

**JENNIFER GROSS**  
Tariffs and Regulatory Compliance  
Tel: 503.226-4211 ext. 3590  
Fax: 503.721.2516



February 19, 2014

**VIA ELECTRONIC FILING**

Steven King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S Evergreen Park Drive SW  
Post Office Box 47250  
Olympia, Washington 98504-7250

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STATE OF WASH.  
UTIL. AND TRANS.  
COMMISSION

**Re: UG-100677 – Smart Energy™ Annual Report**

Dear Mr. Danner:

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), hereby files its 2013 Smart Energy™ Annual Report in compliance with the terms established in Schedule U, Smart Energy™ Program, filed and approved in Docket No. UG-100677.

Please contact me at (503) 226-4211, extension 3590, if you have any questions.

Sincerely,



Jennifer Gross  
Rates & Regulatory Affairs

enclosures

**INTRODUCTION**

NW Natural’s Smart Energy™ program offers customers an opportunity to offset their natural gas usage by purchasing high-quality greenhouse gas offsets. The money collected through Smart Energy™ customer charges are invested in local renewable energy projects —generally regional biogas projects --- that will generate carbon offsets.

In its effort to provide high quality carbon offsets, the Company has partnered with The Climate Trust, a nationally recognized leader in the carbon market. The Climate Trust identifies projects and contracts for offsets, then verifies, and retires each Smart Energy™ offset.

According to the terms and conditions of Oregon Schedule 400 and Washington Schedule U, NW Natural herein provides the Public Utility Commission of Oregon (OPUC) and the Washington Utilities and Transportation Commission (WUTC) with an annual report detailing the program’s participation, funds collected, program costs, and The Climate Trust’s offset expenditures for the calendar year 2013.

**TOTAL ACTIVE ENROLLMENTS**

As of December 31, 2013, over 20,000 customers were enrolled in the program, increasing enrollment by 27 percent from the previous year. Since the program’s inception, a total of 26,620 residential customers have enrolled in Smart Energy™. Of the 20,584 active residential customers enrolled, 12,199 or 58 percent have selected the volumetric option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2013 and enrollment changes since December 31, 2012.

**Table 1a – Active Enrollment**

SYSTEM TOTAL	Actual			
	# of Customers	% of Customers	Enrollments	Enrollment % increase from prior year
Residential	628,634	3.27%	20,584	26.97%
Commercial	66,210	0.51%	335	11.67%
			20,919	26.69%

**Table 1b – Active Enrollment by State**

Oregon	Actual			
	# of Customers	% of Customers	Enrollments	Enrollment % increase from prior year
Residential	561,589	3.56%	19,996	27.19%
Commercial	60,002	0.54%	325	11.68%
			20,321	26.91%
Washington	Actual			
	# of Customers	% of Customers	Enrollments	Enrollment % increase from prior year
Residential	67,045	0.88%	588	19.76%
Commercial	6,208	0.16%	10	11.11%
			598	19.60%

**ANALYSIS OF PARTICIPANT FUNDS COLLECTED AND PROGRAM SPENDING**

The Company transfers 70 percent of net funds collected from participants to The Climate Trust, which reflects the projected split of program marketing and administrative costs and funds for offset purchases. Net collections are transferred on a two-month lag. Table 2 presents collections for the year ended December 31, 2013 net of an uncollectible allowance and amounts designated for marketing and administration during the year.

**Table 2 – Funds Collected and Transfers Due**

	2013
Collections, net of uncollectible allowance	\$ 1,254,465
Less: 30% for marketing and administration	\$ 376,340
Total due to The Climate Trust for offset purchases	\$ 878,126

Due to the lag between bills issued and funds collected, \$210,571, which are funds from the November and December 2013 billings, will be transferred to The Climate Trust within the first two months of 2014.

NW Natural spent approximately \$483,624 for the year on marketing and administrative costs, which was derived from the \$376,340 of 2013 collections (see Table 2), approximately \$21,964 of carryover from 2012, and \$85,230 from funds re-allocated from The Climate Trust to marketing.

**REPORT ON THE CLIMATE TRUST**

Carbon Reduction

The commitment of total carbon reductions for the reporting period is approximately 64,746 tons. The Climate Trust received \$809,325<sup>1</sup> for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2013, received by The Climate Trust totaled \$3,047,357 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2013, The Climate Trust has obligated program funds for 220,747 tons of offsets, fully meeting the requirement for the first five years of the program.

**Table 3 - Commitment Status as of 12/31/13**

Program Year	Tons Demand	Tons Obligated	Obligation Deadline	Status (% met)
1	13,733	13,733	1/1/2010	100%
2	23,268	23,268	1/1/2011	100%
3	31,992	31,992	1/1/2012	100%
4	44,017	44,017	1/1/2013	100%
5 <sup>2</sup>	11,619	11,619	1/1/2014	100%
<b>Calendar Year</b>				
2012	54,413	54,413	1/1/2014	100%
2013	64,746	41,704	1/1/2015	64%
<b>Total</b>	<b>243,789</b>	<b>220,747</b>		

**CARBON OFFSET PROJECTS**

The graphic on the left shows active carbon offset projects funded by Smart Energy™ customers as of December 31, 2013.

**Smart Energy is helping farmers throughout the region turn waste into fuel.**

Manure stored in lagoons emits methane, a harmful greenhouse gas. Anaerobic digesters capture the methane and produce biogas, which can be used as an on-demand renewable energy source.

**FARM POWER REXVILLE**  
MT. VERNON, WA

The Farm Power project pumps cow waste from two dairies into a one-million-gallon tank, and creates 750 kilowatts of power – enough to power 500 homes each year. The waste heat is used to warm the digester tank.

**FARM POWER LYNDEN**  
LYNDEN, WA

This Farm Power digester is located less than a mile from a family-owned dairy that provides manure which is piped to the digester. Waste heat is used in the commercial greenhouses adjacent to the digester, and power is sold to Puget Sound Energy.

**FARM POWER MISTY MEADOW**  
TILLAMOOK, OR

Misty Meadow is a family-owned farm in Tillamook. The digester began operations in November, generating electricity that is sold to Pacific Power.

**JR SIMPLOT**  
MOSES LAKE, WA

The ENERGY STAR®-rated potato processing plant has a digester that treats wastewater and creates biogas, which is burned in boilers and used for plant operations.

**FARM POWER TILLAMOOK**  
TILLAMOOK, OR

Farm Power installed a digester in Tillamook, Oregon, that pipes manure from five family-owned dairies. Manure from about 2,000 cows is turned into biogas and used to generate power that is sold to Tillamook People's Utility District.

**OAK LEA FARM**  
AUMSVILLE, OR

A digester at Oak Lea Farm's dairy turns waste from 815 cows into biogas that fuels a 190-kilowatt-capacity generator, which produces enough electricity to power 300 homes. The power is sold to Pacific Power.

**LOCHMEAD FARM**  
JUNCTION CITY, OR

Lochmead Farm is a family-owned dairy that turns its cow waste into biogas which fuels a 240 kilowatt-capacity engine generator. The generator creates electricity that is sold to Emerald People's Utility District.

**CONCLUSION**

NW Natural is proud of the Smart Energy™ Program and how it has allowed the customers to participate in funding and developing local carbon offset projects. The Company believes the program's mission and its educational materials are important and beneficial to the community we serve.

In 2014, the Company will continue to promote Smart Energy™, communicate the program's environmentally wise message, "use less and offset the rest," and support the development of local high quality carbon offsets from anaerobic digestion (biodigester) projects.

<sup>1</sup>This amount is different from the \$878,126 stated in Table 2 for 2013 net collections because of the two-month lag for transfers. It includes November and December 2012 net collections transferred in 2013 and excludes November and December 2013 net collections due to be transferred in 2014.

<sup>2</sup> Year 5 represents the transitional period of September 1, 2011 through December 31, 2011, when the Company was moving from reporting on a program year basis to a calendar year basis.