# 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 2015.

# Total Active Enrollments

As of December 31, 2015, over 29,000 customers were enrolled in the program, increasing enrollment by 22 percent from the previous year. Of the 29,460 active residential customers enrolled, 18,335 or 62 percent have selected the volumetric option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2015 and enrollment changes since December 31, 2014.

Table 1a – Active Enrollment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Actual | | | | |
| **System Total** | # of Customers | % of Customers | Enrollments | Enrollment % change from prior year |
| Residential | 646,841 | 4.6% | 29,460 | 22.3% |
| Commercial | 66,421 | 0.5% | 312 | -6.0% |
|  | 713,262 |  | 29,772 | 22.0% |
|  | | | | |
| Table 1b – Active Enrollment by State | | | | |
| Actual | | | | |
| **Oregon** | # of Customers | % of Customers | Enrollments | Enrollment % change from prior year |
| Residential | 576,249 | 5.0% | 28,588 | 22.3% |
| Commercial | 60,079 | 0.5% | 301 | -6.5% |
|  | 636,328 |  | 28,889 | 21.9% |
| Actual | | | | |
| **Washington** | # of Customers | % of Customers | Enrollments | Enrollment % change from prior year |
| Residential | 70,592 | 1.2% | 872 | 22.6% |
| Commercial | 6,342 | 0.2% | 11 | 10.0% |
|  | 76,934 |  | 883 | 22.5% |

# 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, 2015 net of an uncollectible allowance and amounts designated for marketing and administration during the year.

Table 2 – Funds Collected and Transfers Due

|  |  |
| --- | --- |
|  | 2015 |
| Collections, net of uncollectible allowance | $1,536,131 |
| Less: 30% for marketing and administration | $460,839 |
| Total due to The Climate Trust for offset purchases | $1,075,292 |

Due to the lag between bills issued and funds collected, $249,992, which are funds from the November and December 2015 billings, will be transferred to The Climate Trust within the first two months of 2016. NW Natural spent approximately $574,222 for the year on marketing and administrative costs, which was derived from the $460,839 of 2015 collections (see Table 2), approximately $35,465 of carryover from 2014, and $50,000 from funds re-allocated from The Climate Trust to marketing[[1]](#footnote-1).

# Report on The Climate Trust

Carbon Reduction

The commitment of total carbon reductions for the reporting period is approximately 85,699 tons.

The Climate Trust received $1,037,926[[2]](#footnote-2) for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2015, received by The Climate Trust totaled $5,019,719 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2015, The Climate Trust has obligated program funds for 400,220 short tons of offsets, fully meeting the requirement through 2014. The status of obligating funds for therms of demand is reflected as short tons in table 3.

Table 3 - Commitment Status as of 12/31/15

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Demand Short Tons | Short Tons Obligated | Obligation Deadline[[3]](#footnote-3) | Status (% met) |
| 2007 | 1,454 | 1,454 | 1/1/2010 | 100% |
| 2008 | 15,360 | 15,360 | 1/1/2010 | 100% |
| 2009 | 28,019 | 28,019 | 1/1/2011 | 100% |
| 2010 | 37,020 | 37,020 | 1/1/2012 | 100% |
| 2011 | 48,195 | 48,195 | 1/1/2013 | 100% |
| 2012 | 54,989 | 54,989 | 1/1/2014 | 100% |
| 2013 | 69,979 | 69,979 | 1/1/2015 | 100% |
| 2014 | 80,773 | 80,773 | 1/1/2016 | 100% |
| 2015 | 85,699 | 64,434 | 1/1/2017 | 75% |
|  | 421,488 | 400,223 |  | 95% |

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# Carbon offset projects

The graphic to the right shows projects Smart Energy™ obligated funds or acquired offsets from in 2015.

1. 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 activity. The Company consults with The Climate Trust before it determines the appropriate use of risk mitigation funds. [↑](#footnote-ref-1)
2. This amount is different from the $1,075,292 stated in Table 2 for 2015 net collections because of the two-month lag for transfers. It includes November and December 2014 net collections transferred in 2015 and excludes November and December 2015 net collections due to be transferred in 2016. [↑](#footnote-ref-2)
3. Per Schedule 400 in Oregon and Schedule U in Washington, NW Natural must obligate funds for offsets within 24 months of issuing a bill. [↑](#footnote-ref-3)