NORTHWEST NATURAL GAS CO
Form DEF 14A
April 18, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

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:

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¨ 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 18, 2011

To the Shareholders of Northwest Natural Gas Company:

We cordially invite you to attend the 2011 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 26, 2011, 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 five proposals: (1) the election of four Class III directors for terms of three years; (2) the reapproval and amendment of our long term incentive plan; (3) an advisory vote on executive compensation; (4) an advisory vote on frequency of voting on executive compensation; and (5) the ratification of the appointment of PricewaterhouseCoopers LLP as NW Natural s independent registered public accountants for the fiscal year 2011. Your Board of Directors unanimously recommends that you vote **FOR** each of Proposals 1, 2, 3, and 5 and that you vote for a frequency of **EVERY THREE YEARS** for Proposal 4.

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. 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 6, 2011, and we will provide you with an admission ticket. Please see page 2 for further instructions on attending the Annual Meeting.** Detailed information relating to NW Natural s business activities and operating performance is contained in our 2010 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 internet and telephone 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 2011 ANNUAL MEETING OF SHAREHOLDERS

Portland, Oregon, April 18, 2011

To our Shareholders:

The 2011 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 26, 2011, at 2:00 p.m. Pacific Daylight Time, for the following purposes:

1. to elect four Class III directors for terms of three years;
2. to reapprove and amend the long term incentive plan;
3. to conduct an advisory vote on executive compensation;
4. to conduct an advisory vote on the frequency of voting on executive compensation;
5. to ratify the appointment of PricewaterhouseCoopers LLP as NW Natural s independent registered public accountants for the fiscal year 2011; and
6. 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 6, 2011, 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 internet and telephone 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 26, 2011

This proxy statement and our 2010 Annual Report are available 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 the internet or telephone 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, Deputy General Counsel and
Corporate Secretary

Table of Contents

PROXY STATEMENT

NORTHWEST NATURAL GAS COMPANY

April 18, 2011

Table of Contents

Table of Contents

NORTHWEST NATURAL GAS COMPANY

ONE PACIFIC SQUARE

220 NW SECOND AVENUE

PORTLAND, OREGON 97209

(503) 226-4211

2011 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 26, 2011

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 26, 2011, 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 the internet or telephone.

NW Natural s Annual Report for the fiscal year ended December 31, 2010, including audited financial statements, is being mailed to all shareholders, together with this proxy statement and the accompanying proxy card, commencing April 18, 2011.

The close of business on April 6, 2011 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 internet, telephone or mail, or you may vote your shares in person at the meeting. To vote:

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 25, 2011.

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 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 25, 2011.

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 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, 2, 3 and 5 and EVERY THREE YEARS on Proposal 4, as recommended by NW Natural s Board of Directors.

1

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 Investor Solutions, Inc., 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 the internet or telephone; 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 26,672,812 shares of Common Stock outstanding on April 1, 2011 were held by 7,041 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 6, 2011 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 6, 2011 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 the internet or telephone 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 6, 2011, 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 online for attendance. A form of government-issued photograph identification will be required for both you and your guest 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.

3

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. The Board has fixed the number of directors at 11.

Our Chairman of the Board, Mr. Russell F. Tromley, will chair the 2011 Annual Shareholders Meeting. In February 2010, the Board reappointed Mr. Tromley as Chair of the Board of Directors and extended his term as a member of the Board pursuant to its authority under NW Natural s bylaws and its Corporate Governance Standards. 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. See Corporate Governance Standards, below.

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 III directors expires with this year s Annual Meeting. Ms. Martha L. Stormy Byorum and Messrs. John D. Carter, C. Scott Gibson and Gregg S. Kantor are nominees for election to the Board as Class III directors to serve until the 2014 Annual Meeting or until their successors have been duly qualified and elected. Ms. Byorum and Messrs. Carter and Gibson were elected to the Board of Directors by the shareholders at the 2008 Annual Meeting. Mr. Kantor was elected to the Board of Directors by the shareholders at the 2009 Annual Meeting. 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

Set forth below is information with respect to the nominees and continuing directors, including their recent employment or principal occupation, a summary of their specific experience, qualifications, attributes or skills that led to the conclusion that they are qualified to serve as a director, the names of other public companies for which they currently serve as a director or have served as a director within the past five years, and their period of service as a NW Natural director, the committees on which they currently serve, and their age.

NOMINEES FOR ELECTION TO BOARD OF DIRECTORS

Class III

(For a Term ending in 2014)

Martha L. Stormy Byorum

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

Age: 62

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 a 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 M&F Worldwide Corp., a publicly-traded holding company operating four businesses. From 2001 until May of 2010, Ms. Byorum was also a board member of Aeterna-Zentaris Laboratories, Inc., a publicly-traded biopharmaceutical company.

Ms. Byorum brings to the NW Natural Board more than 35 years of extensive experience in investment banking and public and private finance. Her multiple executive leadership roles at Stephens Cori Capital Advisors, Cori Investment Advisors, LLC, VB&P and Citibank position her to advise NW Natural on a wide range of financial, strategic and governance matters. Ms. Byorum s experience also allows her to provide insights in areas including, but not limited to, mergers and acquisitions, human capital management and diversity, and investor and media relations. Ms. Byorum s current and prior service on other boards, including M&F Worldwide Corp. and Aeterna-Zentaris Laboratories, Inc., enables her to provide effective oversight of management and insight into a wide variety of public company operations and governance matters. Ms. Byorum s extensive finance and banking experience strengthens the Board s collective knowledge, capabilities and experience.

Table of Contents

John D. Carter

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

Age: 65

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 United States. 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. Mr. Carter also serves as a Trustee of the Nature Conservancy of Oregon. He is a graduate of Stanford University and Harvard Law School.

Mr. Carter brings to the NW Natural Board a broad array of executive, leadership and board service experiences that contribute to the Board s governance of the Company. Mr. Carter s extensive executive senior management experiences including at Bechtel and as Chief Executive Officer of Schnitzer Steel Industries and his other board service, including as Chairman of the Board of Schnitzer Steel Industries, and a director of FLIR Systems, Inc. and Kuni Automotive, enable him to provide effective oversight of management and insight into a wide variety of strategic, corporate governance and financial matters, including, but not limited to, experience in large project development, acquisitions, human capital management, executive compensation, media and governmental relations, growth orientation, change management, and strategic direction. In addition, Mr. Carter s tenure as General Counsel of Bechtel Group, Inc. and prior experience as a partner in a San Francisco law firm brings to the Board substantial legal and governance expertise. Mr. Carter also has extensive knowledge of finance and accounting matters, as a result of which, the Board has determined that he is an audit committee financial expert as defined by the SEC rules. Mr. Carter s multifaceted skill set and professional experiences strengthen the Board s collective knowledge, capabilities and experience.

C. Scott Gibson

President, Gibson Enterprises, Jackson Hole, Wyoming

Age: 58

Director since: 2002

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

Mr. Gibson has been President of Gibson Enterprises, 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

Table of Contents

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. In the past five years, Mr. Gibson served as director of Electroglas, Inc. He also serves as a member of the Board of Trustees of the Franklin W. Olin College of Engineering. Until 2009, Mr. Gibson was Vice Chair of the Oregon Health and Science University governing board, and until 2010, he was a member of the Board of Trustees of the Oregon Community Foundation. Mr. Gibson earned a Bachelor of Science degree in Electrical Engineering and a Masters in Business degree from the University of Illinois.

Mr. Gibson brings to the NW Natural Board extensive experience as a director of publicly-traded companies, including RadiSys, TriQuint Semiconductor, Pixelworks and Verigy Pte. He is a professional public company and non-profit board member, dedicating all his work hours to the boards and companies on which he serves. Based on this experience and other professional experiences, Mr. Gibson is able to deliver important insights to our management and other directors on subjects ranging from management oversight to growth orientation, change management and strategic direction. In particular, Mr. Gibson s past or present service as an audit committee member of RadiSys Corporation, TriQuint Semiconductor, Pixelworks and Verigy Pte. highlight Mr. Gibson s substantial experience in finance and accounting matters and position Mr. Gibson to provide important guidance to the Board on matters of accounting, finance, and corporate governance. Additionally, Mr. Gibson s prior and current service on the compensation committees of RadiSys Corporation, TriQuint Semiconductor, Pixelworks, Electroglas, Inc. and Verigy Pte. enable him to substantially contribute to Board matters involving executive compensation, human capital management, and general corporate governance. Mr. Gibson s broad and varied public company leadership service strengthens the Board s collective knowledge, capabilities and experience.

Gregg S. Kantor

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

Age: 53

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 1996 to 1998. Mr. Kantor is a board member of the Portland Business Alliance, the Oregon Business Council and Greenlight of Greater Portland. He was also a board member of the Leaders Roundtable until December 2010 and the Oregon Global Warming Commission until January 2011. 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.

Mr. Kantor serves a key leadership role on the NW Natural Board and provides the Board with in-depth knowledge of each area of NW Natural s business, the energy industry generally, and the Company s challenges and opportunities. Mr. Kantor acts as the principal intermediary between management and the independent directors of our Board, and communicates to the Board management s perspective on important matters brought before the Board. Mr. Kantor s

Table of Contents

14 years with NW Natural enable him to bring to the Board a comprehensive understanding of the Company s business operations as well as matters relating to the energy industry generally. Mr. Kantor s service on local business, educational, charitable and public service boards, including his past membership on the Oregon Energy Planning Council, provide an important connection between NW Natural and the communities it serves. Additionally, Mr. Kantor s extensive experience in public affairs and communications contributes to the Board important perspectives on governmental and regulatory relations and advocacy, and community and media relations. Mr. Kantor s combined professional skills and insights from his position as President and Chief Executive Officer strengthen the Board s collective knowledge, capabilities and experience.

MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE

Class I

(Term ending in 2012)

Timothy P. Boyle

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

Age: 61

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 Freshwater Trust 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.

Mr. Boyle s professional experiences, including his service as President and Chief Executive Officer and member of the board of directors of Columbia Sportswear Company and his service as a director of Craft Brewers Alliance, Inc., as well as his prior service on the NW Natural Board, and his community and public service, enable Mr. Boyle to provide valuable insight to the Board and management regarding public company operations, acquisitions, human capital management, executive compensation, investor and media relations, government relations, and growth and strategic direction, all of which strengthen the Board s collective knowledge, capabilities and experience.

Mark S. Dodson

Former Chief Executive Officer, NW Natural, Vancouver, Washington

Age: 66

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

8

Table of Contents

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 previously served as a director of the American Gas Association, the Energy Insurance Mutual and the Oregon Business Council. Mr. Dodson currently serves on the board of directors of Medical Teams International and the Nature Conservancy of Oregon. 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 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.

Mr. Dodson brings a seasoned perspective and comprehensive knowledge of the natural gas industry to our Board. Mr. Dodson s 12 years of service at NW Natural, including six years as Chief Executive Officer and eight years as a member of the Board of Directors, combined with a 17-year career as a regulatory attorney at a Portland law firm, allow Mr. Dodson to contribute substantial expertise to NW Natural s Board and management. Mr. Dodson s professional experiences enable him to provide insight on a wide variety of matters affecting NW Natural, including, but not limited to: local, state and federal regulatory matters; large project development; gas storage projects; large pipeline projects; acquisitions; public company matters; human capital management; executive compensation; investor, media and government relations; legal matters; environmental issues; and strategic direction. Mr. Dodson s many years of experience serving NW Natural and his prior years serving as an outside legal advisor to NW Natural strengthen the Board s collective knowledge, capabilities and experience.

George J. Puentes

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

Age: 63

Director since: 2007

Board Committees: Finance, Public Affairs and Environmental Policy

Mr. Puentes served as President of Don Pancho Authentic Mexican Foods, Inc., a manufacturer of tortillas and other foods, which he founded in Salem, Oregon in 1979, until December 2009, and is now an Advisor to the President of Don Pancho Authentic Mexican Foods. Mr. Puentes serves as a trustee of the Meyer Memorial Trust and as a Director of Standard Insurance Company. In the last five years, Mr. Puentes served on the board of directors of the Federal Reserve Bank of San Francisco, Portland branch, and Regence Blue Cross/Blue Shield. Mr. Puentes earned a Bachelor of Science degree in business management from San Jose State University.

Mr. Puentes extensive experience as founder and President of Don Pancho Authentic Mexican Foods, Inc., beginning in 1979, enables him to bring a broad range of executive experience to the NW Natural Board, including, but not limited to, human capital management, diversity, executive compensation, governmental and community relations, and environmental issues. In addition, Mr. Puentes experience on the boards of the Federal Reserve Bank of San Francisco, Portland branch and Regence Blue Cross/Blue Shield allow him to provide insights to management related to regulatory issues, acquisitions, growth strategy, strategic direction and change management, all of which strengthen the Board s collective knowledge, capabilities and experience.

Table of Contents

Class II

(Term ending in 2013)

Tod R. Hamachek

Former Chairman and Chief Executive Officer, Penwest Pharmaceuticals Company, Ketchum, Idaho

Age: 65

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, was located in Danbury, Connecticut and was 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 Medical System in Seattle, Washington and President of the Board of Directors of The Sun Valley Center for The Arts in Ketchum, Idaho. He is a graduate of Williams College and Harvard Business School.

Mr. Hamachek is our longest-serving director, and he brings to the NW Natural Board a broad array of institutional knowledge and historical perspective. Mr. Hamachek has served on our board for more than 25 years and has participated in a variety of our principal standing committees. Drawing on his experience as an executive and director of Penwest Pharmaceuticals Company and an executive of Penford Corporation along with his other professional experiences, Mr. Hamachek is able to provide important insights to our management and other directors on subjects ranging from corporate governance and corporate strategy to management oversight on large project development, public company operations, acquisitions, executive compensation, and media and government relations, all of which strengthen the Board s collective knowledge, capabilities and experience.

Jane L. Peverett

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

Age: 52

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 Westcoast Energy Ltd., including serving as President and Chief Executive Officer of Union Gas Limited, a Westcoast Energy company, between 2001 and 2003. Ms. Peverett serves on the board of directors of Canadian Imperial Bank of Commerce (CIBC), EnCana Corporation, AEGIS, British Columbia Ferry Authority and the United Way of Lower Mainland. Within the last five years, Ms. Peverett also served on the board of directors of BC Ferries Services, Inc.

(BC Ferries) 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.

Ms. Peverett s extensive senior management experience at Union Gas Limited of Toronto, Ontario, a natural gas distribution, storage and transmission company, and her board experience at EnCana Corporation, one of the largest natural gas suppliers in North America, as well as her senior management experience at BCTC, the entity responsible for managing British Columbia s publicly-owned electrical transmission system, as well as her prior board experience at BC Ferries, positions her to advise management on a wide range of natural gas and energy industry-specific strategic and regulatory matters as well as large project development and other business matters. In addition, Ms. Peverett s other board experiences, including as a member of the audit committee of CIBC, a leading North American financial institution with almost 11 million personal banking and business customers, and EnCana Corporation enable her to provide effective oversight of management and insight into a wide variety of corporate governance and financial matters. Ms. Peverett also has extensive knowledge of and training in finance and accounting matters, which strengthens the Board s collective knowledge, capabilities and experience.

Kenneth Thrasher

Chairman of the Board, Alternative Legal Solutions, Inc. (dba Compli), Portland, Oregon

Age: 61

Director since: 2005

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

Mr. Thrasher served as Chairman and Chief Executive Officer of Alternative Legal Solutions, Inc. (dba Compli), a software solution provider for management of compliance in employment, regulatory, environmental, health and safety, and corporate governance practices from 2002 through December 2009, when he relinquished his position as Chief Executive Officer and continued to serve as Chairman of the Board. 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, as Executive Vice President and Chief Administrative Officer from 1997 to 1999, and as Senior Vice President and Chief Financial Officer from 1987 to 1997. Mr. Thrasher serves on the boards of directors of Compli, GSL Solutions, Inc., The Jensen Fund, Friends of the Children, Oregon Mentors, the Children s Institute, Innovation Partnership, the Portland State University Foundation, the OSU College of Education Advisory Board, and is a senior director on the Oregon Business Council. Until December 2010, Mr. Thrasher served on the board of directors of the Leaders Roundtable, and during 2008 and the 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. Mr. Thrasher earned a Bachelor of Science degree in Business Administration from Oregon State University.

Mr. Thrasher brings to the NW Natural Board a wide range of leadership experiences in both the public and private sectors. Mr. Thrasher s service as an executive at Fred Meyer, Inc. positions him to provide oversight of management on a wide variety of strategic, financial, and public company matters, including, but not limited to, large project development and acquisitions. Mr. Thrasher s service as an executive and board member of Compli enables him to advise management on matters of compliance, regulation, human capital management, executive compensation and corporate governance. Mr. Thrasher s other professional

Table of Contents

experiences, particularly his community- and government-related experience, provide insight with respect to government, community and media relations, all of which strengthen the Board s collective knowledge, capabilities and experience.

Russell F. Tromley

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

Age: 71

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 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 Western Golf Association. Mr. Tromley attended the University of Washington and Harvard Business School.

With over 17 years on NW Natural s Board, Mr. Tromley has developed an in-depth knowledge and understanding of our business, and is able to devote considerable attention to the Company. Mr. Tromley provides expertise in gas storage projects, energy industry matters and governmental relations. Mr. Tromley s service as Chairman and Chief Executive Officer of Tromley Industrial Holdings and his tenure as director of The Bank of the Northwest and advisory board member of Pacific Northwest Bank of Oregon positions Mr. Tromley to provide important insight to the Board and management regarding matters of finance, regulation, acquisitions, diversity, executive compensation, environmental matters and media relations, all of which strengthen the Board s collective knowledge, capabilities and experience.

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 2010, all of our directors attended the Annual Meeting of Shareholders.

During 2010, there were seven 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 July 23, 2009, are available 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 2011, the Board determined that nine of the 11 directors met the independence criteria. They are directors Boyle, Byorum, Carter, Gibson, Hamachek, Peverett, Puentes, Thrasher and Tromley.

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, with recommendations and input from the Chairman of the Board, the Chief Executive Officer 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. Such director candidates must be able to make a significant contribution to the governance of NW Natural by virtue of their business and financial expertise, educational and professional background, and current or recent experience as a chief executive officer or other senior leader of a public company or other major organization. The business discipline that may be sought at any given time will vary depending on the needs and strategic direction of our Company and the disciplines represented by our incumbent directors. In addition, the Governance Committee looks at the overall composition of the Board and how a candidate would contribute to the overall synergy and collaborative process of the Board. 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.

13

Table of Contents

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. The Board s retirement age is 70, unless otherwise determined by the Board. As such, directors must be able, and should be committed, to serve on the Board for an extended period of time.

Independence**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.

Diversity

As indicated above, NW Natural s Director Selection Criteria includes a consideration of diversity as one factor in evaluating candidates for Board membership. The Board believes that diversity with respect to factors such as background, experience, skills, geographic location, race and gender are important considerations in Board composition. The Governance

Table of Contents

Committee discusses diversity considerations in connection with each director candidate, as well as on a periodic basis in connection with the composition of the Board as a whole. In addition, the Governance Committee and the Board conduct formal self-evaluations each year that include an assessment of whether the Governance Committee and the Board have adequately considered diversity, among other factors, in identifying and discussing director candidates. The Governance Committee believes that, as a group, the nominees contribute to the Board s diverse range of backgrounds, experiences and perspectives.

Board Leadership Structure

The current Board leadership structure separates the role of Chairman and CEO. The Board evaluates its leadership structure and role in risk oversight on an ongoing basis. The decision to combine or separate the Chairman and Chief Executive Officer (CEO) role is determined on the basis of what the Board considers to be best for NW Natural at any given point in time. The independent Chair of the Board meets regularly with the CEO and the Corporate Secretary to discuss appropriate business to come before the Board and its committees and actively recommends agenda items for Board meetings. NW Natural s Board is structured to promote independence. All but two members of the Board are independent directors. The independent directors of the Board meet regularly in executive sessions at which only the non- management directors are present. Under NW Natural s bylaws, the Governance Committee, Audit Committee and Organization and Executive Compensation Committee (OECC) must be composed entirely of independent directors. All committees have an independent chair that works with the executive officer primarily responsible for work with that committee, and the Corporate Secretary, to discuss appropriate business to come before the committee and to recommend agenda items for that committee. The Board of Directors believes its leadership structure provides for appropriate independence between the Board and management.

The Governance Committee and the Board annually review the Corporate Governance Standards, which can be accessed electronically in the Corporate Governance section of NW Natural s website at **www.nwnatural.com**, and the performance of the Board is reviewed annually by the members of the Board. The Corporate Governance Standards describe the Board s primary responsibilities, which include oversight of NW Natural s mission, and key programs that enable the Board to assess and manage material risks, including ethics and compliance, operational risk, strategic planning, financial performance, compensation and CEO succession.

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 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.

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

Table of Contents

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 Audit 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, auditing, and NW Natural s Enterprise Risk Management process. The Audit Committee is also responsible for the appointment, compensation, oversight and review of the independent registered public accounting firm, and reviews the audit findings 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 six meetings during 2010. Mr. Carter presides at all executive sessions of the Audit Committee in which he is in attendance.

Finance Committee

The Finance Committee is responsible for reviewing strategies and making recommendations to the Board with respect to NW Natural s financing programs, financial policy matters and material regulatory issues. The Finance Committee is composed of directors Byorum, Carter and Puentes. Ms. Byorum was appointed Chair of the Finance Committee in May 2008. Ms. Byorum presides at all executive sessions of the Finance Committee in which she is in attendance. The Finance Committee held four meetings in 2010.

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 Governance 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. The Governance 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. Tromley was appointed chair of the Governance 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 in which he is in attendance. The Governance Committee held seven meetings in 2010.

Organization and Executive Compensation Committee

The Organization and Executive Compensation Committee (OECC) reviews the performance of the CEO and other executive officers, makes recommendations to the Board relating to executive compensation programs and benefit plans, and monitors risks related to such programs and plans. The OECC 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. The OECC also makes recommendations to the Board regarding Board compensation, and organization and executive succession matters. The OECC 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

Table of Contents

Director Independence Standards. Each member of this OECC 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 OECC in May 2008 and he presides at all executive sessions of the OECC in which he is in attendance. The OECC held four meetings in 2010. For additional information regarding the OECC, 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 NW Natural s policies and practices relating to significant public and political issues that may impact our business operations, financial performance or public image. The Public Affairs and Environmental Policy Committee oversees our programs and policies relating to civic, charitable and community affairs, safety, and equal employment opportunities. It also reviews and recommends to the Board appropriate environmental policies and informs the Board concerning the status of our compliance with environmental regulations, as well as oversees our administrative and litigation matters related to our environmental liabilities. The Public Affairs and Environmental Policy Committee makes recommendations to the Board to ensure that we fulfill our objectives in a manner consistent with the responsibilities of good corporate citizenship. It is composed of directors Boyle, Dodson, Gibson, Puentes and Thrasher. Mr. Thrasher serves as Chair and was appointed to that position in May 2008 and he presides at all executive sessions of the Public Affairs and Environmental Policy Committee in which he is in attendance. The Public Affairs and Environmental Policy Committee held two meetings in 2010.

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 Strategic Planning Committee is composed of directors Boyle, Dodson, Hamachek and Peverett. Mr. Hamachek serves as Chair and was appointed to that position in May 2008. Mr. Hamachek presides at all executive sessions of the Strategic Planning Committee in which he is in attendance. The Strategic Planning Committee held two meetings in 2010.

Board s Role in Risk Oversight

NW Natural s management is responsible for the day-to-day management of risks faced by the Company, while the Board of Directors, collectively and through its committees, has responsibility for the oversight of risk management. The Board periodically reviews its committee risk oversight structure to ensure the Board has adequate oversight coverage and visibility of the Company s key risks. NW Natural s independent Audit Committee, which regularly reports to the full Board, has primary responsibility for oversight and evaluation of the Company s policies with respect to significant risks and exposures faced by the Company and the procedures for assessing, monitoring and managing those risks. Under the terms of its charter, the Audit Committee s duties include responsibility for oversight of the independent auditor, internal audit, financial reporting, as well as the Company s Ethics and Compliance program, including the Code of Ethics and its system for review and treatment of complaints regarding accounting or financial irregularities and ethical violations. The Audit Committee also reviews NW Natural s quarterly financial filings, including the disclosure of NW Natural s risk factors. The Audit Committee also has oversight responsibility for the Company s annual

Table of Contents

enterprise risk management assessment process. In fulfilling its risk oversight function, the Audit Committee periodically and as needed discusses key risks with NW Natural s Chief Executive Officer, Chief Financial Officer, legal counsel, internal auditors, and with its independent registered public accounting firm.

In addition to receiving regular reports from the Audit Committee with respect to its risk oversight responsibilities, the Board reviews key risks associated with the Company s strategic plan at its annual strategic planning session and periodically throughout the year through reports received from its Strategic Planning Committee. Other committees having a significant risk oversight role include the Finance Committee, which has primary responsibility for the financial strategy and policies of the Company, including risk oversight of its capital structure and liquidity, and the Public Affairs and Environmental Policy Committee, which has primary responsibility for overseeing the Company s strategy related to the Company s current and potential environmental liabilities, as well as legislative and regulatory risks. In addition, management attends Board and committee meetings and regularly discusses with the Board and the committees various risks confronting the Company.

NW Natural s Board also manages its executive compensation oversight risk responsibility through the independent OECC, which regularly reports to the full Board. Under the terms of its charter, the OECC is responsible for overseeing the Company s executive compensation programs and plans to ensure consistency with corporate objectives and its compensation philosophy. In fulfilling its compensation risk oversight function, the OECC discusses with its outside consultant key compensation design elements of the Company s compensation plans and awards, including, but not limited to, whether those plans and awards properly incentivize executive performance, promote retention of valuable executives, and disincent inappropriate risk-taking. For additional information regarding the OECC oversight of executive compensation, see Executive Compensation Compensation Discussion and Analysis Overview Organization and Executive Compensation Committee, below.

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 July 23, 2009, are available 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. *See* Proposal 1 Election of Directors, above.

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 provides an opportunity for 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 OECC is responsible for succession planning 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 CEO.

The OECC 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.

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 are available 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. Employees and other third parties may also submit concerns anonymously pursuant to the Code of Ethics hotline, 1-866-546-3696, also located at our internal website. Our Director of Internal Audit handles matters reported on the internal hotline in coordination with our Chief Compliance Officer and regularly reports to the Audit Committee on hotline activity.

The Corporate Secretary will refer concerns that come directly before the Corporate Secretary or Chief Compliance Officer relating to accounting, financial reporting, internal controls or auditing matters to the chair of the Audit Committee, and other concerns to the chair of the Governance Committee as appropriate. The Corporate Secretary regularly reports to the Governance Committee regarding concerns submitted to the non-management directors of NW Natural, if any.

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. 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 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.

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. Pursuant to its charter, the Audit Committee is responsible for reviewing related person transactions.

Table of Contents

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 on terms comparable to those that could be obtained in arm s length dealings with an unrelated third party; or (ii) whether or not the transaction is otherwise in the best interest of the Company. 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. In the event the Audit Committee is not otherwise convening, the transaction may be approved or ratified by the majority of disinterested members of the Board of Directors. We are not aware of any transactions entered into during the last fiscal year that did not follow the procedures outlined in the policy.

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, promotion or compensation. Cash compensation paid to Mr. Smart in 2010 was approximately $143,000 and is expected to be approximately $148,000 in 2011. Mr. Smart reports to David Anderson, Senior Vice President and Chief Financial Officer. Compensation paid to Mr. Smart is reviewed periodically by the Audit Committee in accordance with our Transactions with Related Persons Policy.

SECURITY OWNERSHIP OF COMMON STOCK OF CERTAIN BENEFICIAL OWNERS

The following table shows ownership of Common Stock of NW Natural on December 31, 2010 by each person who, to our knowledge, owned beneficially more than 5 percent of NW Natural Common Stock, as set forth in a Schedule 13G filed with the SEC:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	2,104,743[1]	7.90%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19335	1,421,361[2]	5.33%

1 Based on information set forth in Schedule 13G filed February 7, 2011, with the SEC by BlackRock, Inc. The reporting person has sole voting power and sole dispositive power as to the total amount of beneficial ownership.

2 Based on information set forth in Schedule 13G filed February 10, 2011 with the SEC by Vanguard Group, Inc. The reporting person reports that it has sole power to dispose of or to direct the disposition of 1,379,237 shares, and sole power to vote or direct the vote, and shared power to dispose or to direct the disposition of 42,124 shares. The filing does not clarify whether the reporting person has sole or shared power to vote with respect to the 1,379,237 shares reported on the Schedule 13G.

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, 2010 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, 2010, 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		
Gregg S. Kantor (also a director)	63,748[2]	*
David H. Anderson	72,591[3]	*
Lea Anne Doolittle	27,512[4]	*
J. Keith White	18,581[5]	*
Margaret D. Kirkpatrick	27,561[6]	*
Directors		
Timothy P. Boyle	15,226[7]	*
Martha L. Stormy Byorum	7,360[8]	*
John D. Carter	41,035[9]	*
Mark S. Dodson	18,168[10]	*
C. Scott Gibson	2,626[11]	*
Tod R. Hamachek	7,252[12]	*
Jane L. Peverett	7,503[13]	*
George J. Puentes	7,558[14]	*
Kenneth Thrasher	7,500[15]	*
Russell F. Tromley	7,748[16]	*
All directors and officers as a group (20 in number)	402,482[17]	1.5

* The total for each individual is less than 1.0 percent.
Based on the total number of shares beneficially owned on December 31, 2010 (including shares owned as of December 31, 2010, options exercisable within 60 days after December 31, 2010 and shares held in deferred compensation accounts that would be received by directors and officers within 60 days of December 31, 2010, if the director or 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, 2010, if the director or Named Executive Officer ceased service with NW Natural on that date are included in the table. Unexercisable options and 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, 2010; such shares are more fully disclosed in the footnotes below with respect to each beneficial owner named in table.

2 Includes 4,506 shares held jointly with Mr. Kantor s spouse, 42,000 shares which Mr. Kantor has the right to acquire within 60 days through the exercise of options under the Restated Stock Option Plan (Restated SOP), 3,044 shares held indirectly under the Restatement K Savings Plan (RKSP), and 470 shares held by Mr. Kantor s parent, with respect to which Mr. Kantor is power of attorney and a potential beneficiary. Does not include 37,000 unexercisable shares under the Restated SOP and 1,716 shares credited to the DCP.

3 Includes 28,556 shares held jointly with Mr. Anderson s spouse, 43,000 shares which Mr. Anderson has the right to acquire within 60 days through the exercise of options under the Restated SOP, 438 shares held indirectly under the RKSP. Does not include 12,000 unexercisable shares under the restated SOP and 7,594 shares credited to the DCP.

4 Includes 193 shares held by Ms. Doolittle s spouse, 6,419 shares held indirectly under the RKSP, 115 shares held indirectly under the RKSP by her spouse, 28 shares credited to the EDCP, 14,250 shares which Ms. Doolittle has the right to acquire within 60

Table of Contents

days through the excise of options under the Restated SOP, and 2,250 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 4,750 unexercisable shares under the Restated SOP, 397 shares credited to EDCP, 777 shares credited to the DCP and 1,550 unexercisable shares under the Restated SOP for Ms. Doolittle s spouse.

[5] Includes 12,500 shares which Mr. White has the right to acquire within 60 days through the exercise of option under the restated SOP, 800 shares held indirectly under the RKSP and 1,100 shares held jointly with Mr. White s spouse. Does not include 6,000 unexercisable shares under the Restated SOP and 4,111 shares credited to the DCP.

[6] Includes 21,000 shares which Ms. Kirkpatrick has the right to acquire within 60 days through the exercise of options under the Restated SOP and 348 shares held indirectly under the RKSP. Does not include 6,000 unexercisable shares under the Restated SOP.

[7] Includes 14,463 shares credited to the DCP and 343 shares credited to the DDCP. Does not include 3,089 shares credited to the DDCP.

[8] Includes 6,066 shares credited to the DCP and 1,041 shares credited to the DDCP.

[9] Includes 17,863 shares credited to the DCP and 5,631 shares credited to the DDCP.

[10] Includes 5,277 shares held in a trust for Mr. Dodson s spouse and 2,891 shares credited to the DCP. Does not include 20,237 shares credited to the DCP.

[11] Includes 110 shares held by Mr. Gibson s spouse, 1,213 shares credited to the DCP and 213 shares credited to the DDCP. Does not include 7,895 shares credited to the DCP and 1,916 shares credited to the DDCP.

[12] Includes 328 shares credited to the DCP and 1,729 shares credited to the DDCP. Does not include 2,954 shares credited to the DCP and 15,557 shares credited to the DDCP.

[13] Includes 6,503 shares credited to the DCP

[14] Includes 6,558 shares credited to the DCP. Does not include 851 shares credited to the DCP.

[15] Includes 4,000 shares held jointly with Mr. Thrasher s spouse and that secure a personal line of credit.

[16] Includes 30 shares held by Mr. Tromley s spouse and 644 shares credited to the DDCP. Does not include 5,797 shares credited to the DDCP.

[17] Includes 70,516 shares held by executive officers not named above, of which 8,820 shares are held jointly with spouse or are held as custodian for children, 7,312 shares are held indirectly under the RKSP and 39,875 shares which the executive officers not named above have the right to acquire within 60 days through exercise of options under the Restated SOP. Does not include 15,625 unexercisable shares under the Restated SOP for executive officers not named above and 1,372 shares credited to the DCP.

Table of Contents

EXECUTIVE COMPENSATION

REPORT OF THE ORGANIZATION AND EXECUTIVE COMPENSATION COMMITTEE

The Organization and Executive Compensation Committee of the Board of Directors (OECC) 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 OECC 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 OECC has reviewed and discussed the Compensation Discussion and Analysis with management.

In reliance on the review and discussion referred to above, the OECC 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, 2010.

Respectfully submitted on February 23, 2011 by the Organization and Executive Compensation Committee of the Board of Directors:

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

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Overview

Organization and Executive Compensation Committee

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

- discussing and reviewing the management and affairs 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 OECC 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 OECC 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 OECC 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 OECC 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, which have been approved either by shareholders or the Board of Directors, to certain officers, with oversight provided by the OECC.

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

Use of Consultants. The OECC has engaged Towers Watson, 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 OECC in the design and operation of these programs. The Consultant reports directly to the OECC chair, and the chair reviews all invoices submitted by the Consultant. At the direction and under the guidance of the OECC chair, the Consultant provides data and analysis that is used by both management and the OECC to develop recommendations for executive compensation and executive programs to submit to the OECC 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
Gregg S. Kantor	President and Chief Executive Officer
David H. Anderson	Senior Vice President and Chief Financial Officer
Lea Anne Doolittle	Senior Vice President
J. Keith White	Vice President, Business Development and Energy Supply and Chief Strategic Officer
Margaret D. Kirkpatrick	Vice President and General Counsel

Our Compensation Philosophy

The OECC has adopted a total compensation philosophy centered on pay for performance to guide its decisions with respect to executive compensation. Each year, including 2010, the OECC 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 significant portion of each executive s total direct compensation opportunity, which includes base salary and annual and long-term incentives, to Company performance using 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;

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) to align executives long-term interests with those of our shareholders;

pay for performance and the right results by driving the achievement of our business strategy while creating shareholder value, operating within the established risk profile of NW Natural, and providing a significant portion of pay through incentive compensation programs that are tied to NW Natural strategies and objectives;

achieve the correct balance by providing compensation that is attractive to executives, affordable to NW Natural, proportional to the executive s contribution, and fair to shareholders and employees, while providing a payout that is aligned with actual performance, balances short- and long-term incentive measures, and uses multiple incentive measures where appropriate; and

align pay practices with shareholder interests with an eye toward remaining competitive, and use risk analysis and mitigation to provide compensation practices that motivate appropriate risk-taking, by, for example, providing compensation incentives for achievement of certain identified Company objectives and goals, while disincenting unnecessary risk-taking, by, for example, including clawbacks from certain executive officers compensation under certain plans and awards in the event of misconduct.

Table of Contents

The OECC has taken a number of actions in recent years in furtherance of its total compensation philosophy, including, but not limited to:

- eliminating perquisites for executives;
- eliminating change-in control severance gross-up payments;
- establishing a policy whereby potential change-of-control severance payments decline in amount as an executive nears retirement age;
- reducing the interest crediting rate on compensation deferred after 2004 to a variable market rate;
- modifying the Executive Supplemental Retirement Income Plan (ESRIP) and Supplemental Executive Retirement Plan (SERP) to reduce benefits and expenses, including limiting the amount of an executive s annual bonus that is included in final average compensation for purposes of those plans and eliminating the annual payment of ESRIP-related FICA tax on behalf of ESRIP participants;
- closing new participation in the ESRIP and SERP Tier I;
- establishing guidance to discontinue use of employment contracts and provide limited use and duration of non-change-in-control severance; and
- increasing the percentage of total target direct executive compensation that is at-risk, particularly for the Chief Executive Officer.

Highlights of 2010 OECC Actions

In 2010, the OECC took the following significant actions with respect to our executive compensation programs and practices:

- implemented decisions made in late 2009 to add new requirements to clawback from executive officers certain benefits under annual and long-term incentive awards in the event of misconduct (see Clawback Provisions);
- conducted a thorough request for proposal with six executive compensation consulting firms, and after considering quality of services, price, knowledge of industry policies and procedures in place to prevent conflicts and other factors, decided to retain the current consultant, Towers Watson; and
- reviewed, analyzed and considered whether the Company s compensation policies and practices create risks that are reasonably likely to have a material adverse effect on NW Natural, and concluded that no such material risks were identified.

Table of Contents

Elements and Objectives of our Executive Compensation Program

At the core of our total compensation philosophy is pay for performance through the use of both annual and long-term incentives. The elements and objectives of the executive compensation program for the Named Executive Officers are described below:

Compensation Element	Objective(s)	Key Features
Base Salaries	Reflect executives performance in demonstrating leadership competencies. Recognize that certain aspects of executives leadership roles cannot be measured as objectively as other functions for purposes of meeting performance measures under incentive pay programs.	Targeted at 50th percentile of the applicable survey data, on average, except that CEO is targeted below 50th percentile to have a greater percentage of pay at risk and tied to Company performance. Adjustments are made based upon the value of the position to the business, the performance of the individual, and pay relative to the market.
Executive Annual Incentive Plan	Encourage and reward executive officers contributions in achieving our annual goals, including financial, operating and individual performance goals	Annual incentive cash payments are based on a formula that includes earnings per share, return on invested capital, Company performance relative to other operational goals, and individual performance.
Long-term incentive awards	Provide executives with an incentive to work toward increasing the price of our Common Stock. More closely align executives interests with shareholders interests. Reward relative total shareholder return performance to the Company s peer group. Focus the executives on key long-term objectives and long-term business results that align with the creation of shareholder value.	We seek to have the expected value of long-term incentives granted to executive officers be approximately 20-25 percent in the form of stock options and approximately 75-80 percent in the form of performance share awards. Performance share awards have a performance period of three years and are based 75 percent on total shareholder return and 25 percent on achievement of performance milestones relative to strategic plan goals. Stock options are granted at market and vest in annual increments generally over the first four years after the grant date.

Table of Contents

Compensation Element	Objective(s)	Key Features
Executive health, welfare and retirement benefits	Provide executives reasonable and competitive benefits. Encourage savings for retirement. Allow for attraction and retention of experienced mid-career hires. Mitigate the impact of limits on qualified plan benefits imposed by the Internal Revenue Code.	Health and welfare benefits consistent with standard benefits provided to non-bargaining unit employees. 401(k) plan and non-qualified deferred compensation plans allow for deferral of compensation and Company matching contributions on such deferrals. Qualified pension plan for persons employed prior to 2007, including all Named Executive Officers, and supplemental non-qualified pension benefits with lower benefit levels for newer executive officers.
Change-in-control arrangements	Ensure attention and dedication to performance without distraction in the circumstance of a potential change in control of NW Natural. Enables executives to maintain objectivity with respect to merger or acquisition offers considered by the Board.	Double trigger change in control severance agreements. Declining levels of benefits as executive approaches age 65.

Pay for Performance

2010 was a strong year for NW Natural. Full year 2010 operating results were among the highest in the Company s history with earnings of $2.73 per share. NW Natural achieved a ranking of highest in the nation among gas utilities for residential customer satisfaction. The Company also reduced its operations and maintenance expenses 5 percent for the year as compared to 2009, and customer gas rates declined in Oregon and Washington for the second year in a row. Moreover, the Gill Ranch Storage facility near Fresno, California commenced operations in the fall of 2010. The Company s strong performance was reflected in an average payout to NEOs of 132.66 percent under the Executive Annual Incentive Plan, which is designed to tie executive compensation to executive officers contributions in achieving NW Natural s annual goals, including financial, operating and individual performance goals. Factors contributing to the higher than targeted payout under the Executive Annual Incentive Plan include, among other things, achievement of earnings per share (EPS) of $2.73, which was 8 cents higher than the target EPS for the year, achievement of a return on invested capital (ROIC) of 8.32 percent, which was higher than the targeted ROIC of 7.95 percent and achievement of several other operating goals established in pre-set targets.

Despite NW Natural s strong annual performance, executive officers received a payout of only 23.94 percent from their performance share awards under the Long Term Incentive Plan for the 2008-2010 award cycle. The payout was low because the total shareholder return

Table of Contents

component factor, which comprises 75 percent of our performance share award, resulted in a zero percent payout factor, due to a total shareholder return for the period that was below the plan threshold and below the ninth best performing company in the plan s assigned peer group of ten companies. The OECC assigned a rating of 95.75 percent to the remaining 25 percent of the performance share awards reflecting, among other things, strong financial performance, including cost-effective operation of our core business in a low-growth environment offset by certain challenges surrounding budget overruns on construction of the Gill Ranch storage facility and difficult market conditions in the gas storage markets generally.

Market Position

The OECC 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 50^{th} percentile of the applicable competitive market. The OECC has determined that using the 50^{th} 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 OECC 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 with similar revenue size in the United States. However, general industry market information may be considered for certain executive positions that can be found in any industry. The OECC 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, including 2009 and 2011. 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, which is an annual revenue range and industry group that the Consultant has determined to be appropriate. The Consultant also provides survey data for general industry companies within the same annual revenue range. The Consultant collects and updates 50^{th} percentile data from compensation surveys for base salaries, annual incentives and long-term incentives annually. The Consultant selects the most appropriate market comparisons for each executive position and synthesizes that data to provide to the OECC for its review. Named Executive Officers positions are matched to survey benchmarks based on functional responsibilities. Survey data used in this analysis includes the American Gas Association, Executive Compensation Survey Results , Towers Perrin Energy Services Executive Survey , and Towers Perrin General Industry Executive Compensation Survey.

In addition to looking at survey data to understand competitive market pay, the Consultant also provided the OECC with supplementary data in February 2010 for the Chief Executive

Officer, Chief Financial Officer, General Counsel, and the two to five other most highly paid executives from the following 13 natural gas industry companies, as reported in their most recent proxy statements:

AGL Resources Inc.	Ni Source Inc.
Atmos Energy Corp.	Piedmont Natural Gas Company Inc.
Chesapeake Utilities Corp.	South Jersey Industries Inc.
Laclede Group Inc.	Southwest Gas Corp.
National Fuel Gas Co.	Vectren Corp.
New Jersey Resources Corp.	WGL Holdings
Nicor Inc.	

While the OECC considers data from these natural gas industry companies, it focuses on the survey data, rather than the proxy data, because the majority of the companies in the proxy group are larger than NW Natural as measured by revenues, and because proxy data is provided by position title, rather than position function, the latter of which the OECC has determined is more meaningful. While the median revenues for the proxy data peer group are $2.5 billion, some of the companies in the proxy data group may be included in one or more of the survey data groups, if their annual revenues are comparable to NW Natural s.

Tally Sheets

Every year the OECC 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 probability of attainment weighted 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 OECC also uses tally sheets to review the potential impact of any significant plan change. In its most recent review of tally sheets, the OECC determined that each executive s compensation remained consistent with the OECC s expectations and no changes to pay programs or practices were recommended.

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 OECC reviewed and reaffirmed the stock ownership requirements for executive officers as of December 31, 2010. 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 stock ownership objectives should generally be attained within five years of appointment as an officer. The OECC 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 Retirement K Savings Plan (401(k) Plan) 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 OECC last reviewed the progress of the Named Executive Officers in achieving these stock ownership objectives in February 2011 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. The Company does not have a policy that requires retention of stock acquired from equity compensation plans or vesting of shares.

Compensation Programs

How Compensation Decisions Are Made

Competitive data is used as a guide to make compensation decisions, along 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 OECC salary, and annual and long-term incentive compensation levels for the other Named Executive Officers. The OECC then considers the Chief Executive Officer s recommendations with respect to the other Named Executive Officers and completes its own evaluation and recommendation with respect to the Chief Executive Officer, considering competitive data prepared by the Consultant in both instances.

The OECC 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 OECC 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. The OECC also evaluates the total remuneration package for each executive to consider whether those compensation packages encourage unnecessary or inappropriate risk-taking on the part of the executive or the Company, such as by encouraging behavior that focuses on short-term results at the expense of long-term value, and whether the compensation package encourages meaningful ownership by each executive to align that executive s interests with that of the shareholders.

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

Table of Contents

long-term performance goals, which are intended to increase shareholder value. See Long-Term Incentives below for a brief description of how NW Natural determines 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, and the OECC s current compensation strategy for the Chief Executive Officer is to continue to increase the percentage of his pay at risk. In 2010, the percentage of targeted total direct compensation opportunity at risk or earned by achieving performance goals was approximately 71 percent for the Chief Executive Officer, and, for the other Named Executive Officers, the average percentage of such compensation at risk was approximately 51 percent. The remaining portion of direct compensation is delivered in the form of base salary.

2010 Base Salaries

Base salaries paid to executives are established by the Board of Directors, on recommendation of the OECC, 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 similarly-sized energy service and general industry companies. Salaries are typically adjusted March 1 of each year.

The following table shows the salaries of the Named Executive Officers before and after 2010 salary adjustments went into effect on March 1, 2010. The Named Executive Officers received salary increases ranging from 2.4 percent to 3.2 percent, generally consistent with the average salary increase for non-union employees of 2.75 percent for 2010. For his second year as Chief Executive Officer, Mr. Kantor s salary continued to be under the 50^{th} percentile salary for energy service company chief executive officers, at 81 percent of the 50^{th} percentile. Mr. Kantor presented his request to the OECC that any base salary increase be generally consistent with increases made for other employees. The OECC chose to substantially increase the expected value of his long-term incentives in lieu of a more significant salary increase, consistent with Mr. Kantor s request and the OECC s strategy to increase the portion of his compensation at risk subject to the Company s long-term performance. The salary survey data reviewed by the OECC in early 2010 for the other Named Executive Officers reflected small increases from the similar data reviewed in early 2009, so salaries for Ms. Kirkpatrick and Mr. White remained near the 50th percentile of the energy service company survey data for their positions, and the salaries for Mr. Anderson and Ms. Doolittle remained at or about the mid-point between the energy service and general industry survey data medians for their positions, consistent with the OECC s ongoing view that these two positions should be competitive with and partially reflect the higher median salaries paid by general industry companies.

Name	**Salary Effective March 1, 2009**	**Salary Effective March 1, 2010**
Gregg S. Kantor	$ 446,000	$ 456,570
David H. Anderson	343,000	353,000
Lea Anne Doolittle	240,000	247,000
J. Keith White	220,000	227,000
Margaret D. Kirkpatrick	262,000	270,000

Table of Contents

The following discussion and analysis contains statements regarding individual and corporate performance measures, targets and goals. These measures, targets and goals are used for purposes of executive incentive compensation programs, and in some cases incentive compensation programs that are available to all NW Natural employees. These measures, 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 representations of Company financial performance for the periods covered. The results reported with respect to these incentive compensation programs are used specifically for executive incentive compensation programs, and NW Natural cautions investors not to apply these statements to other contexts. Furthermore, these prior results are not intended to be and are not indicative of the Company s future financial performance.

Executive Annual Incentive Plan

The Executive Annual Incentive Plan is designed to tie executive pay to Company performance by incenting key executives to achieve our annual goals, including financial, operating and individual performance goals. Awards are paid by March 15 of the following year if the OECC determines the goals are achieved. Although the OECC has discretion to increase an award up to a maximum of 150 percent of the target or to reduce an executive s performance-based award, it has not determined the need to increase or decrease awards under this plan to date.

In 2009, we modified this plan to generally provide that in the event of a restatement of the Company s financial statements due to misconduct of any person, all participants must repay to the Company the difference between the bonus received for the affected year and the amount of bonus that would have been received if calculated based on the financial statements as restated, as well as to preclude any payout or benefit following termination of employment for any participant who is terminated for cause.

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 12 participants selected by the OECC, including the Named Executive Officers.

Target awards for executives vary as a percent of base salary based on the executive s position. The 2010 bonus target percentages for all Named Executive Officers except Mr. White remained the same as 2009 levels. Mr. White s target award percentage increased from 35 percent in 2009 to 40 percent in 2010 to reflect his increased accountability for business development initiatives, including gas storage. Target and actual awards in dollars and as a percent of base salary (in effect on December 31, 2010) for 2010 incentive awards paid in 2011 were as follows:

Named Executive Officer	Target Award Percentage	Target Award Amount	Actual Award Percentage	Actual Award Amount
Gregg S. Kantor	70%	$ 319,599	94%	$ 428,000
David H. Anderson	45%	158,850	60%	211,000
Lea Anne Doolittle	35%	86,450	48%	119,000
J. Keith White	40%	90,800	50%	114,000
Margaret D. Kirkpatrick	35%	94,500	47%	128,000

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

34

Table of Contents

compensation at or about the midpoint between the energy service and general industry medians for their positions, which is consistent with their salary positioning, and Mr. Kantor s target total cash compensation is about 85 percent of the energy service median (50th percentile) for his position, also consistent with his salary positioning. Consistent with our philosophy that executives should be paid in accordance with the performance of the Company, 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 2010 table below.

The OECC 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 OECC determines that changes are appropriate. For 2010, awards under the Executive Annual Incentive Plan reflect a focus on compensation for Company performance, with an allocation of 75 percent to corporate performance goals (EPS, return on invested capital and certain operating goals) and an allocation of 25 percent to individual performance criteria established for each executive. The formula for the total incentive award is as follows:

$$\left[\text{Corporate Performance Factor} \;\; X \;\; 75\%\right] + \left[\text{Individual Performance Factor} \;\; X \;\; 25\%\right] \;\; X \;\; \text{Target Award} = \text{Total Annual Incentive Award}$$

Corporate Performance Goals. In 2010, the corporate performance goals established by the OECC for the Executive Annual Incentive Plan were designed to reward participants for exceeding the Company s budgeted operating results by emphasizing the achievement of EPS and return on invested capital targets, and the attainment of several key operating goals shared with all employees. The ranges and targets set each year vary from prior years, in some cases with higher ranges and targets and in some cases with lower ranges and targets. In each case, the OECC sets the ranges and targets taking into account Management s annual objectives and the way in which those annual objectives fit within the larger growth goals for the Company.

The corporate performance factor is determined using the following formula:

$$\left[\text{EPS Factor} \;\; X \;\; 33\,{}^{1}/3\%\right] + \left[\text{Return on Invested Capital Factor} \;\; X \;\; 33\,{}^{1}/3\%\right] + \left[\text{Key Goals Factor} \;\; X \;\; 33\,{}^{1}/3\%\right] = \text{Corporate Performance Factor}$$

Earnings Per Share factor. The OECC concluded that EPS 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 2010, the EPS performance goal consisted of a range of diluted EPS results from $2.508 per share to $2.84 or above, corresponding to payout factors ranging from 0 percent to 150 percent. The target level of diluted EPS was $2.65 per share, corresponding to a 100 percent payout factor. Actual EPS results are interpolated to determine the corresponding performance factor, up to a maximum of 150 percent.

Actual 2010 diluted EPS was $2.73, or 8 cents above the 2010 target of $2.65, resulting in an EPS factor equal to 121.04 percent, which was calculated according to the formula established by the OECC at the beginning of the year.

Table of Contents

Return on Invested Capital factor. The weighting assigned to the Return on Invested Capital factor also was 33.33 percent. The OECC includes this measure because there is a significant amount of capital deployed to build and maintain the gas distribution and storage businesses and the OECC wants to hold the executives accountable for ensuring that the Company is getting a reasonable return on the capital being deployed into the business. Return on Invested Capital is defined as net income plus net interest divided by average long-term capital (shareholders equity plus long-term debt, including current portion).

This goal consisted of a range of results from 7.21 percent to 8.08 percent or greater, which were generated taking into account NW Natural s forecasted capital spending plans, corresponding to payout factors ranging from 0 to 150 percent. The target level of return on invested capital was set at 7.95 percent, which corresponds to a 100 percent payout factor, and which is slightly below NW Natural s current cost of capital.

Actual 2010 return on invested capital was 8.32 percent, resulting in a return on invested capital factor equal to 150 percent.

Key Goals factor. Operating goals of significant importance to the enhancement of our overall profitability and productivity were selected by the OECC to comprise the Key Goals factor, which accounts for 33.33 percent of the weighting for corporate performance goals. The operating goals are substantially aligned with the Key Goals incentive program for all employees. While each goal can contribute a goal rating between 0 and 200 percent multiplied by 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 each goal.

The Key Goals factor was determined using the following formula:

Sum of [Goal Performance X Goal Weight] for each of 9 Key Goals = Key Goals Factor

36

Table of Contents

A summary of the key operating goals for 2010 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
Profitability Earnings per share (utility only)	Earnings per share for utility operations (excludes earnings per share contributions from certain non-utility activities)	$2.49 $2.75	$2.62	40.00%
Customer satisfaction overall	On a survey scale of 1-10 (10 as highest), percent of customers rating overall satisfaction at a 9 or 10	56.63% 63.38%	60.00%	5.00%
Customer satisfaction employee interaction	Customers who had interactions with service technicians and/or construction crew members rating satisfaction at a 9 or 10	73.75% 84.25%	79.00%	10.00%
Total Customer Additions	Total new meter sets	8,214 10,614	9,414	5.00%
Productivity expense per customer	Operations and maintainance expense divided by year-end number of customers	$174.88 $166.38	$170.63	10.00%
Effectiveness of capital investment capital expenditures per customer	Measures capital expenditures (excluding new meter construction costs) per customer	$125.39 $116.89	$121.14	5.00%
Effectiveness of Capital Investment Total Acquisition construction cost per meter	Efficiency measure to calculate construction costs to install each new meter	$2,305.22 $2,005.22	$2,155.22	5.00%
Retail Gross Margins	Utility net operating revenues	$334,235,000 $339,965,000	$337,100,000	10.00%
Return on invested capital	Net income plus net interest divided by average long-term capital (shareholders equity plus long-term debt, including current portion)	7.21% 8.21%	7.95%	10.00%

Our operating performance in 2010 resulted in a Key Goals factor at the 150 percent maximum level. Before application of the 150 percent cap on this factor, our performance relative to the Key Goals generated a payout factor of 163 percent. This high level of achievement resulted from several operating goals for which target levels were substantially exceeded (e.g., the utility EPS, return on invested capital, productivity expense per customer, and overall customer satisfaction goals were each equal to the maximum of 200 percent, the employee interaction customer satisfaction goal was equal to 188 percent, and the retail gross margin goal was equal to 144 percent). High performance on these goals more than offset those goals that were achieved below targeted levels (e.g., the total customer additions goal was equal to 5 percent), or not achieved at all (e.g., capital expenditures per customer and total acquisition construction cost per meter 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.

Table of Contents

For 2010, the combination of the Earnings Per Share factor, the Return on Invested Capital factor and the Key Goals factor, produced an overall corporate performance factor equal to 140.35 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, individual goals are determined by the OECC in consultation with the Chief Executive Officer. The Chief Executive Officer s attainment of his goals is determined largely based on the OECC 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 OECC 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. Generally, NW Natural s 2010 annual priority goals included:

- improving productivity through the continued deployment and integration of new technology and through the effective use of resources;
- continuing advancement of the Palomar projects;
- completing construction of Gill Ranch consistent with milestone objectives;
- continuing to emphasize NW Natural s commitment to clean and green policies and technologies;
- achieving overall customer satisfaction consistent with the Key Goals target;
- achieving EPS growth, return on invested capital and cash flow targets; and
- accomplishing these goals in a manner consistent with NW Natural s core values.

In addition to the above shared executive officer goals, the Chief Executive Officer s individual performance goals included exceeding the EPS goal, ensuring that the construction of Gill Ranch was completed and certain capacity contracts received by year end, advancement of Palomar and the continued strengthening of alignment and strategic direction of the executive management team.

The Chief Executive Officer evaluated the 2010 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 OECC as it reviews the overall performance of executives against the operating goals. The OECC uses this same method of assessment to establish the year-end performance rating for the Chief Executive Officer. The OECC determined that executives had met or exceeded these goals and assigned a rating of 114 percent for the Chief Executive Officer s individual performance. Performance of the other Named Executive Officers ranged from 77.78 percent to 127.74 percent.

On average, the total awards for the Chief Executive Officer and the other Named Executive Officers were 32.66 percent above the target awards for the year, primarily due to higher than targeted EPS and return on invested capital performance for the year.

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 OECC 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

Table of Contents

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 February 2010 showed lower expected values of long-term incentives for all executive positions than the survey data provided in 2009, reflecting generally lower industry equity values in the 2010 survey period. Accordingly, for all Named Executive Officers other than Ms. Kirkpatrick, the 2010 survey data indicated that the expected value of long-term incentives granted in 2009 was above the energy service median levels for their positions. As the only executive below market, Ms. Kirkpatrick therefore received a higher performance share grant in 2010 compared to 2009 to bring her long-term incentive value up to the energy service median level for her position. The OECC chose not to reduce grant levels based on the 2010 survey data, so the stock option and performance share award levels Mr. Anderson, Ms. Doolittle and Mr. White were unchanged in 2010. For Mr. Kantor, the OECC s compensation strategy is to award target long-term incentive opportunities above market for his position while maintaining salary below market for his position to tie a relatively larger percentage of his compensation directly to long-term Company performance. Accordingly, the targeted value of long-term incentives granted to Mr. Kantor in 2010 increased by 27 percent compared to 2009, to a level that was 137 percent of the energy service median level for his position in the 2010 survey data, although only 114 percent of the energy service median level for his position in the 2009 survey data.

In 2010, the long-term incentive portion of our executive compensation program was designed such that approximately 20 percent of the expected value of long-term incentives to be granted to each Named Executive Officer s interest would be granted in the form of stock options, and approximately 80 percent of such expected value of long-term incentives would be granted as performance share awards. While equity provides incentives to executives to work toward increasing the price of our Common Stock, and to more closely align executives interests with shareholders interest, 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, thereby tying this portion of executive pay to Company performance. The OECC believes that equity provides a balanced performance focus for executives.

For 2010 compensation, the expected value of long-term incentives represented approximately 52 percent of the target total direct compensation for the Chief Executive Officer and approximately 32 percent on average for the other Named Executive Officers.

Stock Options

In 2010, pursuant to the Restated Stock Option Plan, the OECC 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 OECC at its meeting each February. This is the same time the OECC 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 OECC 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 OECC s policy to grant non-statutory stock options under the Internal Revenue Code and the related regulations so that any 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.

In 2010, the Company amended its form of stock option agreement, effective for both new and existing options, to generally provide that if a participant s misconduct contributes to an inflated stock price and the participant sells shares acquired upon exercise of an option at such inflated stock price, the OECC may require the participant to repay the amount determined by the OECC to be the excess amount received. Additionally, these agreements were amended to preclude any exercise of options following termination of employment by any participant who is terminated for cause.

Among the factors the OECC considers in determining the number of options to be granted to the Chief Executive Officer, and that 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;
- the retention value of options before vesting; 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 OECC granted options to the Named Executive Officers in 2010 as shown in the Grants of Plan-Based Awards During 2010 table below. The option grant for Mr. Kantor in 2010 increased by 5,000 shares compared to his 2009 option grant of 25,000 shares, due to the OECC s desire to have a greater portion of Mr. Kantor s total mix of compensation be at-risk and contain a greater weighting of long-term incentive to incent him to focus on long-term Company performance. Option grants in 2010 for Mr. Anderson, Ms. Doolittle, Mr. White and Ms. Kirkpatrick remained unchanged from 2009 at 8,000, 3,000, 4,000 and 4,000, respectively.

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 that increase shareholder value and to tie executive compensation directly to Company performance. 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 2010, the Company amended the form of performance share agreement for new awards to generally provide that if a participant s misconduct contributed to an inflated payout under the total shareholder return component of any award because the Company s stock price in the last three months of the performance cycle was higher than it would have been absent the misconduct, the OECC may require the participant to repay the amount determined by the OECC to be the excess amount received.

Table of Contents

In February 2010, each Named Executive Officer received a performance share award to be earned over a three-year performance period (2010-2012). The threshold (minimum award other than no award), target and maximum performance share awards approved by the OECC for the Named Executive Officers in 2010 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 2010, Mr. Kantor s performance share award increased by 2,000 shares, from 13,000 shares in 2009 to 15,000 shares in 2010 due to the OECC s desire to have a greater portion of Mr. Kantor s total mix of compensation be at-risk and contain a greater weighting of long-term incentives to incent him to focus on long-term Company performance. Ms. Kirkpatrick s performance share award increased by 500 shares, from 3,000 shares in 2009 to 3,500 shares in 2010 to better align her incentive compensation with competitive market medians. Performance share awards remained the same for Mr. Anderson, Ms. Doolittle and Mr. White in 2010 at 5,500, 2,500 and 3,000, respectively.

The performance criteria used for the three most recent three-year performance cycles, 2008-2010, 2009-2011 and 2010-2012, were based on two primary factors: a total shareholder return component that measures relative total shareholder return versus a named peer group of energy companies (weighted 75 percent of the total award) and a strategic component which measures achievement of performance milestones relative to our core and non-core strategic plan goals (weighted 25 percent of the total award).

Total Shareholder Return Component. 75 percent of the performance share award is based on total shareholder return relative to a peer group of 10 natural gas utility companies. The OECC selected this peer group of companies because of the companies comparability to NW Natural 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 2010 Annual Report to Shareholders in that it focuses on local gas distribution companies instead of a broader group of energy companies. This 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 also considered by the OECC when reviewing compensation practices but is not the primary source of comparison used. Some or all of the companies may be included in the total shareholder return table included in our 2010 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 2010-2012 cycle consists of NiSource, National Fuel Gas Company and Chesapeake Utilities Corporation. 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 OECC to best align the interests of management with those of the shareholders. For performance cycles prior to the 2010-2012 cycle, we are required to achieve a minimum average of six 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. In 2010, the OECC reviewed the minimum average total shareholder return requirement by looking at peer companies thresholds and past plan payouts. The OECC determined that peer companies plans did not contain a similar threshold. The OECC also determined that the minimum threshold prevented appropriate performance share payouts in

Table of Contents

years where the Company had overall outstanding relative performance. As a result, for the 2010-2012 cycle, the OECC reduced the minimum average total shareholder return requirement to 0 percent, so that for the 2010-2012 cycle and on a go-forward basis, this component will pay out based on performance relative to the peer group so long as the Company s total shareholder return is a positive number for the cycle.

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%

For the 2008-2010 performance cycle, NW Natural s total shareholder return was a cumulative 12.63 percent, which was below the level achieved by the ninth best performing company in the peer group, and therefore resulted in a 0 percent payout factor for the total shareholder return component. As indicated above, the total shareholder return is, in part, based on the difference between the three-month average daily closing price prior to the end of the performance period compared to the three month average immediately prior to the start of the performance period. The total shareholder return on this calculation was lower for NW Natural than its peers due in part to NW Natural s strong comparative performance in the cycle that ended with the last three months of 2007, which set a higher floor against which the current period s stock price performance was measured.

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

- financial measures, consisting of return on invested capital and return on equity;
- growth measures relating to organizational transition, gas storage and pipeline and gas supply projects; and
- leadership 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.

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

Table of Contents

At the end of the 2008-2010 program term, the OECC determined the degree to which the strategic goals were achieved. The OECC weighed its subjective assessment of strong NW Natural financial performance, management s business development activities, milestones achieved in execution of our strategic plan in workforce development and succession planning, management s strong performance in executing its business plan cost effectively in a low-growth economy, and management s continued progress toward its overall goal of achieving NW Natural s five percent annual long-term earnings growth targets, as well as challenges in the construction and start-up of our Gill Ranch gas storage project, including some budget overruns and the difficult gas storage market generally, and assigned a strategic component factor of 95.75 percent, which was slightly below expected targets.

Because the OECC 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 2010 Performance Shares. The combination of the total shareholder return component factor (at 0 percent, weighted 75 percent) and the strategic component factor (at 95.75 percent, weighted 25 percent) for the 2008-2010 cycle resulted in a performance share factor of 23.94 percent of target. For actual 2010 award amounts, see the Option Exercises and Stock Vested During 2010 table, below.

Storage Project Performance Share Award. Mr. White is the executive officer with principal responsibility for the development of the Company s Gill Ranch gas storage project. To provide an additional incentive for Mr. White specifically related to the successful completion and early performance of this multi-year project, in February 2009 the OECC approved a special performance share award to him for 2,000 shares. The performance goals for this award are subjective and will be determined in the discretion of the OECC, with one-half of the target award subject to project completion and initial performance through June 30, 2011, and one quarter of the target award subject to performance of the project in each of the following 12-month periods. Payout of this award can range from 0 percent to 125 percent of the target award.

Perquisites

The OECC reviewed its perquisite policy and eliminated perquisites for executives effective January 1, 2008. The OECC 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. The OECC confirmed 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.

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 certain 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, 2010 table and the related narrative discussion. As discussed there, in 2009 the OECC recommended and the Board approved amendments to these plans that will moderate the growth in benefits payable under these plans.

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 401(k) 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 2010, see the Non-Qualified Deferred Compensation in 2010 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. The agreements contain a provision that reduces 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 OECC prefers not to enter into severance agreements other than for change in control purposes as discussed above. Accordingly, the OECC 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 OECC 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, safe and reliable service;
- encourage management of capital, operating and maintenance 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 contributions	Long Term Incentive Plan
Health and welfare benefits	Interest accruals and matching contributions on Deferred Compensation Plan for Directors and Executives
	Interest accruals 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 OECC 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 OECC 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 OECC 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. We do not expect any amounts paid to our Named Executive Officers in 2010 to be considered non-deductible under Section 162(m).

Table of Contents

SUMMARY COMPENSATION TABLE

The following is a summary of the compensation for our Named Executive Officers in 2008, 2009 and 2010. 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] ($) (g)	CHANGE IN PENSION VALUE AND NON-QUALIFIED DEFERRED COMPEN SATION EARNINGS[4] ($) (h)	ALL OTHER COMPEN-SATION[5] ($) (i)	TOTAL ($) (j)
Gregg S. Kantor	2010	$ 454,808	$ 91,582	$ 384,629	$ 190,656	$ 336,418	$ 1,296,008	$ 32,197	$ 2,786,298
President and Chief Executive Officer	2009	446,000	234,848	243,631	136,508	330,152	994,375	33,444	2,418,958
	2008	364,833	64,615	131,250	42,757	172,485	463,775	26,924	1,266,639
David H. Anderson	2010	351,333	43,791	141,030	50,842	167,209	185,937	20,823	960,965
Senior Vice President	2009	343,000	152,775	103,075	43,682	163,225	137,446	19,246	962,449
and Chief Financial Officer	2008	341,333	49,015	111,058	42,757	145,085	21,608	18,479	729,335
Lea Anne Doolittle	2010	245,833	28,001	64,105	19,066	90,999	402,368	13,502	863,874
Senior Vice President	2009	240,000	104,170	46,852	16,381	88,830	263,569	19,909	779,711
	2008	238,833	26,142	70,673	21,378	78,958	192,630	13,538	642,152
J. Keith White	2010	225,833	18,422	76,926	25,421	95,578	263,021	9,234	714,435
Vice President, Business Development and Energy Supply and Chief Strategic Officer	2009	220,000	76,572	148,602	21,841	81,428	164,169	15,857	728,469
Margaret D. Kirkpatrick	2010	268,667	28,527	89,747	25,421	99,473	148,589	9,234	669,658
Vice President and General Counsel	2009	262,000	106,027	56,222	21,841	96,973	45,478	9,248	597,789
	2008	260,667	26,904	60,577	21,378	86,196	32,551	8,351	496,624

1 The total bonus paid to each Named Executive Officer under our Executive Annual Incentive Plan for performance in 2010 is split between columns (d) and (g). Amounts constituting the discretionary portion of bonuses under the plan are the amounts listed as bonuses in column (d). Amounts constituting the performance-based, non-discretionary portion of bonuses under the plan are the amounts listed as non-equity incentive plan compensation in column (g).

2 Amounts shown in column (e) represent the grant date fair value of performance share awards granted in each year, disregarding estimated forfeitures, determined under share-based compensation accounting guidance. 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 each target award other than Mr. White s 2009 gas storage project award) is considered to be subject to a market condition, so the amount shown for that portion of each award represents the grant date fair value of the award calculated using a binomial pricing model. For the remaining portion of each performance share award subject to strategic performance milestones (100 percent of Mr. White s 2009 gas storage project award and 25 percent of each other target award), the amount shown 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 date of grant plus the estimated dividends per share to be paid over the three-year performance period. As of the grant date of these awards, the target number of shares was estimated to be the number of shares to be issued under the strategic portions of the awards. If the maximum number of shares issuable under the strategic portion had been used as the estimated number of shares, the total amounts in column (e) for 2010 would have been $570,366 for Mr. Kantor, $209,134 for Mr. Anderson, $95,061 for Ms. Doolittle, $114,073 for Mr. White, and $133,085 for Ms. Kirkpatrick.

3 Amounts shown in column (f) represent the grant date fair value of options granted in each year, disregarding estimated forfeitures, estimated using the Black-Scholes option pricing model. The assumptions used in determining the grant date fair values of options under share-based compensation accounting guidance are disclosed in Note 6 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

[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 2010 were: $1,291,313 for Mr. Kantor, $185,864 for Mr. Anderson, $398,033 for Ms. Doolittle, $258,338 for Mr. White, and $148,589 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 2010 were: $4,695 for Mr. Kantor, $73 for Mr. Anderson, $4,335 for Ms. Doolittle, $4,683 for Mr. White, and $0 for Ms. Kirkpatrick. For this purpose, interest credited 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 matching contributions under the qualified defined contribution plan 401(k) Plan during 2010 were: $8,820 for each of Mr. Kantor, Mr. Anderson, Ms. Doolittle, Mr. White and Ms. Kirkpatrick. The amounts paid as matching contributions under non-qualified deferred compensation plans during 2010 were: $23,377 for Mr. Kantor, $11,589 for Mr. Anderson, $4,268 for Ms. Doolittle, $0 for Mr. White, and $0 for Ms. Kirkpatrick. Amounts in column (i) also include a $250 gift card plus $164.25 gross up expense for each of Mr. Anderson, Ms. Doolittle, Mr. White and Ms. Kirkpatrick.

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 2010.

GRANTS OF PLAN-BASED AWARDS DURING 2010

The following table includes grants of annual incentive awards, stock options and long-term incentive awards granted to our Named Executive Officers during 2010:

		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)**
Gregg S. Kantor	2/24/2010							30,000	$ 44.25	$ 190,656
			$ 239,699	$ 359,549						
	2/24/2010				2,850	15,000	30,000			384,629
David H. Anderson	2/24/2010							8,000	44.25	50,842
			119,138	178,706						
	2/24/2010				1,045	5,500	11,000			141,030
Lea Anne Doolittle	2/24/2010							3,000	44.25	19,066
			64,838	97,256						
	2/24/2010				475	2,500	5,000			64,105
J. Keith White	2/24/2010							4,000	44.25	25,421
			68,100	102,150						
	2/24/2010				570	3,000	6,000			76,926
Margaret D. Kirpatrick	2/24/2010							4,000	44.25	25,421
			70,875	106,313						
	2/24/2010				665	3,500	7,000			89,747

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 2010 and paid in 2011 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 $5.28 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.

3 Stock options granted on February 24, 2010 pursuant to the Restated Stock Option Plan vest in four equal installments on February 24, 2011 and January 1, 2012, 2013 and 2014. 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 based on a value of $6.36 per share 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 each target award) is considered to be subject to a market condition under share-based compensation accounting guidance, so the amounts shown for that portion represent the grant date fair value of the awards based on a value of $17.68 per share 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 each target award) represent the grant date fair value of the awards based on a value of $49.53 per share which was the sum of the closing market price of the Common Stock on the grant date plus the

estimated dividends per share to be paid over the three-year performance period. The values used for option and performance share awards are the same as those used under share-based compensation accounting guidance. The assumptions used in determining option values are described in Note 6 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

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 (OECC), 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 OECC 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 OECC 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 OECC for each participant. Executives are limited to a maximum performance share award equal to 200 percent of the target award.

The OECC 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 six 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 OECC 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 OECC 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 OECC 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. No restricted stock grants were made during 2010, and as of December 31, 2010, no restricted stock awards were outstanding.

Table of Contents

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2010

The following table includes all of the outstanding equity awards held by our Named Executive Officers at December 31, 2010:

	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 ($) (e)	Option Expiration Date (f)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#)[2] (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested ($)[1] (j)
Gregg S. Kantor	6,000		31.34	03/04/2014		
	3,000		34.29	02/29/2016		
	5,250	1,750[3]	44.48	02/28/2017		
	4,000	4,000[4]	43.29	03/06/2018		
	6,250	18,750[5]	41.15	03/04/2019		
		30,000[6]	44.25	03/02/2020		
					28,000	$ 1,301,160
David H. Anderson	16,000		32.02	09/27/2014		
	8,000		34.29	02/29/2016		
	5,250	1,750[3]	44.48	02/28/2017		
	4,000	4,000[4]	43.29	03/06/2018		
	2,000	6,000[7]	41.15	03/04/2019		
		8,000[8]	44.25	03/02/2020		
					11,000	511,170
Lea Anne Doolittle	3,000		31.34	03/04/2014		
	3,000		34.29	02/29/2016		
	2,250	750[9]	44.48	02/28/2017		
	2,000	2,000[10]	43.29	03/06/2018		
	750	2,250[11]	41.15	03/04/2019		
		3,000[12]	44.25	03/02/2020		
					5,000	232,350
J. Keith White	2,000		31.34	03/04/2014		
	2,500		34.29	02/29/2016		
	1,500	500[13]	44.48	02/28/2017		
	2,000	2,000[10]	43.29	03/06/2018		
	1,000	3,000[14]	41.15	03/04/2019		
		4,000[15]	44.25	03/02/2020		
					8,000	371,760
Margaret D. Kirkpatrick	6,000		38.30	08/03/2015		
	5,000					