

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

System Total	Actual			Enrollment % change from prior year
	# of Customers	% of Customers	Enrollments	
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

Oregon	Actual			Enrollment % change from prior year
	# of Customers	% of Customers	Enrollments	
Residential	576,249	5.0%	28,588	22.3%
Commercial	60,079	0.5%	301	-6.5%
	636,328		28,889	21.9%
Washington	Actual			Enrollment % change from prior year
	# of Customers	% of Customers	Enrollments	
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 marketing¹.

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.

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 \$1,037,926² 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

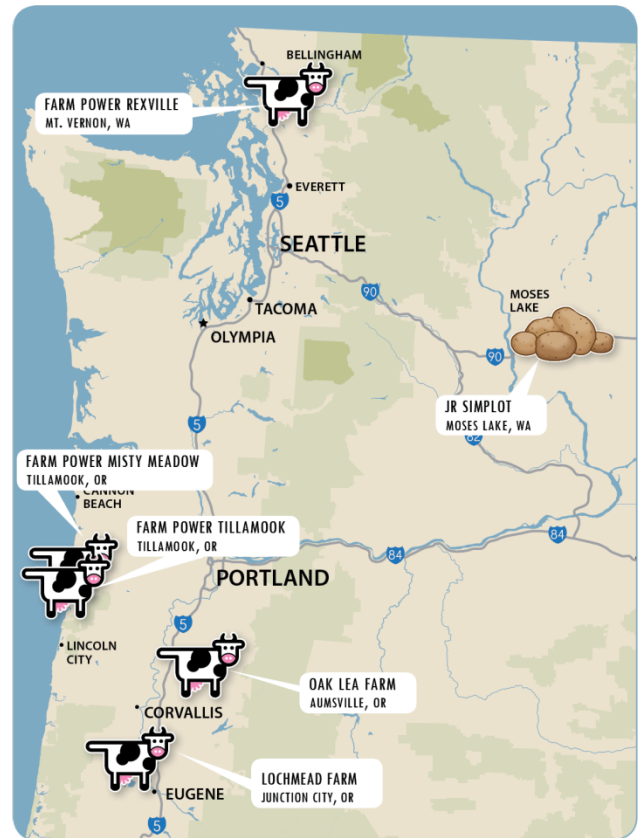
As of December 31, 2015, The Climate Trust has obligated program funds for 400,220 short tons of offsets, fully meeting the requirement through 2014. The status of obligating funds for terms of demand is reflected as short tons in table 3.

TABLE 3 - COMMITMENT STATUS AS OF 12/31/15

Year	Demand Short Tons	Short Tons Obligated	Obligation Deadline ³	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%

CARBON OFFSET PROJECTS

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



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.

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.