. Kantor was elected by the Board of Directors to the position of President and Chief Executive Officer of NW Natural.

Our Compensation Philosophy

The Committee has adopted a total compensation philosophy to guide its decisions with respect to executive compensation. Each year, including 2008, the Committee reviews, makes changes or corrections as necessary, and reaffirms its compensation philosophy. The guiding principles of this philosophy are to design executive compensation programs that:

ensure that we have the ability to attract, retain and motivate talented and qualified executives critical to the achievement of our annual goals, our long-term business strategy and objectives, and the enhancement of shareholder value by providing total remuneration, including base salary, incentive compensation, benefits and retirement income, at a level that is competitive with that of other energy service and general industry companies, as applicable, of comparable size and circumstances;

motivate high levels of performance by linking a portion of each executive s total direct compensation opportunity, which includes base salary, annual and long-term incentives to the achievement of previously-established annual and long-term performance goals and by including components of compensation opportunity that are at risk subject to the achievement of established performance criteria; and

promote creation of shareholder value by requiring meaningful stock ownership by officers (see Stock Ownership Guidelines, below) and by providing a significant component of compensation that is based on earnings growth and stock price performance (see Compensation Programs Long-Term Incentives, below) in order to align executives long-term interests with those of our shareholders.

Chief Executive Officer Succession

During 2008, the Committee concluded its oversight of a three-year succession planning and development process that resulted in the recommendation to appoint Mr. Kantor to the position of President and Chief Executive Officer effective January 1, 2009, following Mr. Dodson s retirement. The Committee oversaw the final transition process as Mr. Dodson prepared to retire, evaluated Mr. Kantor s experience and readiness for the promotion and reviewed the challenges associated with the responsibilities of the position. The Consultant recommended a beginning base salary for Mr. Kantor between 80% and 85% of the market median for chief executive officers of energy service companies, with the expectation of higher than average salary increases in the next several years as Mr. Kantor develops in his new position. Early in its consideration of the Consultant s recommendation, the Committee intended to recommend a base salary toward the higher end of the Consultant s range, or 85% of market median. However, before the Committee finalized its recommendation to the Board, Mr. Kantor requested a beginning base salary lower than 85% based on the current regional and worldwide economic situation. After consideration of this request and other factors, the Committee presented to the Board a recommendation for a starting base salary of $446,000,

Table of Contents

which was 82.5% of the market median salary for utility industry chief executive officers, as well as some limited duration severance provisions. The Board of Directors accepted the Committee s recommendation.

Pay for Performance

In 2008, NW Natural exceeded its annual incentive plan performance targets for earnings per share, return on invested capital and operating goals. The 2008 target for earnings per share for the year was $2.56 and NW Natural achieved $2.61. The Company also exceeded its 2008 target of 8.85% for return on invested capital with an actual return of 9.44%. Finally, the Company exceeded several of its operating goals for the year. This overall performance resulted in annual incentive awards that exceeded target awards by about 25%.

Additionally, the Company s total shareholder return performance during the three-year performance cycle from 2006-2008 outperformed 8 of the 10 companies in our long-term incentive plan peer group. Over the 2006-2008 performance period the Company s total shareholder return was 49.4% based on an increase of $12.12 in the average price per share of our Common Stock and $4.35 per share in dividends, which are assumed to be reinvested. During this three-year period, earnings per share grew by 24 percent and net income grew by 20 percent.

Elements and Objectives of our Executive Compensation Program

The elements and objectives of the executive compensation program for the Named Executive Officers are, among other things, designed to attract and retain talent, as described below:

Element	Objective(s)
Base salaries	Reflect the value of the executive s position to the business; Reflect the executive s performance in demonstrating leadership competencies; and Recognize that certain aspects of an executive s leadership role cannot be measured as objectively as other functions for purposes of meeting performance measures under incentive pay programs.
Annual incentive awards	Focus executives on achieving annual business results.
Long-term incentive awards	Focus executives on long-term performance and achieving desired long-term business results; and Reward executives for achieving total shareholder return.
Executive health, welfare and retirement benefits	Provide executives reasonable and competitive benefits; Allow for attraction and retention of experienced mid-career hires; and

Mitigate the impact of limits on qualified plan benefits imposed by the Internal Revenue Code.

Table of Contents

Element	Objective(s)
Change-in-control arrangements	Ensure attention and dedication to performance without distraction due to a potential change in control of NW Natural.

Market Position

The Committee seeks to achieve its executive compensation program s objectives by positioning total executive compensation, consisting of annual base salary, annual incentives, long-term incentives and benefits, at or near the 50th percentile of the applicable competitive market. The Committee has determined that using the 50th percentile of competitive market surveys as a guide for establishing executive compensation will provide us with the ability to attract and retain the best possible executive talent at or near competitive standards for comparable positions in the competitive market for each executive position. Although the total remuneration program is designed to pay compensation at the middle of the competitive market, the program contains several variable components, which allow compensation to exceed median competitive pay levels when the performance expectations of the Committee are exceeded; conversely, the program provides less than median competitive compensation when performance does not meet those expectations.

We are likely to attract candidates for most executive positions from the energy service market, specifically, from gas and electric companies of similar revenues in the United States. However, general industry market information may be considered for certain executive positions that can be found in any industry. The Committee reviews all components of executive compensation (including salary, annual incentives, equity and long-term incentive compensation, health, welfare, and other benefits, as well as the dollar value and cost of all benefits under our qualified and non-qualified deferred compensation and supplemental retirement plans) and compares them to the applicable competitive market for each executive officer every two years. The direct compensation components (salary and annual and long-term incentives) are compared to the applicable competitive market for each executive officer annually. The market data used in these comparative analyses are generally obtained from salary survey databases compiled by the Consultant, industry associations or other general industry sources.

In preparing its competitive market assessment, the Consultant employs a methodology that focuses on survey data for energy service companies with annual revenues of $500 million to $3.0 billion. The Consultant also provides survey data for similarly-sized general industry companies. At the Committee s request, the Consultant collects and updates 50th percentile data from compensation surveys for base salaries, annual incentives and long-term incentives. The Consultant selects the most appropriate market comparisons and synthesizes the data to provide to the Committee for its review. Named Executive Officers positions are matched to survey benchmarks based on functional responsibilities, with premiums or discounts applied where a Named Executive Officer s position has greater or lesser responsibility than the positions included in the survey benchmarks.

Table of Contents

In addition to looking at survey data to understand competitive market pay, the Consultant also provided the Committee with supplementary data in February 2008 for the most senior executives from the following 24 natural gas industry companies, as reported in their most recent proxy statements:

AGL Resources Inc.	National Fuel Gas Co.
Atmos Energy Corp.	New Jersey Resources Corp.
Cascade Natural Gas Corp.	Nicor Inc.
Chesapeake Utilities Corp.	ONEOK Inc.
Delta Natural Gas Co. Inc.	Piedmont Natural Gas Company Inc.
Energen Corp.	Questar Corp.
Energy West Inc.	SEMCO Energy Inc.
Equitable Resources Inc.	South Jersey Industries Inc.
KeySpan Corp.	Southwest Gas Corp.
Kinder Morgan Inc.	Southwestern Energy Co.
Laclede Group Inc.	UGI Corp.
Integrys Energy Group, Inc. (formerly Peoples Energy)	Washington Gas Light Co.

While the Committee considers data from these natural gas industry companies, it represents only one factor for its competitive analysis. Some of these companies may also be included in the market survey data if their annual revenues are comparable to ours.

In 2008, the Committee reviewed the compensation of the Chief Executive Officer relative to other executive officers, management, and the average NW Natural employee. Based upon that review and additional information the Consultant provided to the Committee in early 2009, the Committee determined that the total remuneration for the Named Executive Officers, including the Chief Executive Officer, was reasonable and aligned with the executive compensation principles discussed above.

Tally Sheets

Every year the Committee reviews the total remuneration of executives in the form of a tally sheet prepared by our human resources department and reviewed by outside consultants (legal, actuarial and compensation) which shows each executive s current total compensation from all sources, including potential compensation from equity awards not yet earned as well as retirement benefits, along with possible compensation from any severance arrangements, including change in control compensation. The Committee also uses tally sheets to review the impact of any significant plan change. In its most recent review of tally sheets, the Committee determined that each executive s compensation remained consistent with the Committee s expectations and no changes were recommended based upon its review. Other than with respect to a change in position, no executive officer received an increase in base salary for the fiscal year 2009.

Stock Ownership Guidelines

Our Corporate Governance Standards provide the following ownership guidelines for executive officers, expressed as a multiple of each executive officer s base salary:

Position	Dollar Value of Stock Owned as Multiple of Base Salary
Chief Executive Officer	2x

Executive and Senior Vice Presidents	1.5x
All other executive officers	1x

The Committee reviewed and reaffirmed the stock ownership requirements for executive officers in 2008. The Board of Directors of NW Natural believes that these ownership objectives provide executives with a meaningful stake in the ownership of NW Natural and, as a result, fully align executive officers interests with those of our shareholders. The ownership multiples represent two to three times the after-tax expected value of the Chief Executive Officer s annual equity grants (performance shares and stock options) and over two times the after-tax expected value of annual equity grant (performance shares and stock options) for other Named Executive Officers. The stock ownership objectives should generally be attained within five years of appointment as an officer. The Committee annually reviews the progress made by executives against these objectives. This progress is measured using both shares owned directly by executives as well as shares credited to their 401(k) and non-qualified deferred compensation plan accounts and is determined using the average daily closing price for the Common Stock over the preceding calendar year. The Committee last reviewed the progress of the Named Executive Officers in achieving these stock ownership objectives in February 2009 and concluded that all of the Named Executive Officers have achieved stock ownership goals or, for newer officers, have made satisfactory progress in achieving these goals given the time they have served in their respective executive positions.

Compensation Programs

How Compensation Decisions Are Made

Competitive data is used as a guide, with other relevant considerations including corporate and individual performance, an executive s experience and contribution, as well as the relative relationship of an executive s responsibilities to other executive roles. Our executive compensation programs are sufficiently flexible to allow pay relative to the market median to vary by individual position if warranted by special circumstances. These special circumstances might include strong individual performance, marketability of skills or retention considerations that could allow certain executives to receive higher than the average compensation increases for the industry or higher incentive awards in recognition of these special considerations. The Chief Executive Officer considers this type of information prior to recommending to the Committee salary and annual and long-term incentive compensation levels for the other Named Executive Officers. The Committee considers these recommendations, as well as the competitive data prepared by the Consultant, when making final compensation decisions.

The Committee also considers the Consultant s advice, including information from the Consultant s competitive analysis and survey, to determine:

- the inclusion of the various compensation program elements;
- policies for allocating between long-term and currently paid compensation;
- policies for allocating between cash and non-cash compensation, and among the different forms of non-cash compensation; and
- the basis for allocating to each of the two primary types of long-term compensation award opportunity.

The Committee s policy is to establish the allocations between long-term and currently paid compensation and between cash and non-cash compensation (including the allocation among different forms of non-cash compensation) in approximately the same manner as the median of the applicable competitive market for comparable executive positions.

Table of Contents

Current vs. At-Risk Compensation

An executive s base salary is intended to reflect the value of the executive s position to our company and provide a competitive foundation for the work being performed. The remainder of the total direct compensation is at risk and must be earned by achieving short-term and long-term performance goals, which are intended to increase shareholder value. See Long-Term Incentives below for a brief description of how we determine the expected value of long-term incentives. The portion of total direct compensation designed to be paid in base salary versus variable pay depends upon the executive s position and the ability of that position to influence outcomes, as well as market factors. The Chief Executive Officer has the largest portion of pay at risk. In 2008, the percentage of total direct compensation opportunity at risk or earned by achieving performance goals was approximately 67 percent for the Chief Executive Officer and, for the other Named Executive Officers, the average percentage of such compensation at risk was approximately 54 percent. The remaining portion of direct compensation is delivered in the form of base salary.

2008 Base Salaries

Base salaries paid to executives are established by the Board of Directors, on recommendation of the Committee, based upon the value of the position to the business, the performance of the individual and consideration of the market salary analyses prepared by the Consultant. As described above, these analyses include salary survey and proxy data for comparable positions at similar-sized energy service and general industry companies. Salaries are typically adjusted March 1 of each year. However, consistent with the Company s elimination of perquisites for executive officers and as previously disclosed, the Company made a one-time salary adjustment for each named executive officer on January 1, 2008 as reflected in the table below.

The following table shows the salaries of the Named Executive Officers before and after 2008 salary adjustments went into effect on March 1, 2008. Each Named Executive Officer received an approximately 3 percent salary increase which was consistent with company-wide average merit increases. Increases for Mr. Dodson, Mr. Kantor and Ms. Kirkpatrick were made to maintain their salaries near the 50th percentile of the energy service company survey data for their positions. With respect to Mr. Anderson and Ms. Doolittle these increases resulted in salaries at or about the mid-point between the energy service and general industry survey data medians for their positions, based on the Committee s view that these two positions should be competitive with and reflect the higher median salaries paid by general industry companies.

Name	Salary Effective January 1, 2008, Before Adjustment	Salary Adjustment Effective March 1, 2008
Mark S. Dodson	$ 587,000	$ 605,000
Gregg S. Kantor	354,000	367,000
David H. Anderson	333,000	343,000
Lea Anne Doolittle	233,000	240,000
Margaret D. Kirkpatrick	254,000	262,000

The following discussion and analysis contains statements regarding individual and corporate performance targets and goals. The measures and goals included in the Key Goals described below, except for the Additional Goal, were used for purposes of an incentive program that is for the most part applicable to all employees and designed to include measures that may be directly influenced by employees. The established method for calculating the Key Goal measures may include or exclude factors as appropriate for the incentive purposes of the measure,

Table of Contents

as determined by a committee of NW Natural and union management. Accordingly, these targets and goals are disclosed in the limited context of NW Natural s compensation programs and should not be understood to be statements of management s expectations or estimates of results or other guidance for the periods covered. NW Natural specifically cautions investors not to apply these statements to other contexts.

Executive Annual Incentive Plan

The Executive Annual Incentive Plan is designed to drive key executives to achieve our annual goals, including financial, operating and individual performance goals. Awards are paid by March 15th of the following year if the Committee determines the goals are achieved. Although the Committee has discretion to reduce a performance-based award, it has not determined the need to do so to date.

We believe this program supports our compensation objective of motivating executives to achieve high levels of performance. Participation in the plan currently is limited to 13 participants selected by the Committee, including the Named Executive Officers.

Target awards for executives vary as a percent of base salary based on the executive s position. The survey data provided by the Consultant in 2008 indicated that target bonus awards as a percent of salary for all of the Named Executive Officers were significantly below the median levels for their positions. In response to this data, Mr. Dodson s target award as a percent of base salary was increased from 50% to 70%, which was the energy service company median for his position, and the bonus targets for the other Named Executive Officers were all increased by 5 percentage points to move them closer to energy service company medians. Target and actual awards in dollars and as a percent of base salary (in effect on December 31, 2008) were as follows:

Named Executive Officer	Target Award Percentage	Target Award Amount	Actual Award Percentage	Actual Award Amount
Mark S. Dodson	70%	$ 423,500	90%	$ 547,000
Gregg S. Kantor	50%	183,500	65%	237,000
David H. Anderson	45%	154,350	57%	194,000
Lea Anne Doolittle	35%	84,000	44%	105,000
Margaret D. Kirkpatrick	35%	91,700	43%	113,000

When added to base salaries, the amounts payable upon achievement of these goals are intended to place executives compensation at the 50th percentile of total cash compensation for applicable comparable energy service industry positions included in the Consultant s survey data and analyses, except that Mr. Anderson and Ms. Doolittle have target total cash compensation at or about the midpoint between the energy service and general industry medians for their positions, which is consistent with their salary positioning. When goals are exceeded, it is expected that executives compensation will be above these levels, conversely if goals are not achieved, executives compensation will be below these levels. For information on the performance-based portion of specific awards granted to each Named Executive Officer, see the Grants of Plan-Based Awards During 2008 table below.

The Committee has given considerable attention to what performance measures are appropriate for the executive incentive plans and reviews these measures at least annually. Changes may be made to the measures at the start of new performance periods if the Committee determines that changes are appropriate. For 2008, the amounts of the awards

Table of Contents

under the Executive Annual Incentive Plan reflect an allocation of 75 percent to corporate performance goals (earnings per share, return on invested capital and key operating goals) and the remaining 25 percent to individual performance criteria established for each executive. The formula for the total incentive award is as follows:

[Corporate Performance Factor X 75%] + [Individual Performance Factor X 25%] X Target Award = Total Annual Incentive Award

Corporate Performance Goals. In 2008, the corporate performance goals established by the Committee for the Executive Annual Incentive Plan were designed to reward improvement in operating results by emphasizing the achievement of earnings per share and return on invested capital targets, and the attainment of several key operating goals shared with all employees.

The corporate performance factor is determined using the following formula:

[Earnings Per Share Factor X 33 1/3%] + [Key Goals Factor X 33 1/3%] + [Return on Invested Capital Factor X 33 1/3%] = Corporate Performance Factor

Earnings Per Share factor. The Committee concluded that Earnings Per Share would be accorded a weight of 33.33 percent to align executives interests with shareholders interests and in recognition of the importance earnings have in influencing our future stock price. For 2008, the Earnings Per Share performance goal consisted of a range of diluted earnings per share results from $2.42 per share to $2.75 or above, corresponding to payout factors ranging from 0 percent to 150 percent. The target level of diluted earnings per share was $2.56 per share, corresponding to a 100 percent payout factor. Actual Earnings Per Share results are interpolated to determine the corresponding performance factor.

Actual 2008 diluted earnings per share were $2.61, 5 cents above the 2008 target of $2.56, resulting in an Earnings Per Share factor equal to a 113.16 percent.

Key Goals factor. Operating goals of significant importance to the enhancement of our overall profitability and productivity were selected by the Committee to comprise the Key Goals factor, which accounts for 33.33 percent of the weighting for corporate performance. The operating goals are substantially aligned with the Key Goals incentive program for all employees. While each goal can contribute between 0 and 200 percent of the assigned goal weight based on actual results, the aggregate of the Key Goals factor is limited to a maximum of 150 percent. Actual results are interpolated to determine the performance factor for the particular goal.

The Key Goals factor was determined using the following formula:

Sum of [Goal Performance Factor X Goal Weight] for each of 11 Key Goals = Key Goals Factor

Table of Contents

A summary of the key operating goals for 2008 and the weighting of each goal to the overall factor is set forth in the following table:

Key Goals	Goal Description	Goal Performance Range		Target (100%) Performance	Goal Weight in Key Goal Performance Factor
Earnings per share (utility only)	Earnings per share for utility operations (excludes earnings per share contributions from certain non-utility activities)	$2.45	$2.69	$2.57	40.00%
Overall customer satisfaction	On a survey scale of 1-10 (10 as highest), percent of customers rating overall satisfaction at a 9 or 10	57.05%	61.55%	59.3%	3.00%
Customer satisfaction employee interaction	Customers who had interactions with service technicians and/or construction crew members rating satisfaction at a 9 or 10	74.5%	81.5%	78.0%	7.00%
Total customer additions	Total new meter sets	15,957	18,357	17,157	10.00%
Expense per customer	Measures reduction in total expense per customer	$173.39	$164.39	$168.89	10.00%
Capital expenditures per customer	Measures reduction in capital expenditures per customer	$151.05	$142.55	$146.80	7.50%
Acquisition cost per meter	Measures construction costs to install each new meter	$1,759.00	$1,459.00	$1,609.00	7.50%
Construction cost of mains per foot	Efficiency measure to calculate the cost per foot of new mains installed	$15.55	$11.55	$13.55	1.67%
Construction cost of systems expansion per foot	Efficiency measure to calculate the cost per foot of new system expansion mains installed	$8.06	$6.26	$7.16	1.67%
Construction cost of services per service	Efficiency measure to calculate the cost of each new service installed	$1,005.00	$785.00	$895.00	1.66%
Return on invested capital	Net income plus net interest, divided by average long-term capital (shareholders equity plus long-term debt, including current portion)	8.45%	9.15%	8.85%	10.00%

Table of Contents

Our operating performance in 2008 resulted in a Key Goals factor of 112.84 percent. While some operating goals target levels were substantially exceeded (e.g., return on invested capital and capital expenditures per customer were equal to the maximum of 200 percent and the customer satisfaction goals averaged 167 percent), others were not achieved (e.g., total customer additions, construction cost of mains per foot and construction cost per service were equal to 0 percent). The goals not achieved were primarily due to a slowdown in the new construction market as a result of the national economic recession and housing market decline, and higher than planned costs for new customer additions.

Return on Invested Capital factor. Return on invested capital was added in 2007 as a component of our Key Goals incentive program for non-union employees, and the Committee decided to further emphasize it for executives by making the same goal a new measure for the corporate performance factor. The weighting assigned to this factor also was 33.33 percent. The Committee added this measure because there is a significant amount of capital deployed to build and maintain the gas distribution and storage businesses and the Committee wants to hold the executives accountable for ensuring that the company is getting a reasonable return on the capital being deployed into the business.

This goal consisted of a range of results from 8.45 percent to 9.00 percent, corresponding to payout factors ranging from 0 to 150 percent. The target level of return on invested capital was set at 8.85 percent, corresponding to a 100 percent payout factor. The threshold performance level for a payout under this measure is 8.45 percent which is slightly above NW Natural s cost of capital as established in its most recent Oregon rate case.

Actual 2008 return on invested capital was 9.44 percent, resulting in a return on invested capital factor equal to the maximum of 150 percent.

For 2008, the combination of the Key Goals factor, the Return on Invested Capital factor and the Earnings Per Share factor produced an overall corporate performance factor equal to 125.33 percent of target.

Individual Performance Goals. Twenty-five percent of each Named Executive Officer s annual incentive target award is based on individual performance goals. In the case of the Chief Executive Officer, these are determined at the discretion of the Committee and largely based on the Committee s qualitative assessment of the Chief Executive Officer s performance. The other Named Executive Officers individual performance goals align with the Chief Executive Officer s goals and support the Company s strategic plan. The Committee and the Company believe that achieving its strategic goals, along with the strong operation and management of our day-to-day business, will create success for our customers, employees and shareholders. NW Natural s 2008 annual priority goals were to:

- execute operational changes by year end 2008;
- complete implementation of the second phase of an integrated information system on time and on budget;
- advance NW Natural s business development initiatives for key gas infrastructure projects;
- achieve overall customer satisfaction consistent with the Key Goal factor;
- achieve earnings per share growth and return on invested capital targets; and

accomplish these goals in a manner consistent with NW Natural s core values.

Table of Contents

In addition to the above goals, the Chief Executive Officer s performance goals included continued progress on succession planning, leadership development and involvement in policy matters related to climate change.

The Chief Executive Officer evaluated the 2008 individual performance of each Named Executive Officer on a scale from 0 to 150 percent, based on performance and peer ratings. The Chief Executive Officer s recommendations regarding individual performance are reviewed and approved by the Committee as it reviews the overall performance of executives against the operating goals. The Committee uses this same method of assessment to establish the year-end performance rating for the Chief Executive Officer. The Committee determined that executives had met or exceeded these goals and assigned a rating of 140 percent for the Chief Executive Officer s individual performance. Performance of the other Named Executive Officers ranged from 116 percent to 140 percent.

On average, the total awards for the Chief Executive Officer and the other Named Executive Officers were 26 percent above the target awards for the year, primarily due to higher than targeted earnings per share and return on invested capital performance for the year, and significant advancement of NW Natural s business development activities.

Long-Term Incentives

The long-term incentive portion of our executive compensation program consists of two components: stock options and performance shares. The Consultant provides the Committee with annual compensation survey data based on the total expected value of long-term incentives, which is defined for stock options to be the grant-date Black-Scholes value of options granted during the year, and is defined for performance share awards to be the grant-date market price of the target number of performance shares covered by awards during the year. The survey data provided by the Consultant in 2008 indicated that the expected value of long-term incentives for all of the Named Executive Officers was below the applicable median levels for their positions, except that Ms. Kirkpatrick s level of value was near median for her position. Accordingly, long-term incentive awards for all Named Executive Officers other than Ms. Kirkpatrick were increased in 2008 to bring award levels closer to median, except that Ms. Doolittle s long-term incentives were set near the midpoint between the energy service and general industry medians for her position to recognize her promotion to Senior Vice President and to align her closer to general industry standards.

In 2008, approximately 15 percent of the expected value of long-term incentives to be granted to each Named Executive Officer was granted in the form of stock options and approximately 85 percent of such expected value of long-term incentives was granted as performance share awards. While both stock options and performance shares provide incentives to executives to work toward increasing the price of our Common Stock in order to more closely align executives interests with those of our shareholders, the performance share program rewards relative stock price performance to a peer group and also focuses the executives on key long-term objectives that align with the creation of shareholder value. The Committee believes that these two components (options and performance shares) in combination provide a balanced performance focus for executives.

For 2008 compensation, the expected value of long-term incentives represented approximately 45 percent of the target total direct compensation for the Chief Executive Officer and approximately 35 percent on average for the other Named Executive Officers.

Stock Options. In 2008, pursuant to the Restated Stock Option Plan, the Committee granted stock options which vest equally over four years. Except in cases of grants of options made to attract new employees, option and performance share grants are made by the

Table of Contents

Committee at its meeting each February. This is the same time the Committee considers and approves changes in all of the other components of executive compensation, thus having the benefit of considering the relative value of all components of pay (base salary, and annual and long-term incentives) at once, as well as reviewing the Consultant s annual updated competitive compensation analysis. The exercise price for stock options is set at 100 percent of the closing market price of our Common Stock quoted on the NYSE on the date of grant. The Committee uses the same practice to establish stock option exercise prices for all employees receiving options. Option repricing is specifically prohibited under our Corporate Governance Standards.

It is the Committee s policy to grant non-statutory stock options under the Internal Revenue Code and the related regulations so that any such compensation recognized upon the exercise of options will be tax deductible by NW Natural. The shareholders have previously approved the Restated Stock Option Plan to comply with the performance-based compensation requirements of Section 162(m) of the Internal Revenue Code, and the plan provisions are designed to satisfy the other requirements for performance-based compensation so that compensation related to the exercise of options granted under this Plan would not be subject to the $1 million limitation on tax-deductible compensation.

Among the factors the Committee considers in determining the number of options to be granted to the Chief Executive Officer, and the Chief Executive Officer considers when making recommendations for the other Named Executive Officers, are:

- the total long-term competitive market compensation survey data provided by the Consultant;
- the executive s relative position and level of responsibility within NW Natural;
- the performance of the executive during the prior period; and
- the number of options needed to ensure that executives are focused on absolute share price appreciation over the long-term.

Considering these factors, the Committee granted options to the Named Executive Officers in 2008 as shown in the Grants of Plan-Based Awards During 2008 table, below. The option grant for Mr. Dodson increased by 2,000 shares compared to his 2007 option grant of 23,000 shares, while the option grants for Mr. Kantor and Mr. Anderson increased by 1,000 shares each compared to their 2007 options grants of 7,000 shares each, in each case consistent with the Committee s decision to increase the executives long-term incentives to be more competitive with energy service company survey data. Ms. Doolittle s grant increased by 1,000 shares compared to her 2007 option grant of 3,000 shares to create stronger alignment with general industry competitive data and to recognize her promotion to Senior Vice President. Option grants for Ms. Kirkpatrick remained unchanged at 4,000 shares.

Outside of the regular schedule for stock option grants, from time to time the Committee grants a limited number of stock options to newly-hired executives and senior managers. One such grant of an option for 5,000 shares was made in 2008, but none were made to a Named Executive Officer.

Performance Shares. The second component of our executives long-term compensation program is provided through a performance share program under our Long-Term Incentive Plan. The purpose of the performance share program is to provide a means for rewarding executives for their success in driving long-term performance results which increase

35

Table of Contents

shareholder value. This component is also designed to encourage ownership of our stock by our executives. All of the Named Executive Officers participate in the performance share program.

In February 2008, each Named Executive Officer received a performance share award to be earned over a three-year performance period (2008-2010). The threshold (minimum award other than no award), target and maximum performance share awards approved by the Committee for the Named Executive Officers in 2008 were primarily based on the Consultant s analysis considering competitive opportunities for comparable executive positions and consideration of the level of expected value provided by the program as a percentage of the participant s total direct compensation opportunity. In 2008 Mr. Dodson s performance share award increased by 2,000 shares, from 13,000 in 2007 to 15,000 shares. Performance share awards also increased for Mr. Kantor from 4,500 shares in 2007 to 6,500 shares in 2008; for Mr. Anderson from 4,500 shares in 2007 to 5,500 shares in 2008, and Ms. Doolittle from 2,000 shares in 2007 to 3,500 shares in 2008. Performance share awards remained the same for Ms. Kirkpatrick, 3000 in 2008. These awards were consistent with the Committee s decision to increase the long-term incentives for these officers to be competitive with applicable industry market data, and also reflected Mr. Kantor s increased responsibilities as President and Chief Operating Officer.

The performance criteria used for the three most recent three-year performance cycles, 2006-2008, 2007-2009 and 2008-2010, were based on two primary factors: total shareholder return (weighted 75 percent of the total award) and performance milestones relative to our core and non-core strategic plan goals (weighted 25 percent of the total award).

Total Shareholder Return Component. Seventy-five percent of the award is based on total shareholder return relative to a peer group of 10 natural gas utility companies. The Committee selected the peer group companies because of their comparability to us both in terms of size and the nature of their business. This peer group differs from the group included in the total shareholder return table appearing in our 2008 Annual Report to Shareholders in that it focuses on local gas distribution companies instead of a broader group of energy companies. The peer group consists of AGL Resources Inc., Atmos Energy Corporation, South Jersey Industries, Inc., The Laclede Group Inc., New Jersey Resources Corporation, Nicor Inc., Vectren Corporation, Piedmont Natural Gas Company Inc., Southwest Gas Corporation and WGL Holdings, Inc. This peer group is used exclusively for this program, but some or all of these companies may also be included in the survey data used by the Consultant and in the total shareholder return table included in our 2008 Annual Report. If over the course of the cycle a peer company ceases to be publicly traded, an alternative peer company is substituted from a pre-established alternate peer list, which for the 2008-2010 cycle consists of Nisource Inc., Chesapeake Utilities Corp. and National Fuel Gas Company. Total shareholder return is the return a shareholder earns over a specified period of time, in this case the three-year performance period. Total shareholder return measures the change in share price, assuming dividends are reinvested, and is what we might expect a shareholder to receive from his or her ownership in NW Natural. The value at the end of the period is determined based on the three-month average daily closing price prior to the end of the performance period compared to the three months immediately prior to the start of the performance period. This measure was determined by the Committee to best align the interests of management with those of the shareholders. We must achieve a minimum average of 6 percent total shareholder return per year (a cumulative total of 19.1 percent for the three-year cycle) over the three-year period before any awards can be earned under this component and must perform on par with the fourth-ranked peer company to earn the target award.

Table of Contents

The following table shows the total shareholder return component factors we use to determine NW Natural s factor for total shareholder return compared to rankings for companies in the peer group noted above:

Total Shareholder Return Ranking for Peer Group	Total Shareholder Return Component Factor
10	0%
9	0%
8	25%
7	25%
6	50%
5	75%
4	100%
3	125%
2	150%
1	200%

The top performing peer group company was Laclede Group Inc. whose total shareholder return for this 2006-2008 period was a cumulative 82.96%. The second highest performing company was Piedmont Natural Gas Company Inc. whose performance was a cumulative 49.77% over the same period. NW Natural s performance was a cumulative 49.38% which resulted in a total shareholder return component factor of a cumulative 149.13%.

Strategic Component. The remaining 25 percent of any performance share award is subjective and determined at the discretion of the Committee at the end of the three-year performance cycle. Among other things, the Committee considers actual performance relative to strategic milestones set forth in our strategic plan and approved by the Committee prior to the beginning of the cycle. Factors considered by the Committee include, but are not limited to:

financial measures, including the earnings per share contribution of new residential and commercial customers, return on invested capital and return on equity;

non-core growth measures relating to acquisition opportunities, gas storage and pipeline and gas supply projects; and

workforce development and succession planning matters.

The following formula is used to determine the performance share factor at the end of the three-year performance period. This factor is then applied to the target awards for each award recipient.

[Strategic Component Factor (0-200%) X 25%] + [Total Shareholder Return Component Factor (0-200%) X 75%] = Performance Share Factor

At the end of the 2006-2008 program term, the Committee determined the degree to which the strategic goals were achieved and assigned a strategic component factor of 150 percent, indicating that the strategic component factor was exceeded based on its subjective assessment of earnings per share performance, management s business development activities and milestones achieved in execution of our strategic plan in workforce development and succession planning over the three years being assessed. Further, in deciding to assign an above-target level to the strategic component, the Committee considered management s

37

Table of Contents

performance in executing its business process redesign, which was considered to be instrumental in achieving NW Natural s 5 percent annual long-term earnings growth targets, storage business development and strong results from our existing storage business, and succession planning and development.

Because the Committee s determination as to the achievement of this portion of the award is discretionary, amounts paid to the Named Executive Officers may not be tax deductible under Section 162(m) of the Internal Revenue Code. See Regulatory, Tax and Accounting Considerations, below.

Total 2008 Performance Shares. The combination of the total shareholder return component factor (at 149.13 percent, weighted 75 percent) and the strategic component factor (at 150 percent, weighted 25 percent) for the 2006-2008 cycle resulted in a performance share factor of 149.35 percent of target. For actual 2008 award amounts, see the Option Exercises and Stock Vested During 2008 table, below.

Perquisites

In December 2007, the Committee reviewed its perquisite policy and eliminated executive perquisites effective January 1, 2008. The Committee acknowledged that while many utilities continue to provide some level of perquisites, many general industry companies are moving away from this practice as these benefits are not provided to all employees.

The Committee acknowledges that certain benefits incidental to other business-related activities may continue, but the aggregate annual value of such benefits is not expected to exceed $10,000 for any Named Executive Officer.

Qualified and Non-Qualified Retirement (Defined Benefit) Plans

In general, when compared to non-utilities, the utility industry has historically provided a greater percentage of total remuneration in the form of retirement benefits, particularly in the form of defined benefit plans, rather than current cash compensation. The Named Executive Officers participate in the Retirement Plan for Non-Bargaining Unit Employees, our qualified defined benefit pension plan, on the same terms as other salaried employees. We also maintain the following non-qualified supplemental retirement plans for executives: the Executive Supplemental Retirement Income Plan and the Supplemental Executive Retirement Plan. These plans are more fully described below under the Pension Benefits as of December 31, 2008 table and the related narrative discussion.

Qualified and Non-Qualified Deferred Compensation (Defined Contribution) Plans

We also maintain both tax-qualified and non-tax-qualified defined contribution plans in which the Named Executive Officers are eligible to participate. Our Retirement K Savings Plan (401K Plan) is a tax-qualified defined contribution plan and our Deferred Compensation Plan for Directors and Executives is a non-tax-qualified deferred compensation plan. For further discussion of Named Executive Officer participation in non-qualified deferred compensation plans in 2008, see the Non-Qualified Deferred Compensation in 2008 table below.

Change in Control/ Severance Agreements

The Board of Directors considers the establishment and maintenance of an effective, sound and vital management team to be essential to protecting and enhancing the best interests of our company. In recognition of the possibility of a change in control of NW Natural and that such possibility, and the uncertainty and questions that it could raise among management may result in the departure or distraction of management personnel to our detriment, the Board has approved double trigger severance agreements with all of the Named Executive Officers. In

December 2008, based on direction and prior approval from the Board of Directors, the Company modified the severance agreements with all of the Named Executive Officers to reduce the level of benefits available under the agreements as the Named Executive Officers approach age 65 given that the value of the benefit should diminish commensurate with an officer s potential remaining years of employment. The Board believes the current form of severance agreement reflects a conservative approach using energy industry standards. None of the agreements with officers of NW Natural include provisions for tax gross-up upon a triggering event. See Potential Payments Upon Termination or Change in Control, below.

In general, the Committee prefers not to enter into severance agreements other than for change in control purposes as discussed above. Accordingly, the Committee has established a guideline that severance benefits may only be provided following a termination without cause in the first five years of employment in a particular position or after a change in control. The benefit for termination without cause, absent a change in control, is reduced over the term of the agreement, which cannot exceed five years. In late 2008, the Committee approved an agreement of this nature with Mr. Kantor as the incoming Chief Executive Officer. See Potential Payments Upon Termination or Change in Control below.

Regulatory, Tax and Accounting Considerations

Regulatory Treatment

We fully assess the accounting and tax treatment of each form of compensation paid to the Named Executive Officers for both NW Natural and the individual executive. This is particularly important in a regulated business where we are allowed to recover costs of service in rates (salaries, qualified pensions and health and welfare benefit costs), while other elements of executive compensation, such as annual incentive awards, long-term performance shares and non-qualified retirement benefits, are typically shareholder expenses because the programs are designed to meet shareholder objectives. However, our incentive compensation programs benefit customers by including performance incentives that:

- encourage efficient customer service;
- encourage management of construction, capital and operational costs, which helps to abate the need for future rate increases; and
- focus on customer satisfaction.

Table of Contents

See Corporate Performance Goals, above. Actual amounts currently recovered in rates are based on amounts determined in our general rate cases approved by the Oregon Public Utility Commission in 2003 and by the Washington Utilities and Transportation Commission in 2008. The following table shows the current rate recovery treatment for categories of compensation expenses for various elements of our executive compensation program:

Expenses Recovered in Rates	Expenses Not Recovered in Rates
Salaries	Stock Options
Qualified pension plan benefits	Executive Annual Incentive Plan
Qualified Retirement K Savings Plan matching contribution	Long-Term Incentive Plan
Health and welfare benefits	Interest paid and matching contributions on Deferred Compensation Plan for Directors and Executives
	Interest paid on Executive Deferred Compensation Plan
	Executive Supplemental Retirement Income Plan
	Supplemental Executive Retirement Plan
	Change-in-control severance benefits
	Non-change-in-control severance benefits

Tax Deductibility of Compensation

In developing executive compensation programs, the Committee takes into consideration the tax deductibility of the various components of compensation under the Internal Revenue Code. Section 162(m) of the Internal Revenue Code generally limits to $1 million per person the amount that may be deducted for compensation paid in any year to our Named Executive Officers (other than the chief financial officer). Certain exceptions to this limitation apply to performance-based compensation. We have obtained shareholder approval of the Restated Stock Option Plan and the Long-Term Incentive Plan to qualify the exercise of non-statutory stock options and the payment of the non-discretionary portion of long-term incentive awards under the Long-Term Incentive Plan as performance-based so that compensation received would not be subject to the $1 million limitation. It is the Committee s policy to grant options that meet the requirements of the Internal Revenue Code and related regulations so that any such compensation recognized by an optionee will be fully-deductible, performance-based compensation. The non-discretionary portion of performance share long-term incentive awards granted by the Committee is also generally intended to meet the performance-based compensation requirements of the Internal Revenue Code and related regulations so that any compensation paid under the non-discretionary portion of those awards should be fully deductible. Mr. Dodson elected to defer 100% of his 2008 bonus and performance share payout under our deferred compensation plan, so we do not expect any amounts paid to our Named Executive Officers in 2008 or for performance in 2008 to be considered non-deductible under Section 162(m).

Table of Contents

COMPENSATION TABLES

SUMMARY COMPENSATION TABLE

The following is a summary of the compensation for our Named Executive Officers in 2008, 2007 and 2006. Only a portion of the executive compensation shown in this Summary Compensation Table is included for purposes of establishing regulatory rates charged to customers. Although most of our compensation programs are designed to promote shareholder objectives, our customers also directly benefit because many of the programs include performance incentives that are designed to improve service to our customers. For discussion regarding amounts excluded from rate recovery, see Compensation Discussion and Analysis Regulatory, Tax and Accounting Considerations Regulatory Treatment, above.

NAME AND PRINCIPAL POSITION (a)	YEAR (b)	SALARY ($) (c)	BONUS[1] ($) (d)	STOCK AWARDS[2] ($) (e)	OPTION AWARDS[3] ($) (f)	NON-EQUITY INCENTIVE PLAN COMPEN-SATION[1] ($) (g)	CHANGE IN PEN SION VALUE AND NON-QUALIFIED DEFERRED COMPEN SATION EARNINGS[4] ($) (h)	ALL OTHER COMPEN-SATION[5] ($) (i)	TOTAL ($) (j)
Mark S. Dodson	2008	$ 602,000	$ 149,021	$ 279,109	$ 133,625	$ 398,079	$ 865,423	$ 101,871	$ 2,529,128
Chief Executive Officer	2007	544,167	119,232	798,958	286,933	280,768	2,746,717	117,664	4,894,439
	2006	512,499	96,735	567,968	93,197	276,265	762,143	67,726	2,376,533
Gregg S. Kantor	2008	364,833	64,615	125,808	28,512	172,485	463,775	26,924	1,246,952
President and Chief Operating Officer	2007	286,500	54,682	240,590	18,504	149,318	255,807	124,628	1,130,029
	2006	183,083	22,907	161,075	16,285	69,093	91,237	39,407	583,087
David H. Anderson	2008	341,333	49,015	200,274	36,540	145,085	21,608	18,479	812,334
Senior Vice President	2007	302,000	45,441	341,726	26,532	124,559	11,024	56,925	908,207
and Chief Financial Officer	2006	285,542	40,834	167,451	53,117	123,166	16,690	49,086	735,886
Lea Anne Doolittle	2008	238,833	26,142	71,985	15,686	78,958	192,630	13,538	637,772
Senior Vice President	2007	201,167	23,210	132,952	10,682	62,790	104,840	95,013	630,654
	2006	181,067	20,421	107,384	14,306	58,579	83,618	36,666	502,041
Margaret D. Kirkpatrick	2008	260,667	26,904	101,317	20,853	86,196	32,551	8,351	536,839
Vice President and General Counsel	2007	227,833	22,553	152,281	35,797	70,447	22,512	25,827	557,250
	2006	215,833	22,156	18,630	27,314	69,844	24,967	37,822	416,566

[1] The total bonus paid to each Named Executive Officer under our Executive Annual Incentive Plan for performance in 2008 is equal to the sum of the amounts shown in column (d) and column (g). Amounts constituting the discretionary portion of bonuses under the plan are included as bonuses in column (d). Amounts constituting the performance-based, non-discretionary portion of bonuses under the plan are included as non-equity incentive plan compensation in column (g). Amounts in column (d) also include a $100 bonus paid to all employees in recognition of better than expected 2007 corporate results.

[2] Amounts shown in column (e) represent the amount of compensation expense recognized under Statement of Financial Accounting Standards (SFAS) No. 123R, Share Based Payment (FAS 123R) with respect to performance share awards granted in 2008 and prior years, disregarding estimated forfeitures. The issuance of the shares under these awards is contingent upon meeting certain performance criteria, so the shares may or may not be earned. The portion of each performance share award based on relative total shareholder return (75 percent of target award) is considered to be subject to a market condition under FAS 123R, so the fair value of this portion of each award as of each applicable measurement date was calculated using a binomial pricing model. For the remaining portion of each performance share award subject to strategic performance milestones (25 percent of target award), the amount of expense is based on the estimated number of shares to be issued multiplied by the sum of the closing market price of the Common Stock on the applicable measurement date plus the estimated dividends to be paid on a share over the three-year performance period. The performance share awards granted in 2007 were classified as liability awards under FAS 123R as of December 31, 2007, because recipients could elect to defer such shares into cash accounts under our deferred compensation plan; however, that plan was amended on February 28, 2008 to prohibit such deferrals of shares into cash accounts for all unexpired performance periods, with the effect that all outstanding awards were reclassified as equity awards under FAS 123R as of the date of that amendment. Accordingly, the amounts expensed in 2007 for the awards granted in 2007 were based on the fair values of the awards as of December 31, 2007, and the amounts expensed in

Table of Contents

2008 for the awards granted in 2007 were based on the fair values of these awards as of February 28, 2008. The performance share awards granted in February 2008 have been classified as equity awards under FAS 123R at all times since the grant. The deferral election under our deferred compensation plan for the performance share awards granted in 2006 was required to be completed at December 31, 2007. Accordingly, the portions of such performance share awards for which deferral into a cash account was not elected were classified as equity awards under FAS 123R at December 31, 2007 with the amounts expensed in 2008 for these awards being based on their fair value as of that measurement date. The performance share awards granted in 2006 that were elected to be deferred into cash accounts continued to be classified as liability awards until the deferred compensation plan was amended on February 28, 2008 to override that election, and amounts expensed in 2008 for those awards were based on their fair value as of February 28, 2008.

For Mr. Anderson, the amount in column (e) for 2008 also includes expense related to his restricted stock award granted in 2004. Total compensation expense for restricted stock is equal to the grant date fair value of the shares and is recognized ratably over the five-year vesting period. The assumptions used in determining the grant date fair values of awards under FAS 123R are disclosed in Note 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

[3] Amounts shown in column (f) represent the amount of compensation expense recognized under FAS 123R with respect to options, disregarding estimated forfeitures. Total compensation expense for an option award is equal to the grant date fair value of the option estimated using the Black-Scholes option pricing model, which is recognized ratably over the four-year vesting period. In 2007, Mr. Dodson became eligible for accelerated vesting of his options upon retirement and, accordingly, recognition of all compensation expense related to his then-outstanding options was accelerated into 2007. Compensation expense in 2008 for Mr. Dodson represents the full grant date fair value of the option granted to him in 2008. The assumptions used in determining the grant date fair values of options under FAS 123R are disclosed in Note 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

[4] The amounts included in column (h) as the aggregate change in the actuarial present value of the Named Executive Officers accumulated benefits under all defined benefit pension plans during 2008 were: $842,581 for Mr. Dodson, $460,129 for Mr. Kantor, $21,463 for Mr. Anderson, $188,778 for Ms. Doolittle and $32,551 for Ms. Kirkpatrick. Amounts of above-market interest included in column (h) that were credited to the non-qualified deferred compensation plan accounts of the Named Executive Officers during 2008 were: $22,842 for Mr. Dodson, $3,646 for Mr. Kantor, $145 for Mr. Anderson, $3,852 for Ms. Doolittle and $0 for Ms. Kirkpatrick. For this purpose, interest credited each quarter is considered above-market to the extent such interest exceeds 120 percent of the average of the applicable long-term federal rates, with quarterly compounding, for the three months in the prior quarter.

[5] The amounts included in column (i) as the employee portion of the Medicare Hospital Insurance Tax liability paid by NW Natural on the present value increase of participants benefits under the Executive Supplemental Retirement Income Plan in 2008 were: $21,706 for Mr. Dodson, $6,374 for Mr. Kantor, $0 for Mr. Anderson, $1,773 for Ms. Doolittle and $0 for Ms. Kirkpatrick. The amounts included in column (i) as matching contributions under the qualified defined contribution plan (401(k)) during 2008 were: $8,280 for each of Mr. Dodson, Mr. Kantor, Mr. Anderson, Ms. Doolittle and Ms. Kirkpatrick. The amounts paid as matching contributions under non-qualified deferred compensation plans during 2008 were: $28,766 for Mr. Dodson, $12,198 for Mr. Kantor, $10,128 for Mr. Anderson, $3,414 for Ms. Doolittle, and $0 for Ms. Kirkpatrick. The amounts included in column (i) as gross up expense on the $100 all employee recognition bonus were $71.38 for each Mr. Dodson, Mr. Kantor, Mr. Anderson, Ms. Doolittle and Ms. Kirkpatrick. Amounts in column (i) also include $43,048 paid to Mr. Dodson in connection with his retirement for accrued but unused vacation time.

Executive Officer Perquisites

We do not routinely provide perquisites to our executive officers. No Named Executive Officer received perquisites totaling $10,000 or more in 2008.

Table of Contents

GRANTS OF PLAN-BASED AWARDS DURING 2008

The following table includes grants of annual incentive awards, stock options and long-term incentive awards granted to our Named Executive Officers during 2008:

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]			All Other Option Awards: Number of Securities Underlying Options[3]	Exercise or Base Price of Option Awards	Grant Date Fair Value of Equity Award
Name (a)	Grant Date (b)	Thresh-old($) (c)	Target($) (d)	Maxi-mum($) (e)	Thresh-old(#) (f)	Target(#) (g)	Maxi-mum(#) (h)	(#) (j)	($/Sh) (k)	($)[4] (l)
Mark S. Dodson	2/27/08							25,000	$ 43.29	$ 133,625
			$ 317,625	$ 476,438						
	2/27/08				2,850	15,000	30,000			302,885
Gregg S. Kantor	2/27/08							8,000	43.29	42,757
			137,625	206,438						
	2/27/08				1,235	6,500	13,000			131,250
David H. Anderson	2/27/08							8,000	43.29	42,757
			115,763	173,644						
	2/27/08				1,045	5,500	11,000			111,058
Lea Anne Doolittle	2/27/08							4,000	43.29	21,378
			63,000	94,500						
	2/27/08				665	3,500	7,000			70,673
Margaret D. Kirkpatrick	2/27/08							4,000	43.29	21,378
			68,775	103,163						
	2/27/08				570	3,000	6,000			60,577

Column (i) was deleted as it is not applicable.

1 Threshold level estimated payouts cannot be determined because the minimum performance level for payout under each component of the formula in the Executive Annual Incentive Plan is interpolated down to a zero payout. See Executive Annual Incentive Plan Awards following this table and Compensation Discussion and Analysis Compensation Programs Executive Annual Incentive Plan, above, for a complete discussion of the terms of the awards. Amounts above include only the portion of the award subject to performance metrics, constituting 75 percent of the annual incentive opportunity. The remaining 25 percent of the annual incentive opportunity is awarded based on discretionary criteria and is reflected as a bonus in column (d) of the Summary Compensation Table. The actual non-equity incentive plan portion of the awards earned in 2008 and paid in 2009 are reflected in column (g) of the Summary Compensation Table.

2 Share amounts represent potential performance share awards granted pursuant to the terms of the Long-Term Incentive Plan (LTIP). See Long-Term Incentive Plan Awards following this table and Compensation Discussion and Analysis Compensation Programs Long-Term Incentives Performance Shares, above, for a complete discussion of the terms of the awards. Share amounts do not include an estimate of an additional $4.80 per share dividend equivalent also payable pursuant to the terms of the awards. Threshold level estimated future payouts assume the minimum award payable other than no payout for each component of the formula in the LTIP. Portions of the expense related to these grants are included in column (e) of the Summary Compensation Table.

3 Stock options granted on February 27, 2008 pursuant to the Restated Stock Option Plan vest in four equal installments on February 27, 2009 and January 1, 2010, 2011 and 2012. Vesting will be accelerated upon death, disability or retirement as described below under Potential Payments upon Termination or Change in Control. Each option has a maximum term of 10 years and seven days, subject to earlier termination in connection with a termination of the optionee s employment.

4 Amounts shown in column (l) for option awards represent the grant date fair value of the options calculated using a Black-Scholes option pricing model. The portion of each performance share award under the LTIP based on relative total shareholder return (75 percent of target award) is considered to be subject to a market condition under FAS 123R, so the amounts shown for that portion represent the fair value as of the grant date calculated using a binomial pricing model. Amounts shown for the remaining portion of each performance share award subject to strategic performance milestones (25 percent of target award) represent the target number of shares multiplied by the sum of the closing market price of the Common Stock on the grant date plus the estimated dividends to be paid on a share over the three-year performance period. The values used for option awards are the same as those used under FAS 123R. The assumptions used in determining option values are described in Note 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

Table of Contents

Compensation and Award Table Discussion

Executive Annual Incentive Plan Awards

Payment of awards under the Executive Annual Incentive Plan is contingent upon meeting predetermined individual and corporate performance goals. Depending upon position, performance and the other factors considered by the Organization and Executive Compensation Committee, the Named Executive Officers may earn from 35 percent to 70 percent of base salary if the prescribed corporate and individual performance goals are met, or up to 52.5 percent to 105 percent of base salary if these goals are exceeded. At the beginning of each year, weighted performance goals are established and, at year-end, performance is measured against these goals. Actual results are considered by the Committee in determining the amounts to be awarded, if any. For further discussion regarding the Executive Annual Incentive Plan, including the components of corporate and individual performance, see Compensation Discussion and Analysis Compensation Programs Executive Annual Incentive Plan, above.

Long-Term Incentive Plan Awards

The Organization and Executive Compensation Committee makes annual performance share awards under the Long-Term Incentive Plan payable in Common Stock based on our performance over three-year performance cycles. Target awards are determined by the Committee for each participant. Executives are limited to a maximum performance share award equal to 200 percent of the target award.

The Organization and Executive Compensation Committee establishes corporate performance measures based on total shareholder return relative to our peer group, with a minimum required average return over the performance period of 6 percent per year for the cycle (75 percent of award) and performance milestones relative to our core and non-core strategic plans (25 percent of award). At the end of the cycle, the Committee determines whether the strategic performance milestones were achieved and assigns a factor ranging between 0 percent and 200 percent. As a general guideline, if we achieve the targets as stated, each component factor would be 100 percent. A participant generally must be employed by NW Natural at the end of the performance period to receive an award payout, although pro-rated awards will be paid if employment terminates earlier on account of death, disability or retirement. Awards will be paid in Common Stock as soon as practicable after the end of the performance period. Participants will also receive dividend equivalent cash payments on the number of shares of Common Stock received on the award payout multiplied by the aggregate cash dividends paid per share by NW Natural during the performance period. For further discussion regarding the terms of the performance shares, see Compensation Discussion and Analysis Compensation Programs Long-Term Incentives Performance Shares, above.

Restricted Stock Grants. The Long-Term Incentive Plan also provides the Organization and Executive Compensation Committee the ability to grant restricted stock awards. Typically, restricted stock awards are used in special, limited circumstances such as new hire grants and retention or special recognition awards. The Committee infrequently makes restricted stock grants since our long-term incentive program is heavily-weighted to performance shares under the Long-Term Incentive Plan, which provides stock incentives that are linked to performance.

Two restricted stock awards that were not fully vested were outstanding under the Long-Term Incentive Plan as of the end of 2008. In September 2004, a grant of 5,000 restricted shares was made to Mr. Anderson in connection with his joining NW Natural as Chief Financial Officer. The award, which vests over a five-year period, is contingent upon Mr. Anderson s continued employment with NW Natural. The other restricted stock award is held by a former officer of the Company. Restricted stock award recipients receive dividends on the full number of restricted shares awarded prior to vesting. Dividends paid on unvested shares are treated as ordinary income for tax purposes.

Table of Contents

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2008

The following table includes all of the outstanding equity awards held by our Named Executive Officers at December 31, 2008:

	Option Awards				Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares That Have Not Vested (#) (g)	Market Value of Shares That Have Not Vested ($)[1] (h)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#)[2] (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested ($)[1] (j)
Mark S. Dodson	11,500	11,500[3]	$ 34.29	2/29/2016				
	5,750	17,250[4]	44.48	2/28/2017				
		25,000[5]	43.29	3/06/2018				
							28,000	$ 1,238,440
Gregg S. Kantor	2,000		26.30	3/05/2012				
	6,000		31.34	3/04/2014				
	1,500	1,500[7]	34.29	2/29/2016				
	1,750	5,250[6]	44.48	2/28/2017				
		8,000[8]	43.29	3/06/2018				
							11,000	486,530
David H. Anderson	16,000		32.02	9/27/2014				
	4,000	4,000[9]	34.29	2/29/2016				
	1,750	5,250[6]	44.48	2/28/2017				
		8,000[8]	43.29	3/06/2018				
					1,000[14]	$ 44,230		
							10,000	442,300
Lea Anne Doolittle	3,000		31.34	3/04/2014				
	1,500	1,500[7]	34.29	2/29/2016				
	750	2,250[10]	44.48	2/28/2017				
		4,000[11]	43.29	3/06/2018				
							5,500	243,265
Margaret D. Kirkpatrick	6,000		38.30	8/03/2015				
	2,500	2,500[13]	34.29	2/29/2016				
	1,000	3,000[12]	44.48	2/28/2017				
		4,000[11]	43.29	3/06/2018				
							6,000	265,380

Column (d) was deleted as it is not applicable.

[1] Amounts are calculated based on the price of $44.23, the closing market price on the NYSE on December 31, 2008.

[2] All share amounts are based on target level awards of performance shares eligible to be earned under the Long-Term Incentive Plan (LTIP) upon achievement of performance objectives, which is determined to be the most probable level of payout other than no award. The actual number of shares issuable will be determined by the Committee at the end of the three-year performance cycles ending December 31, 2009 and 2010. Amount does not include an estimate for the accumulated cash dividends also payable pursuant to the terms of the awards. For a complete description of the performance objectives, see Compensation Discussion and Analysis Compensation Programs Long-Term Incentives, above.

[3] Option vests over four years. Option on 5,750 shares became exercisable on each of February 22, 2007 and January 1, 2008, and an additional 5,750 shares will become exercisable on each of January 1, 2009 and 2010. Pursuant to Mr. Dodson s option agreement, his option on the remaining 11,500 shares becomes fully exercisable on the first day he is no longer employed after his retirement, which is January 1, 2009.

[4] Option vests over four years. Option on 5,750 shares became exercisable on February 21, 2008 and an additional 5,750 shares will become exercisable on each of January 1, 2009, 2010 and 2011. Pursuant to Mr. Dodson s option agreement, his option on the remaining 17,250 shares becomes fully exercisable the first day he is no longer employed after his retirement, which is January 1, 2009.

Table of Contents

5 Option vests over four years. Option on 6,250 shares becomes exercisable on February 27, 2009 and January 1, 2010, 2011 and 2012. Pursuant to Mr. Dodson s option agreement, his option on all of the shares under this option becomes fully exercisable the first day he is no longer employed after his retirement, which is January 1, 2009.

6 Option vests over four years. Option on 750 shares became exercisable on each of February 22, 2007 and January 1, 2008 and an additional 750 shares become exercisable on each of January 1, 2009 and 2010.

7 Option vests over four years. Option on 1,750 shares became exercisable February 21, 2008 and an additional 1,750 shares become exercisable on each of January 1, 2009, 2010 and 2011.

8 Option vests over four years. Option on 2,000 shares becomes exercisable on each of February 27, 2009, January 1, 2010, 2011 and 2012.

9 Option vests over four years. Option on 2,000 shares became exercisable on each of February 22, 2007 and January 1, 2008, and an additional 2,000 shares become exercisable on each of January 1, 2009 and 2010.

10 Option vests over four years. Option on 750 shares became exercisable on February 21, 2008, and an additional 750 shares become exercisable on each of January 1, 2009, 2010 and 2011.

11 Option vests over four years. Option on 1,000 shares becomes exercisable on February 27, 2009, and January 1, 2010, 2011 and 2012.

12 Option vests over four years. Option on 1,250 shares became exercisable on each of February 22, 2007 and January 1, 2008 and options on an additional 1,250 shares become exercisable on each of January 1, 2009 and 2010.

13 Option vests over four years. Option on 1,000 shares became exercisable on February 21, 2008 and an additional 1,000 shares become exercisable on each of January 1, 2009, 2010 and 2011.

14 All remaining restricted shares will be vested on September 30, 2009.

OPTION EXERCISES AND STOCK VESTED DURING 2008

	Option Awards		Stock Awards	
Name (a)	**Number of Shares Acquired on Exercise (#) (b)**	**Value Realized on Exercise ($) (c)**	**Number of Shares Acquired on Vesting[1] (#) (d)**	**Value Realized on Vesting[1] ($) (e)**
Mark S. Dodson	30,000	$ 502,954	22,402	$ 1,088,289
Gregg S. Kantor			4,480	217,638
David H. Anderson			8,467	414,747
Lea Anne Doolittle			2,987	145,108
Margaret D. Kirkpatrick			4,480	217,638

1 Amounts represent performance share awards earned by the Named Executive Officers for the three-year award cycle 2006-2008 under the Long-Term Incentive Plan (LTIP), but unpaid as of the fiscal year-end and are based on a price of $44.23, the closing market price on the NYSE on December 31, 2008. The award paid at 149.35 percent of the target level incentive based upon total shareholder return performance and strategic results. See Compensation Discussion and Analysis Compensation Programs Long-Term Incentives Performance Shares, above. The number of shares actually paid was determined by the Committee on February 25, 2009. Value realized includes cash for dividend equivalents of $4.35 per share based on dividends per share paid by us during the performance period as follows: Dodson, $97,449; Kantor, $19,488; Anderson, $32,481; Doolittle, $12,993 and Kirkpatrick, $19,488. Receipt of the following amounts under performance share awards was deferred pursuant to elections under our Deferred Compensation Plan for Directors and Executives: Mr. Dodson, all shares and dividend equivalents shown in the above table; Mr. Kantor, 1,120 shares valued at $49,538 and $4,872 of dividend equivalents; Ms. Doolittle, 598 shares valued at $26,450 and $2,601 of dividend equivalents; and Ms. Kirkpatrick, 0 shares. See Non-Qualified Deferred Compensation in 2008 for a discussion of the terms of this plan. For Mr. Anderson, the amount also includes 1,000 restricted stock shares that vested on October 1, 2008. The closing market price of NW Natural Common Stock on the NYSE on September 30, 2008, the last business day preceding the vesting date of October 1, 2008, was $52.00. Mr. Anderson elected to defer receipt of 100 shares valued at $5,200 under our Deferred Compensation Plan.

Table of Contents

PENSION BENEFITS AS OF DECEMBER 31, 2008

Name	Age	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit[1]
Mark S. Dodson	63	Retirement Plan for Non-Bargaining Unit Employees	11.25	$ 664,195
		Executive Supplemental Retirement Income Plan	11.25	6,011,434
		Deferred Compensation Plan Supplemental Annuity	11.25	0
Gregg S. Kantor	51	Retirement Plan for Non-Bargaining Unit Employees	12.25	327,806
		Executive Supplemental Retirement Income Plan	10.92	763,457
		Deferred Compensation Plan Supplemental Annuity	12.25	0
David H. Anderson	47	Retirement Plan for Non-Bargaining Unit Employees	4.25	68,243
		Supplemental Executive Retirement Plan	4.25	0
		Deferred Compensation Plan Supplemental Annuity	4.25	0
Lea Anne Doolittle	53	Retirement Plan for Non-Bargaining Unit Employees	8.17	201,561
		Executive Supplemental Retirement Income Plan	8.17	317,692
		Deferred Compensation Plan Supplemental Annuity	8.17	1,925
Margaret D. Kirkpatrick	54	Retirement Plan for Non-Bargaining Unit Employees	3.50	91,043
		Supplemental Executive Retirement Plan	3.50	0

		3.50	0
	Deferred Compensation Plan Supplemental Annuity		

[1] The Present Value of Accumulated Benefit in the above table represents the actuarial present value as of December 31, 2008 of the pension benefits of the Named Executive Officers under the respective pension plans calculated based on years of service and final average compensation as of that date but assuming retirement at the earliest age at which benefits were unreduced under the respective plans (or immediately if already at or over such age). Mr. Kantor s years of service under the Executive Supplemental Retirement Income Plan are based on his years of service since becoming eligible to participate under the plan. The actuarial present value was calculated assuming all participants are fully vested, and using the RP-2000 Combined Healthy (projected to 2009) mortality table and a discount rate of 6.72 percent, the same assumptions used in the pension benefit calculations reflected in our audited balance sheet as of December 31, 2008.

Table of Contents

Retirement Plan for Non-Bargaining Unit Employees

The Retirement Plan for Non-Bargaining Unit Employees (NBU Plan) is our qualified pension plan covering all regular, full-time employees not covered under a labor agreement whose employment commenced prior to January 1, 2007 (when the NBU Plan was closed to new participants). Eligible employees commence participation in the NBU Plan after one year of service and become 100 percent vested after five years of service. Final average earnings for purposes of calculating benefits consist of the participant s highest average total annual compensation for any five consecutive years in the last ten years of employment, with total annual compensation for this purpose generally consisting of salary and annual incentive, excluding long-term incentives and any amounts deferred under our non-qualified deferred compensation plans. In addition, as of December 31, 2008, the Internal Revenue Code limited the amount of annual compensation considered for purposes of calculating benefits under the NBU Plan to $230,000.

A normal retirement benefit is payable upon retirement at or after age 62 and consists of (a) an annuity benefit equal to 1.8 percent of final average earnings for each of the participant s first 10 years of service, and (b) a lump sum benefit equal to 7.5 percent of final average earnings for each year of service in excess of 10 years. In addition, for participants hired before January 1, 2000 and under age 60 on that date (including Messrs. Dodson and Kantor), a supplemental annuity is provided under the NBU Plan equal to the participant s total years of service multiplied by the sum of (x) a varying percentage (based on the participant s hire age and age on January 1, 2000, and which is 0.635 percent for Mr. Dodson and 0.295 percent for Mr. Kantor) of total final average earnings, and (y) 0.425 percent of the excess of final average earnings over an amount referred to as Covered Compensation, which generally consists of the average of the Social Security maximum taxable wage bases over the 35 years preceding the participant s retirement.

Employees who have attained age 55, if age plus accredited years of service totals 70 or more, are eligible for early retirement benefits. Annuity benefits are reduced by 1/3 percent per month (4 percent per year) for each month that the benefit commencement date precedes age 62. The lump sum benefit is not subject to reduction on early retirement. At December 31, 2008, Mr. Dodson was eligible for normal retirement benefits, but no other Named Executive Officer was eligible for early or normal retirement benefits under the NBU Plan.

The basic benefit form for annuity benefits is a monthly single life annuity. The participant may choose among different annuity forms that are the actuarial equivalent of the basic benefit.

Deferred Compensation Plan Supplemental Annuity

As discussed above, final average earnings for purposes of calculating benefits under the NBU Plan excludes amounts deferred under our non-qualified deferred compensation plans, consisting of our Executive Deferred Compensation Plan (EDCP) and Deferred Compensation Plan for Directors and Executives (DCP), which are described below under Non-qualified Deferred Compensation Plans. Accordingly, deferral of compensation under these plans during a participant s last ten years of employment may result in a reduction in benefits payable under the NBU Plan unless the participant s total annual compensation in each of those years is over the limit ($230,000 in 2008) imposed by the Internal Revenue Code. In recognition of this possible loss of NBU Plan benefits, the DCP provides for payment of a supplemental annuity generally payable in the same form and for the same period of time as the annuity payable under the NBU Plan, subject to certain requirements for the timing of commencement of benefits. The supplemental annuity is equal to the difference between the

Table of Contents

actual benefit under the NBU Plan assuming the participant had elected to receive the lump sum benefit in the form of an annuity and the corresponding benefit that otherwise would have been payable under the NBU Plan if the participant had not deferred compensation under the EDCP and/or the DCP.

Executive Supplemental Retirement Income Plan

The Executive Supplemental Retirement Income Plan (ESRIP) is a non-qualified pension plan providing supplemental retirement benefits to persons who were executive officers prior to September 1, 2004, including all of the Named Executive Officers other than Mr. Anderson and Ms. Kirkpatrick. Under the ESRIP, a target annual retirement benefit is determined for each participant, which is then reduced by the participant s (a) NBU Plan benefit (with the lump sum portion converted to a single life annuity), (b) annual Social Security benefits, and (c) any supplemental annuity under the DCP, in each case assuming commencement of benefits at age 65. Final average compensation for purposes of calculating ESRIP benefits generally consists of the participant s highest average salary and annual incentive for any three consecutive compensation years in the last 10 years of employment. Long-term compensation is excluded from the definition of final average compensation.

The target annual retirement benefit is equal to (a) 4.33 percent of final average compensation for each of the participant s first 15 years of service, plus (b) for persons who were ESRIP participants as of September 1, 1998 (including Messrs. Dodson and Kantor), 0.5 percent of final average compensation for up to 10 additional years of service in excess of 15 years. This formula results in a target benefit of 65 percent of final average compensation after 15 years of service and a maximum 70 percent of final average compensation for those eligible after 25 years of service. Mr. Dodson s employment agreement modifies the ESRIP and provides that if his service continues until December 31, 2007 (which it now has), his target annual ESRIP benefit would be 65 percent of his final average compensation. A normal retirement benefit equal to the target benefit reduced by NBU Plan, Social Security and DCP supplemental annuity benefits as discussed above is payable upon retirement at the later of age 62 or after 10 years of service. Participants become vested for 50 percent of this benefit after five years of service and then become vested for an additional 10 percent for each additional year of service until fully vested after 10 years of service.

A participant who is age 55 or older with at least 10 years of service is eligible for early retirement benefits. The ESRIP normal retirement benefit is reduced by 1/2 percent per month (6 percent per year) for each month that the benefit commencement date precedes age 62.

The basic benefit form for ESRIP benefits is a monthly single life annuity with 10 years of guaranteed payments. The participant may choose among different annuity forms that are the actuarial equivalent of the basic benefit.

Supplemental Executive Retirement Plan

The Supplemental Executive Retirement Plan (SERP) is a non-qualified pension plan providing supplemental retirement benefits to persons who become executive officers after September 1, 2004, including Mr. Anderson and Ms. Kirkpatrick. Participants must complete five years of service before becoming 100 percent vested in SERP benefits, so neither Mr. Anderson nor Ms. Kirkpatrick is currently vested. Under the SERP, a target lump sum retirement benefit is determined for each participant, which is then reduced by the lump sum actuarial equivalent of the participant s NBU Plan benefit, Social Security benefit and any supplemental annuity under the DCP, in each case valued as of and assuming commencement at age 65. Final average pay for purposes of calculating SERP benefits generally consists of the participant s highest average salary and annual incentive for any five consecutive compensation years in the last ten years of employment.

The target lump sum retirement benefit is equal to 40 percent of final average pay for each of the participant s first 15 years of service, resulting in a maximum target benefit of six times final average pay after 15 years of service. A normal retirement benefit equal to the target benefit reduced by the lump sum actuarial equivalents of NBU Plan, Social Security and DCP supplemental annuity benefits as discussed above is payable as a lump sum upon retirement at or after age 60. Upon termination of employment at any time after becoming vested, a participant will receive a termination benefit equal to the SERP normal retirement benefit reduced by 5/12 percent per month (5 percent per year) for each month that termination of employment precedes age 60, up to a maximum reduction of 60 percent for termination at age 48 or below. Participants may choose among different annuity forms that are the actuarial equivalent of the basic lump sum benefit.

Table of Contents

NON-QUALIFIED DEFERRED COMPENSATION IN 2008

Name	Plan Name	Executive Contributions in 2008[1]	NW Natural Contributions in 2008[1]	Aggregate Earnings in 2008[1]	Aggregate Withdrawals/ Distributions in 2008	Aggregate Balance at 12/31/2008[1]
Mark S. Dodson	EDCP	$	$	$ 47,087	$	$ 599,960
	DCP	192,000	28,766	42,718		774,477
Gregg S. Kantor	EDCP			4,991		63,591
	DCP	103,952	12,198	12,623		245,744
David H. Anderson	EDCP			12		3,954
	DCP	102,266	10,128	(5,481)		223,288
Lea Anne Doolittle	EDCP			5,635		103,696
	DCP	42,943	3,414	10,038		179,193
Margaret D. Kirkpatrick	EDCP					
	DCP					

[1] All amounts reported in the Executive Contributions and NW Natural Contributions columns are also included in amounts reported in the Summary Compensation Table above in columns (c) and/or (i) for 2008 and columns (d), (e) and/or (g) for 2007. The portion of the amounts reported in the Aggregate Earnings column that represents above-market earnings is included in column (h) of the Summary Compensation Table, and the amount of above-market earnings for each Named Executive Officer is set forth in footnote 5 to that table. Of the amounts reported in the Aggregate Balance column, the following amounts have been reported in the Summary Compensation Tables in this proxy statement or in prior year proxy statements: Mr. Dodson, $1,080,127; Mr. Kantor, $251,353; Mr. Anderson, $217,394; Ms. Doolittle, $217,607; and Ms. Kirkpatrick, $0. Amounts not previously reported consist of market-rate earnings on amounts deferred and amounts deferred before designation as a Named Executive Officer.

Non-Qualified Deferred Compensation Plans

We currently maintain two non-qualified deferred compensation plans for executive officers: the Executive Deferred Compensation Plan (the EDCP) and the Deferred Compensation Plan for Directors and Executives (the DCP). Prior to 2005, the EDCP was the plan pursuant to which our executives deferred compensation. On January 1, 2005, deferrals under the EDCP were discontinued and the DCP became effective for future deferrals of compensation by our executives. Accordingly, all deferred contributions in 2008 were made under the DCP, while earnings continued to accrue on EDCP account balances.

Participants in the DCP may elect in advance to defer up to 50 percent of their salaries, up to 100 percent of their annual incentives, and up to 100 percent of performance share awards under our Long-Term Incentive Plan. We make matching contributions each year equal to (a) the lesser of 60 percent of the participant s salary and annual incentive deferred during the year under both the DCP and our 401(k) plan or 3.6 percent of the participant s total salary and annual incentive for the year, reduced by (b) the maximum matching contribution we would have made under our 401(k) plan if the participant had fully participated in that plan.

All amounts deferred under the EDCP or the DCP have been or will be credited to either a stock account or a cash account. Under the DCP, deferrals of compensation payable in cash are made to cash accounts and deferrals of compensation payable in our Common Stock are made to stock accounts, except that participants were permitted to elect to defer performance share award payouts made prior to 2009 into cash accounts. No transfers between a participant s cash account and stock account are permitted under the EDCP. Under the DCP, transfers from a cash account to a stock account are permitted, but not vice-versa. Stock accounts represent a right to receive shares of our Common Stock on a deferred basis, and are credited with additional shares based on the deemed reinvestment of dividends.

Table of Contents

Accordingly, the rate of earnings on stock accounts over the previous five years ending December 31, 2008 was approximately 11.5 percent representing the total shareholder return of our Common Stock annualized, assuming dividend reinvestment, and in 2008 was approximately -6.1 percent, representing the total shareholder return of our Common Stock annualized, assuming dividend reinvestment. Cash accounts under the EDCP are credited quarterly with interest at a rate equal to Moody s Average Corporate Bond Yield plus two percentage points, subject to a 6 percent minimum rate. The average interest rate paid on EDCP cash accounts in 2008 was 8.26 percent. Cash accounts under the DCP are credited quarterly with interest at a rate equal to Moody s Average Corporate Bond Yield without the additional two percentage points or the 6 percent minimum. The average interest rate paid on DCP cash accounts in 2008 was 6.26 percent.

Participants make elections regarding distributions of their accounts at the time they elect to defer compensation, and have limited rights to change these payment elections. Distributions may commence on a predetermined date while still employed or upon termination of employment, and may be made in a lump sum or in annual installments over five, ten or fifteen years. Hardship withdrawals are permitted under both the EDCP and the DCP, and participants in the EDCP may withdraw their full account balance at any time subject to forfeiture of 10 percent of the balance. No withdrawals or distributions were made by the Named Executive Officers during 2008.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Change in Control Compensation

We have agreed to provide certain benefits to the Named Executive Officers upon a change in control of NW Natural, although certain of the benefits are only payable if the Named Executive Officer s employment is terminated without cause or by the officer for good reason within 24 months after the change in control. In our plans and agreements, change in control is generally defined to include:

- the acquisition by any person of 20 percent or more of our outstanding Common Stock,
- the nomination (and subsequent election) of a majority of our directors by persons other than the incumbent directors, and
- the consummation of a sale of all or substantially all of our assets, or an acquisition of NW Natural through a merger or share exchange.

In our plans and agreements, cause generally includes willful and continued failure to substantially perform assigned duties or willfully engaging in illegal conduct injurious to NW Natural, and good reason generally includes a change in position or responsibilities (that does not represent a promotion), a decrease in compensation, or a home office relocation of over 30 miles.

Table of Contents

The following table shows the estimated change in control benefits that would have been payable to the Named Executive Officers if (i) a change in control had occurred on December 31, 2008, and (ii) each officer s employment was terminated on that date either by us without cause or by the officer with good reason.

Name	Cash Severance Benefit[1]	Insurance Continuation[2]	Performance Share Acceleration[3]	Restricted Stock Acceleration[4]	Additional Lump Sum SERP Benefit[5]	Total Lump Sum Payments[6]	Additional Annual ESRIP Benefit[7]
Mark S. Dodson	$ 750,000	$	$	$	$	$ 750,000	$
Gregg S. Kantor	1,225,833	30,673	213,328			1,469,834	85,819
David H. Anderson	747,576		209,508	44,230	271,624	1,272,938	
Lea Anne Doolittle	632,667	36,968	97,147			766,781	43,490
Margaret D. Kirkpatrick	702,000	36,968	137,126		262,296	1,138,390	

1 *Cash Severance Benefit.* Each Named Executive Officer has entered into a severance agreement providing for, among other things, cash severance benefits payable if the officer s employment is terminated by us without cause or by the officer for good reason within 24 months after a change in control. The cash severance payment for Mr. Dodson is equal to $750,000, and the cash severance benefit for each other Named Executive Officer is equal to two times (2.5 times for Mr. Kantor) the sum of final annual salary plus average annual incentive for the last three years (annualized for annual incentives paid for partial years). These amounts are payable in a lump sum within five days after termination. The agreements with the Named Executive Officers other than Mr. Dodson provide for the following reductions in the cash severance benefit based on age at the time of termination: 10% reduction at age 62, 40% reduction at age 63, 70% reduction at age 64, and 100% reduction at age 65.

Under the severance agreements, if any payments to a Named Executive Officer in connection with a change in control would be subject to the 20 percent excise tax on excess parachute payments as defined in Section 280G of the Internal Revenue Code, then, if it would result in a greater net after-tax benefit for the officer to have the payments that would otherwise be made reduced by the amount necessary to prevent them from being parachute payments, then the officer will be paid such reduced benefits. The amounts in the above table under Cash Severance Benefit and Insurance Continuation for Mr. Anderson have been reduced in accordance with this provision.

2 *Insurance Continuation.* If cash severance benefits are triggered, the severance agreements for all Named Executive Officers other than Mr. Dodson also provide for the continuation of life and health insurance benefits for two years following termination of employment, but not to the extent similar benefits are provided by a subsequent employer. The amounts in the table above represent the present value of two years of monthly life and health insurance benefit payments at the rates paid by us for each officer as of December 31, 2008.

3 *Performance Share Acceleration.* As described above under the Grants of Plan-Based Awards During 2008 table and Compensation Discussion and Analysis Compensation Programs Long-Term Incentives Performance Shares, we granted performance share awards to the Named Executive Officers in February 2008 under which shares of our Common Stock (plus accumulated cash dividends) will be issued to them based on our performance over the years 2008 to 2010. Similar awards were granted in February 2007 to the Named Executive Officers under which Common Stock (and dividends) will be issued based on our performance over the years 2007 to 2009. The award agreements for the awards granted to all Named Executive Officers other than Mr. Dodson require us to issue a calculated number of shares within five days after a change in control and provide that (i) the number of shares to be issued will be pro-rated based on the portion of the award period completed prior to the change in control, and (ii) for the portion of the award payable based on total shareholder return relative to a peer group of companies, actual stock performance through the date of the change in control will be applied to determine a gross payout amount before applying the above pro-ration. These payments are required whether or not the officer s employment is terminated in connection with the change in control. The amounts in the table above represent the number of shares that would have been issued under the awards based on stock performance through December 31, 2008, multiplied by a stock price of $44.23 per share, which was the closing price of our Common Stock on the last trading day of 2008, plus an amount equal to the dividends paid per share during the applicable award periods through December 31, 2008.

4 *Restricted Stock Acceleration.* When Mr. Anderson commenced employment with us in September 2004, he received an award of 5,000 shares of restricted Common Stock that vests for 20 percent of the shares each year until fully vested. As of December 31, 2008, 1,000 shares of this award remain unvested. His award agreement provides that all unvested shares will immediately vest upon a change in control, whether or not his employment is terminated. The value of these shares in the table above is based on the same stock price referred to in Note 3 above.

5 *Additional Lump Sum SERP Benefit.* As discussed above in the text accompanying the Pension Benefits table, two of our Named Executive Officers are participants in the SERP, which generally provides for a lump sum benefit payable six months after termination of employment. If a SERP participant s employment is terminated by us without cause or by the officer for good reason within 24 months after a change in control, the SERP participant will become fully vested and receive three additional years of service for purposes of calculating their SERP benefit. As neither SERP participant currently has a vested

Table of Contents

right to any SERP benefit, the amounts in the table represent the full SERP benefits they would receive on termination following a change in control.

[6] *Total Lump Sum Payments.* Amounts in this column equal the sum of the amounts in the five columns to its left.

[7] *Additional Annual ESRIP Benefit.* As discussed above in the text accompanying the Pension Benefits table, three of our Named Executive Officers are participants in the ESRIP, which generally provides for a lifetime supplemental pension benefit payable by us following retirement. If the employment of any ESRIP participant, other than Mr. Dodson, is terminated by us without cause or by the participant for good reason within 24 months after a change in control, the ESRIP participant will become fully vested and receive three additional years of service for purposes of calculating his or her ESRIP benefit. In addition, (i) the benefit reductions for commencement of ESRIP benefits prior to age 65 are reduced, from 6 percent for each year benefits commence prior to age 65 (applicable to participants like Mr. Kantor and Ms. Doolittle who are not yet eligible for early retirement) to 3 percent for each year benefits commence prior to age 62; and (ii) benefits will commence at age 55 (as compared to age 57 for Mr. Kantor and age 60 for Ms. Doolittle as elected by them for terminations not involving a change in control). The amounts in the table above represent the excess of the annual ESRIP benefit each of Mr. Kantor and Ms. Doolittle would receive commencing at age 55 and giving effect to the above benefit enhancements, over the annual ESRIP benefit they would each receive commencing at the later ages set forth above assuming a voluntary termination of employment on December 31, 2008. The additional actuarial present value of these enhanced ESRIP benefits, calculated using the same mortality and discount rate assumptions as used for purposes of the Pension Benefits table above, is $950,057 and $600,713, for Mr. Kantor and Ms. Doolittle, respectively.

Other Benefits Triggered on Certain Employment Terminations

When Mr. Kantor was promoted to President and Chief Executive Officer effective January 1, 2009, we entered into a severance agreement with him that provides him the following severance benefits if we terminate his employment without cause:

100% of his base salary for a termination without cause during 2009, decreasing to 80% of base salary for a termination in 2010, 60% in 2011, 40% in 2012, 20% in 2013, and 0% thereafter. Mr. Kantor s annual base salary was increased to $446,000 as of January 1, 2009.

For any termination without cause occurring before his 55th birthday on April 30, 2012, Mr. Kantor will be treated as eligible for early retirement benefits under the ESRIP, for which he will not otherwise be eligible unless he remains employed through his 55th birthday. The estimated value of this ESRIP modification, based on an assumed termination of Mr. Kantor s employment on December 31, 2008, is an increase in ESRIP benefits of $25,741 per year commencing at age 57, which has an actuarial present value as of December 31, 2008, calculated using the same mortality and discount rate assumptions as used for purposes of the Pension Benefits table above, of $217,980.

When Mr. Anderson commenced employment with us in September 2004, he received an award of 5,000 shares of restricted Common Stock that vests for 20 percent of the shares each year until fully vested. As of December 31, 2008, 1,000 shares of this award remain unvested. His award agreement provides that all unvested shares will immediately vest if his employment is terminated as a result of death or disability. Accordingly, if Mr. Anderson s employment had been terminated on December 31, 2008 as a result of death or disability, he would have become vested in shares with a value of $44,230 based on a stock price of $44.23 per share which was the closing price of our Common Stock on the last trading day of 2008.

As described above under Grants of Plan-Based Awards During 2008 table and Compensation Discussion and Analysis Compensation Programs Long-Term Incentives Performance Shares, we granted performance share awards to the Named Executive Officers in February 2008 under which shares of our Common Stock (plus accumulated cash dividends) will be issued to them based on our performance over the years 2008 to 2010. Similar awards were granted in February 2007 under which Common Stock (and dividends) will be issued based on our performance over the years 2007 to 2009. The award agreements generally require the officer to be employed by us on the last day of the performance period to receive

Table of Contents

an award payout, but provide that if employment terminates earlier as a result of death, disability or retirement after reaching age 60 the officer will be entitled to a pro-rated award payout. Accordingly, if any Named Executive Officer had terminated employment on December 31, 2008 as a result of death, disability or retirement, his or her target award for the 2008-2010 performance period would have been reduced to one-third of the original target award reflecting employment for one year of the three-year performance period, and his or her target award for the 2007-2009 performance period would have been similarly reduced to two-thirds of the original target award, and then he or she would receive payouts under these adjusted awards at the end of the applicable performance periods based on our actual performance against the performance goals. Mr. Dodson retired on December 31, 2008 so his performance share target awards have been pro-rated in this manner. Assuming achievement of target performance levels, the estimated value of the pro-rated award payouts, based on a stock price of $44.23 per share and continuation of quarterly dividends for the remainder of the performance period on our Common Stock at the current rate, for each Named Executive Officer would be: Mr. Dodson, $667,862; Mr. Kantor, $252,542; Mr. Anderson, $236,209; Ms. Doolittle, $122,222; and Ms. Kirkpatrick, $146,584.

As of December 31, 2008, each Named Executive Officer held unexercisable options to purchase Common Stock as listed in the Outstanding Equity Awards table above. Under the terms of their stock option agreements, all unexercisable options become fully exercisable for a maximum remaining term of one year upon the death or disability of the officer. The stock option agreements also provide that all unexercisable options become fully exercisable for a maximum remaining term of three years if the officer terminates employment when eligible for normal or early retirement under our NBU Plan. The aggregate value as of December 31, 2008 of options held by each Named Executive Officer that would have become exercisable if death, disability or eligible retirement had occurred on that date, based on the positive spread (if any) between the exercise price of each option and a stock price of $44.23 per share, was: Mr. Dodson, $137,810; Mr. Kantor, $22,430; Mr. Anderson, $47,280; Ms. Doolittle, $18,670; and Ms. Kirkpatrick, $28,610. All of Mr. Dodson s options became fully exercisable on January 1, 2009 as a result of his retirement.

Table of Contents

NON-EMPLOYEE DIRECTOR COMPENSATION IN 2008

Name (a)	Fees Earned or Paid in Cash ($)[1] (b)	Stock Awards ($)[2] (c)	Change in Pension Value and Non-qualified Deferred Compensation Earnings[3] (d)	Total ($) (e)
Timothy P. Boyle	$ 64,500	$ 20,023	$ 56	$ 84,579
Martha L. Byorum	73,000	20,033	1,361	94,394
John D. Carter	88,000	20,023	79	108,102
C. Scott Gibson	79,500	20,023	4,148	103,671
Tod R. Hamachek	81,500	20,023	27,327	128,850
Randall C. Papé	67,000	20,023	4,105	91,128
Jane L. Peverett	93,500	0	64	93,564
George J. Puentes	84,500	0	69	84,569
Richard G. Reiten	70,000	20,023	27,696	117,719
Kenneth Thrasher	99,000	0	0	99,000
Russell F. Tromley	123,452	20,023	17,597	161,072

1 Except for amounts paid to Messrs. Reiten, Thrasher and Tromley and a portion of amounts paid to Ms. Peverett, all cash amounts were deferred pursuant to the terms of the Deferred Compensation Plan for Directors and Executives.

2 Amounts shown in column (c) were calculated based on the compensation cost recognized over the service period using the actual cost of the vested shares purchased pursuant to the terms of the Non-Employee Directors Stock Compensation Plan (NEDSCP). All awards were outstanding prior to our adoption of Statement of Financial Accounting Standards No. 123R, Share Based Payment, effective January 1, 2006. There were no remaining unvested NEDSCP stock awards as of December 31, 2008.

3 Amounts in column (d) represent above-market interest credited to the directors accounts under the Directors Deferred Compensation Plan and the Deferred Compensation Plan for Directors and Executives during 2008. For Mr. Reiten, the amount also includes above-market interest credited to his cash account balance under the Executive Deferred Compensation Plan.

Non-employee Director Compensation Philosophy

The Organization and Executive Compensation Committee s compensation philosophy for non-employee members of the Board of Directors is designed to attract and retain high performing directors who will perform in the best interest of shareholders. The Committee targets the compensation of Board members to be aligned with the middle of the market (50^{th} percentile) for about 24 peer companies. The Committee reviews Board compensation every two years and recommends adjustments to compensation only as necessary. Towers Perrin, the same consulting firm that assists the Committee with executive compensation, provides competitive market data for Board compensation.

While the components of compensation have evolved over the years, the current pay components consist of a cash retainer, cash meeting fees, and extra cash retainers for serving as chair of the Board or of Committees of the Board. However, some more senior Board members continue to receive a portion of their retainer fees pursuant to a stock retainer plan that was terminated at year-end 2004. All shares previously granted under that plan were fully vested by the end of 2008. Further, a few senior Board members have vested in stock issued in lieu of benefits from a former retirement program that was terminated in 1998.

The Board has adopted stock ownership guidelines that require directors to own NW Natural shares valued at the lesser of $300,000 or five times their annual retainer within five years of joining the Board, including amounts deferred pursuant to the plans described below.

Table of Contents

The Committee last reviewed the progress of the directors in achieving these stock ownership objectives in February 2009 and concluded that all of the directors have achieved stock ownership goals or, for newer directors, have made satisfactory progress in achieving these goals given the time they have served on the Board.

Director Fees and Arrangements

Fees Paid in 2008

The compensation terms for non-employee members of the Board of Directors are described below:

Annual Cash Retainer (new Board members and effective for all directors after 1/1/2008):	$ 65,000*
Extra Annual Cash Retainer for Committee Chairs (other than Audit or Organization and Executive Compensation Committee Chairs):	$ 5,000
Extra Annual Cash Retainer for Audit Committee Chair:	$ 10,000*
Extra Annual Cash Retainer for Organization and Executive Compensation Committee Chair:	$ 10,000
Extra Annual Cash Retainer for Chairman of the Board:	$ 60,000
Board Meeting Fees:	$ 1,500
Committee Meeting Fees:	$ 1,500
Per diem (conduct of company business, other than on Board or Committee meeting day)	$ 1,500

* Effective January 1, 2009, the Director annual cash retainer increased to $80,000 and the annual cash retainer for the Audit Committee Chair increased to $15,000.

Non-Employee Directors Stock Compensation Plan

Before January 1, 2005, our non-employee directors were awarded approximately $100,000 worth of our Common Stock upon joining the Board pursuant to our Non-Employee Directors Stock Compensation Plan. These initial awards vested in monthly installments over the five calendar years following the award. On January 1 of each year following the initial year, non-employee directors were awarded an additional $20,000 of Common Stock, which vested in monthly installments in the fifth year following the award (after the previous award had fully vested). The shares awarded were purchased in the open market by the Company at the time of award.

All awards provided for immediate vesting upon the death of a director or upon a change in control of NW Natural. Unvested shares were forfeitable if the recipient ceased to be a director. However, upon Mr. Reiten s retirement as a director in May 2008, the Board exercised discretion to vest his 379.169 remaining unvested shares under this plan that otherwise would have been fully vested if he had continued as a director through the end of 2008. Certificates representing a director s vested shares are not delivered to the director until after the director leaves the Board.

In September 2004, the Board of Directors amended the Non-Employee Directors Stock Compensation Plan to provide that no new awards will be granted on or after January 1, 2005. Previous awards continued to vest in monthly installments according to the original vesting schedule such that all shares awarded under the plan were fully vested by December 31, 2008. Accordingly, current Board members who had unvested Common Stock under this plan continued to vest such stock at approximately $20,000 worth of stock per year through

Table of Contents

December 31, 2008. During that time, their annual cash retainer was $20,000 less than the retainers paid to other directors. Non-employee directors could elect to defer unvested shares into their stock accounts under the Directors Deferred Compensation Plan or, after 2004, the Deferred Compensation Plan for Directors and Executives. Any amounts deferred would generally vest at the same time that the Common Stock would have vested. Directors are entitled to dividends on all shares awarded under the Non-Employee Directors Stock Compensation Plan, whether or not they are vested.

Directors do not receive options or any other form of equity compensation, but are subject to the stock ownership guidelines included in our Corporate Governance Standards. See Non-employee Director Compensation Philosophy, above.

Deferred Compensation Plans

Directors Deferred Compensation Plan

Prior to January 1, 2005, directors could elect to defer the receipt of all or a part of their directors compensation fees (cash or stock retainers and meeting fees) under our non-qualified Directors Deferred Compensation Plan (DDCP). At the director s election, deferred amounts were credited to either a cash account or a stock account. If deferred amounts were credited to stock accounts, such accounts were credited with a number of shares based on the purchase price of our Common Stock on the next purchase date under our Dividend Reinvestment and Direct Stock Purchase Plan, and such accounts were credited with additional shares based on the deemed reinvestment of dividends. Cash accounts are credited quarterly with interest at a rate equal to Moody s Average Corporate Bond Yield plus two percentage points and the crediting rate is subject to a 6 percent minimum rate. The rate is adjusted quarterly. At the election of the participant, deferred balances in the stock and/or cash accounts are payable after termination of Board service in a lump sum, in installments over a period not to exceed 10 years, or in a combination of lump sum and installments.

In September 2004, the Board approved an amendment to the DDCP partially terminating the plan so that no deferrals will be made to the plan subsequent to December 31, 2004. All amounts deferred into the plan prior to December 31, 2004 will remain in the plan and all other provisions of the DDCP remain in effect.

Deferred Compensation Plan for Directors and Executives

In January 2005, the Deferred Compensation Plan for Directors and Executives (DCP) replaced the existing DDCP as the vehicle for non-qualified deferral of compensation by directors. See Non-qualified Deferred Compensation Plans, above. Our obligation to pay deferred compensation in accordance with the terms of the DCP will generally become due on retirement, death, or other termination of service, and will be paid in a lump sum or in installments of five, ten or fifteen years as elected by the participant in accordance with the terms of the DCP. The right of each participant in the DCP is that of one of our general, unsecured creditors.

Directors Retirement Benefit

On January 1, 1998, in connection with the termination of a prior retirement benefit for directors and in lieu of that benefit, we credited a number of shares of our Common Stock to a stock account under the DDCP for each then current director. If such a director retired from the Board at age 70 or older with 10 or more years of service as a director or if the director earlier died or became disabled or if there was an earlier change in control of NW Natural, we were obligated to deliver to the director (or to his or her beneficiary) the number of shares credited to the account, plus an additional number of shares based on reinvested dividends credited to the account over time. Concurrently with the creation of the stock accounts, we

Table of Contents

contributed to the Umbrella Trust for Directors a number of shares of our Common Stock equal to the number of shares credited to directors accounts. Such stock is held in the Umbrella Trust and will be used to fund our obligation to pay out the stock accounts. In February 2008, the Board of Directors amended the DDCP such that each of the directors with this benefit became fully vested in the shares. At that time, the number of shares credited to retirement benefit accounts of then-current directors were as follows: Mr. Hamachek, 919 shares; Mr. Papé, 694 shares; Mr. Reiten, 1,522 shares; and Mr. Tromley, 1,415 shares.

Director Perquisites and Other Compensation

We do not provide perquisites to our directors of other than nominal value and no director received perquisites at or exceeding a total value of $10,000 in 2008.

Table of Contents

2008 AND 2007 AUDIT FIRM FEES

The following table shows the fees and expenses that NW Natural paid or accrued for the integrated audits of its consolidated financial statements and other services provided by our independent registered public accounting firm, PricewaterhouseCoopers LLP, for fiscal years 2008 and 2007:

	2008	2007
Audit Fees	$ 805,032	$ 866,947
Audit-Related Fees	62,600	54,100
Tax Fees	21,700	14,849
All Other Fees		1,500
Total	$ 889,332	$ 937,396

Audit Fees

This category includes fees and expenses for services rendered for the integrated audit of the consolidated financial statements included in the Annual Report on Form 10-K and the review of the quarterly financial statements included in the Quarterly Reports on Form 10-Q. The integrated audit includes the review of our internal control over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act). In addition, amounts include fees for statutory filings, issuance of consents and comfort letters relating to the registration of company securities and assistance with the review of documents filed with the SEC. The amount in 2008 also includes $1,032 for pre-implementation review of internal controls related to a new integrated financial information system.

Audit-Related Fees

This category includes fees and expenses for required audits of NW Natural s Retirement Plans and its Retirement K Savings Plan. Fees and expenses for the audit of NW Natural s Retirement Plans, which are paid by the Trustee from assets of NW Natural s Retirement Trust, totaled $26,900 in 2008 and $24,200 in 2007.

Tax Fees

This category includes fees for tax compliance, tax planning and tax advice. The amount in 2008 includes $10,000 for the preparation and filing of From 3115 related to the analysis of a change in accounting method for repairs and maintenance expenditures.

All Other Fees

This category relates to services other than those described above.

Pre-Approval Policy for Audit and Non-Audit Services

The Audit Committee approved 100% of 2008 and 2007 services for audit, audit-related, tax services and all other fees, including audit services relating to compliance with Section 404 of the Sarbanes-Oxley Act. The Chair of the Audit Committee is authorized to pre-approve non-audit services between meetings of the Audit Committee and must report such approvals at the next Audit Committee meeting. See Report of the Audit Committee, below.

Table of Contents

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the Committee) is responsible for providing independent, objective oversight of NW Natural s accounting and auditing functions, financial reporting and internal control over financial reporting. The Committee is solely responsible for the engagement of the independent registered public accounting firm on behalf of NW Natural, and the independent registered public accounting firm reports to the Committee. The Committee acts under a written charter, amended as of July 26, 2007, to ensure compliance with applicable laws and regulations. The charter is reviewed annually by the Committee and is available on NW Natural s website at **www.nwnatural.com.** In 2008, the Board affirmed the Committee s charter without amendment. Each of the members of the Committee is independent as defined by current New York Stock Exchange listing standards and NW Natural s Director Independence Standards. The Board of Directors has designated John D. Carter, chair of the Committee, as an audit committee financial expert.

The Committee, in accordance with its written charter, oversees the quality and integrity of NW Natural s accounting, auditing and financial reporting practices. During fiscal year 2008, the Committee discussed the interim financial information in each of NW Natural s quarterly reports to the Securities and Exchange Commission (SEC) in special meetings with the Chief Executive Officer, the Chief Financial Officer, the Controller, and PricewaterhouseCoopers LLP, NW Natural s independent registered public accounting firm, prior to filing them with the SEC. In addition, the Chair of the Committee and available Committee members reviewed NW Natural s quarterly earnings press release before its dissemination.

During 2008, the Committee reviewed disclosure controls and procedures designed to ensure the continuing integrity of NW Natural s financial reports and executive compensation disclosure. The Committee provided regular oversight of NW Natural s assessment of its internal control over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

In fulfilling its responsibilities, the Committee has reviewed and discussed the audited financial statements contained in NW Natural s Annual Report on Form 10-K for the year ended December 31, 2008 with NW Natural s management and the independent registered public accounting firm. As part of its review, the Committee discussed NW Natural s critical accounting policies and matters of management, judgment and estimates used in the preparation of the financial statements included in NW Natural s 2008 Annual Report on Form 10-K. In addition, the Committee discussed with the independent registered public accounting firm those matters required to be discussed by Statement on Auditing Standards No. 61, as amended by the Public Company Accounting Oversight Board (PCAOB) AU 380, Communications with Audit Committees.

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent registered public accounting firm written disclosures and the letter required by the PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with the independent registered public accounting firm the independent registered public accounting firm s independence. In this regard, the Committee considered whether or not the provision of non-audit services by the independent registered public accounting firm for the year ended December 31, 2008 is compatible with maintaining the independence of the firm and determined that none of the services provided to NW Natural impacted a finding of independence. In addition, for year ended December 31, 2008, the Committee reviewed the relationship with its independent registered public accounting firm, PricewaterhouseCoopers LLP, and the mandatory rotation

Table of Contents

of the lead audit partner on the NW Natural account. Based upon the Committee s assessment and satisfaction with the services provided, including identification of a qualified candidate to replace the lead audit partner, the Committee determined it was in NW Natural s best interest to continue its engagement of PricewaterhouseCoopers LLP.

In February 2008, the Committee pre-approved certain non-audit services performed by NW Natural s independent registered public accounting firm and affirmed its procedure for the pre-approval of any future non-audit services performed by its independent auditor. On February 25, 2009, the Committee pre-approved specific services to be performed by the independent auditor in 2009, including audit, audit-related and tax services, and established its procedure for pre-approval of all other services to be performed by the independent auditor in 2009. The Committee determined that:

For proposed non-audit services, management will submit to the Committee a list of non-audit services that it recommends the Committee engage the independent registered public accounting firm to provide;

The Committee will review and consider for approval the list of permissible non-audit services and the budget for such services;

Management will routinely inform the Committee regarding the non-audit services actually provided by the independent auditor pursuant to this pre-approval process; and

The Director of Internal Auditing will be responsible for reporting at least annually to the Committee all independent registered public accounting firm fees and the pre-approved budget for such services.

The Chair of the Committee is authorized to pre-approve non-audit services between meetings of the Committee and must report such approvals at the next Committee meeting.

The Committee also discussed with the independent registered public accounting firm any relationships that may impact its objectivity and independence and satisfied itself as to the auditor s independence. The Committee also completed its annual assessment of the independent registered public accounting firm s and internal auditors performance. The Committee discussed with management and the internal auditors the quality, adequacy and effectiveness of NW Natural s internal control over financial reporting, and the organization, responsibilities, budget and staffing of the internal audit function. The Committee reviewed with the independent registered public accounting firm any significant matters regarding NW Natural s internal control over financial reporting that had come to their attention during the conduct of their audit. The Committee reviewed with both the independent registered public accounting firm and the internal auditors their respective audit plans, audit scopes and identification of audit risks.

The Committee, in reliance on the reviews and discussions referred to above, recommended to the Board of Directors (and the Board has approved and directed) that the audited consolidated financial statements be included in Northwest Natural Gas Company s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC.

Respectfully submitted on February 25, 2009 by the Audit Committee of the Board of Directors:

John D. Carter, Chair	Jane L. Peverett

Martha L. Stormy Byorum	Kenneth Thrasher
Tod R. Hamachek	Russell F. Tromley

Table of Contents

PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

At a meeting held February 25, 2009, the Audit Committee of the Board of Directors appointed PricewaterhouseCoopers LLP, independent registered public accounting firm, to audit the books, records and accounts of NW Natural for fiscal year 2009. The Audit Committee and the Board of Directors recommend that the shareholders ratify this appointment.

Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting with the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

See 2008 and 2007 Audit Firm Fees, above.

Vote Required

The ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accountants for 2009 will require the affirmative vote of the holders of a majority of the shares of Common Stock of NW Natural present, or represented by proxy, and entitled to vote on the matter at the Annual Meeting. Abstentions have the effect of no votes in determining whether the proposal is ratified. Broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote.

The Audit Committee and the Board of Directors recommend a vote FOR this proposal.

OTHER MATTERS

Management does not know of any other matters to be presented at the Annual Meeting. If other matters should be properly presented at the meeting, the persons named in the accompanying proxy will vote the shares represented by such proxy with respect to such matters in accordance with their best judgment.

Consolidation Services Provided

The consolidation of an individual s multiple proxy cards into one envelope is a service NW Natural provides based on Social Security Number or Tax ID Number match.

If you received a consolidated mailing this year and you would like to receive a separate annual report or proxy statement for each account with the same Social Security Number, please submit your request to Shareholder Services, 220 NW Second Avenue, Portland, OR 97209 or call (800) 422-4012, ext. 3412. NW Natural will promptly send additional copies of the annual report and/or proxy statement upon receipt of such request. You may also contact NW Natural if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future.

Delivery of Proxy Materials to Households

Only one copy of our annual report and proxy statement will be delivered to an address where two or more shareholders reside unless we have received contrary instructions from a shareholder at the address. A separate proxy card will be delivered to each shareholder at the shared address.

Table of Contents

If you are a shareholder who lives at a shared address and you would like additional copies of the annual report, this proxy statement, or any future annual reports or proxy statements, contact Shareholder Services, 220 NW Second Avenue, Portland, OR 97209 or call (800) 422-4012, ext. 3412. NW Natural will promptly send additional copies of the annual report and/or proxy statement upon receipt of such request.

If you share the same address with another NW Natural shareholder and you currently receive multiple copies of annual reports or proxy statements, you may request delivery of a single copy of future annual reports or proxy statements at any time by calling Shareholder Services at (800) 422-4012, ext. 3412, or by writing Shareholder Services, 220 NW Second Avenue, Portland, OR 97209.

Many brokerage firms and other shareholders of record have procedures for the delivery of single copies of company documents to households with multiple beneficial shareholders. If your family has one or more street name accounts under which you beneficially own shares of NW Natural Common Stock, please contact your broker, financial institution, or other shareholder of record directly if you require additional copies of this proxy statement or NW Natural s annual report, or if you have other questions or directions concerning your street name account.

Electronic Delivery of Annual Meeting Materials

If you would like to reduce the costs incurred by NW Natural in mailing proxy materials, you can consent to receive all future proxy statements, proxy cards and annual reports electronically via e-mail or the internet. To sign up for electronic delivery, please follow the instructions above under Voting By Proxy and How to Revoke Your Proxy to vote using the internet and, when prompted, indicate that you agree to receive proxy materials electronically.

2010 ANNUAL MEETING OF SHAREHOLDERS

The SEC s proxy rules require that any shareholder proposal to be considered for inclusion in NW Natural s proxy statement for the 2010 Annual Meeting of Shareholders must be received at NW Natural s principal executive office no later than December 21, 2009.

NW Natural s bylaws require shareholders to give NW Natural advance notice of any proposal to be submitted at any meeting of shareholders. The bylaws prescribe the information to be contained in any such notice, and a copy of the relevant provisions of the bylaws will be provided to any shareholder upon written request to the Corporate Secretary of NW Natural. For any shareholder proposal to be considered at the 2010 Annual Meeting of Shareholders, the shareholder s notice must be received by NW Natural s Corporate Secretary no later than February 26, 2010. The SEC s proxy rules allow NW Natural to use discretionary voting authority to vote on a matter coming before an annual meeting of shareholders which is not included in NW Natural s proxy statement, if NW Natural does not have notice of the matter before the deadline established in its bylaws. In addition, discretionary voting authority may generally also be used if NW Natural receives timely notice of such matter (as described above) and if, in the proxy statement, NW Natural describes the nature of such matter and how NW Natural intends to exercise its discretion to vote on such matter.

Table of Contents

COMPANY INFORMATION

NW Natural makes available on its website **www.nwnatural.com** among other things:

- Corporate Governance Standards;
- Director Independence Standards;
- Director Selection Criteria;
- Charters of the Governance, Audit, Organization and Executive Compensation, Finance, Public Affairs and Environmental Policy and Strategic Planning Committees;
- Code of Ethics;
- Standards of Conduct; and
- Financial Code of Ethics.

You may request a copy of these documents, at no cost to you, by writing or calling Shareholder Services, 220 NW Second Avenue, Portland, Oregon 97209, telephone (800) 422-4012, ext. 3412.

Shareholders may communicate with the Chairman of the Board or the non-management directors of the Board by:

- calling (800) 541-9967;
- mailing correspondence to 220 NW Second Avenue, Portland, OR 97209, Attn: Corporate Secretary; or
- sending an e-mail to **directors@nwnatural.com.**

Table of Contents

SOLICITATION OF PROXIES

Proxies may be solicited on behalf of the Board of Directors by regular employees in person or by mail, telephone, the internet or facsimile transmission. NW Natural will reimburse brokers or other persons holding stock in their names or in the names of their nominees for their reasonable expenses incurred in forwarding proxies and proxy materials to the beneficial owners of such shares. All solicitation costs will be borne by NW Natural. NW Natural has retained Laurel Hill Advisory Group to assist in the solicitation of proxies from banks, brokers and nominees at a fee of $6,500 plus reasonable out-of-pocket expenses. Shareholders may assist NW Natural in avoiding expenses in this connection by voting their proxies promptly.

If you are unable to be present at the Annual Meeting in person, please mark, date, sign and mail the enclosed proxy, or, alternatively, grant your proxy by telephone or the internet, so that the business of the meeting can be transacted.

By Order of the Board of Directors,

/s/ MardiLyn Saathoff
MardiLyn Saathoff
Chief Governance Officer and Corporate Secretary

Portland, Oregon
April 20, 2009

Table of Contents

Table of Contents