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March 11, 2015

Steven V. King, Executive Director and Secretary  
WASHINGTON UTILITIES &  
TRANSPORTATION COMMISSION  
1300 S Evergreen Park Drive, SW  
Post Office Box 47250  
Olympia, Washington 98504-7250

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

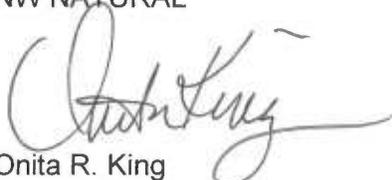
Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), files herewith its Smart Energy™ Annual Report in compliance with the terms established in Schedule U, "Smart Energy™ Program."

Please address correspondence on this matter to me with copies to the following:

eFiling; Rates & Regulatory Affairs  
NW Natural  
220 NW Second Avenue  
Portland, Oregon 97209  
Telephone: (503) 226-4211, x3589  
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Sincerely,

NW NATURAL



Onita R. King  
Rates and Regulation

attachment

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COMMISSION

**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 2014.

**TOTAL ACTIVE ENROLLMENTS**

As of December 31, 2014, over 24,000 customers were enrolled in the program, increasing enrollment by 17 percent from the previous year. Since the program’s inception, a total of 32,772 residential customers have enrolled in Smart Energy™. Of the 24,081 active residential customers enrolled, 14,214 or 59 percent have selected the volumetric option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2014 and enrollment changes since December 31, 2013.

**Table 1a – Active Enrollment**

SYSTEM TOTAL	Actual			
	# of Customers	% of Customers	Enrollments	Enrollment % increase from prior year
Residential	637,411	3.8%	24,081	17.0%
Commercial	67,151	0.5%	332	-0.9% <sup>1</sup>
	704,562		24,413	16.7%

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

Oregon	Actual			
	# of Customers	% of Customers	Enrollments	Enrollment % increase from prior year
Residential	568,720	4.1%	23,370	16.9%
Commercial	60,844	0.5%	322	-0.9%
	629,564		23,692	16.6%
Washington	Actual			
	# of Customers	% of Customers	Enrollments	Enrollment % increase from prior year
Residential	68,691	1.0%	711	20.9%
Commercial	6,307	0.2%	10	0.0%
	74,998		721	20.6%

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**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, 2014 net of an uncollectible allowance and amounts designated for marketing and administration during the year.

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

	2014
Collections, net of uncollectible allowance	\$ 1,447,757
Less: 30% for marketing and administration	\$ 434,266
Total due to The Climate Trust for offset purchases	\$ 1,013,491

Due to the lag between bills issued and funds collected, \$212,627, which are funds from the November and December 2014 billings, will be transferred to The Climate Trust within the first two months of 2015.

NW Natural spent approximately \$513,855.49 for the year on marketing and administrative costs, which was derived from the \$434,266 of 2014 collections (see Table 2), approximately \$14,843 of carryover from 2013, and \$64,746 from funds re-allocated from The Climate Trust to marketing<sup>2</sup>.

<sup>1</sup> Net new commercial accounts were negative three as a result of churn; 12 new, less 1opt out, less 14 churn.

**REPORT ON THE CLIMATE TRUST**

Carbon Reduction

The commitment of total carbon reductions for the reporting period is approximately 80,915 tons. The Climate Trust received \$1,011,435<sup>3</sup> for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2014, received by The Climate Trust totaled \$3,981,793 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2014, The Climate Trust has obligated program funds for 297,467 tons of offsets, fully meeting the requirement through 2013.

**Table 3 - Commitment Status as of 12/31/14**

Program Year	Tons Demand	Tons Obligated	Obligation Deadline <sup>4</sup>	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>5</sup>	11,619	11,619	1/1/2014	100%
Calendar Year				
2012	54,413	54,413	1/1/2014	100%
2013	64,746	64,746	1/1/2015	100%
2014	80,915	53,678	1/1/2016	66%
Total	324,703	297,466		

**CARBON OFFSET PROJECTS**

The graphic below shows projects Smart Energy™ obligated funds or acquired offsets from in 2014.



**CONCLUSION**

The Company will strive to increase its customer penetration rate of 3.8% through the continual support of Smart Energy™ and by communicating to customers the program’s environmentally wise message, “use less, offset the rest,” and support the development of local high quality carbon offsets from anaerobic digestion (biodigester) projects.

The Company believes its involvement in the carbon offset market has been very beneficial, both in providing customers an environmentally friendly option, but also in educating the Company in carbon savings and carbon mitigation projects. The Company looks forward to applying this knowledge in its development of voluntary carbon emissions reduction programs offered under the authority granted in ORS 757.539 (formerly SB 844).

<sup>2</sup> If offsets are purchased at a cost that is less than The Climate Trust’s price cap, the difference is placed into the risk mitigation fund which is used for three purposes: 1) Purchase additional offsets to meet future Smart Energy demand when preferred projects are available, but current customer demand is less than the opportunity and program funds cannot cover the obligation; 2) Cover potential cost differential between contracted price and replacement price, should a project underperform; and 3) Fund additional program marketing. The Company consults with The Climate Trust before it determines the appropriate use of risk mitigation funds.

<sup>3</sup> This amount is different from the \$1,013,491 stated in Table 2 for 2014 net collections because of the two-month lag for transfers. It includes November and December 2013 net collections transferred in 2014 and excludes November and December 2014 net collections due to be transferred in 2015.

<sup>4</sup> Per Schedule 400 in Oregon and Schedule U in Washington, NW Natural must obligate funds for offsets within 24 months of issuing a bill.

<sup>5</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.