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August 21, 2014

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

**Re: UG - _____ - related to Dockets UG-112068 and UG-080546
2014 Second Quarterly (Q2) Report on NW Natural's Energy Efficiency (EE)
Program**

Dear Mr. King:

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), hereby submits an original and two copies of its 2014 Q2 report on the Company's Energy Efficiency program. This report is submitted in compliance with the Company's Energy Efficiency Plan ("EE Plan") which is by reference part of the Company's Tariff Schedule G, "Energy Efficiency Services and Programs – Residential and Commercial," and was filed and approved in Docket UG-132147.

The Company's Energy Efficiency program is monitored by the interested parties who have formed the Energy Efficiency Advisory Group (EEAG) in compliance with the stipulated agreement approved in Order 04 in the Company's last rate case, Docket UG-080546 and the Company's Energy Efficiency Plan.

If you have any questions, please call me at (503)226-4211, extension 3590.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross

cc: EEAG

Enclosures

Q2 2014 REPORT ON ACTIVITIES FOR NW NATURAL IN WASHINGTON

April 1 through June 30, 2014

This Energy Trust of Oregon quarterly report covers the period April 1, 2014, through June 30, 2014. This report addresses progress toward 2014 goals for the NW Natural energy-efficiency program in Washington. It includes information on expenditures, therm savings, projects completed and incentives paid during the quarter and year to date.

I. PROGRAM SUMMARY

A. General

- **Energy Trust saved 31,534 annual therms in Q2 2014**—including 11,711 annual therms in Existing Homes, 9,329 annual therms in New Homes and Products and 10,494 annual therms in Existing Buildings.
- **Savings in Q2 2014 are 23 percent lower than savings in Q2 2013**, largely attributed to a shift to custom path projects comprising a greater percentage of commercial savings. While few custom path projects were completed early in the year, the pipeline of custom projects (including projects in the process of installing measures and projects that received an incentive offer after completing a technical study) is strong and savings are expected to increase by year-end. The Existing Buildings pipeline includes multiple custom projects at school district facilities, where construction activities are typically scheduled during the summer recess.

B. Commercial sector highlights

Existing Buildings

- **Existing Buildings saved 10,494 annual therms in Q2.**
- **Six custom projects, which are expected to save 27,071 therms** in 2014, moved to installation phase. Four additional custom path projects received studies or study offers.
- **Existing Buildings launched an insulation bonus** of 30 cents per square foot in addition to the standard incentive. The bonus is expected to further motivate customers to install insulation by year-end.
- **The program launched a marketing campaign** promoting the Existing Buildings program as a technical support resource for large and small businesses. The “Bring Us In” campaign promotes the availability of support resources through various channels including walk-through audits, website content and Trade Ally Network expertise.
- **Energy Trust hosted a networking and information-sharing event in Vancouver**, attended by 18 trade allies, Clark Public Utilities and Bonneville Power Administration.
- **Energy Trust met with Clark Public Utilities** to coordinate outreach strategies.

C. Residential sector highlights

Existing Homes

- **Existing Homes saved 11,711 annual therms in Q2**, primarily through furnace and hearth installations and weatherization projects.

- **Nearly twice as many gas furnaces were installed** in the first half of 2014 compared to the first half of 2013. Installations of gas hearths and insulation also increased over this time last year, following a spring insulation bonus.
- **Staff connected with 100 customers at the Clark Public Utilities Homes and Garden Idea Fair**, where 15 of customers signed up for in-home energy reviews.
- **Energy Trust offered trainings for managers and staff at regional GENSCO outlets**, a wholesale distributor of HVAC equipment with locations throughout the Pacific Northwest.

New Homes and Products

- **New Homes and Products saved 9,329 annual therms in Q2**, primarily through Builder Option Packages.
- **Energy Trust assessed the impact of the 2012 Washington State Energy Code** on the Northwest ENERGY STAR® Homes program in collaboration with the Northwest Energy Efficiency Alliance and the Regional Technical Forum. Permits pulled after July 1, 2013, are subject to the updated code, while permits issued prior to July 1, 2013, are subject to the 2008 energy code. Building permits are valid for up to one year, suggesting that homes completed after July 1, 2014, will be subject to the 2012 code. Northwest ENERGY STAR Homes, as of the close of Q2, had not updated the ENERGY STAR performance standards relative to the 2012 code as a baseline. As a consequence, Energy Trust adjusted its deemed savings associated with all ENERGY STAR homes certified after July 1, 2014. Energy Trust analysis indicates that the ENERGY STAR designation yields roughly 30 percent less savings when adjusted to the 2012 code as baseline. Northwest ENERGY STAR Homes is expected to release a specification in Q3 updated with associated savings potential.

D. Washington Utilities and Transportation Commission performance metrics

The table below compares quarterly results to 2014 program goals, as established in NW Natural's Energy Efficiency Plan for Washington (updated December 2013).

Metrics	Goal	2014 total YTD	Q1 results	Q2 results	Q3 results	Q4 results
Therms saved	220,868 – 259,845	66,320	34,786	31,534		
Total program costs	\$1,298,699 – \$1,527,881	\$444,465	\$214,349	\$230,116		
Average levelized cost per measure	Less than \$0.65	\$0.551	\$0.527	\$0.577		
Dollars spent per therm saved	Less than \$6.50	\$6.70	\$6.16	\$7.30		
Total resource cost and utility costs at portfolio level	Greater than 1.0	n/a	Reported annually	Reported annually	Reported annually	Reported annually

II. QUARTERLY RESULTS

A. Expenditures¹

		Actual expenditures Q2	Budgeted expenditures Q2	Variance
Commercial programs	Existing Buildings	\$ 63,536	\$ 131,681	\$ 68,146
	Subtotal	\$ 63,536	\$ 131,681	\$ 68,146
Residential programs	Existing Homes	\$ 73,736	\$ 98,760	\$ 25,024
	New Homes	\$ 83,763	\$ 92,346	\$ 8,582
	Subtotal	\$ 157,500	\$ 191,106	\$ 33,606
Administration		\$ 9,080	\$ 14,916	\$ 5,836
Total		\$ 230,116	\$ 337,703	\$ 107,587

- Programs fell short of budget due to fewer projects closing than expected in Q2. Existing Buildings has a strong pipeline of projects anticipated to achieve savings by year-end.
- Custom-path incentives in the Existing Buildings program are subject to a cap of 50 percent of total project cost, resulting in a variable cost per therm saved which may be less than the current incentive of \$1.50 per therm. Many projects reached the 50 percent incentive cap in Q2, enabling Existing Buildings to achieve lower-cost savings than budgeted.

B. Incentives paid

		Actual incentives Q2
Commercial programs	Existing Buildings	\$ 21,100
	Subtotal	\$ 21,100
Residential programs	Existing Homes	\$ 31,939
	New Homes	\$ 32,216
	Subtotal	\$ 64,155
Total		\$ 85,255

C. Savings

		Therms Saved Q2	\$/Therm	Levelized Cost/Therm
Commercial Programs	Existing Buildings	10,494	\$ 6.30	\$ 0.567
	Subtotal	10,494	\$ 6.30	\$ 0.567
Residential Programs	Existing Homes	11,711	\$ 6.56	\$ 0.471
	New Homes	9,329	\$ 9.35	\$ 0.754
	Subtotal	21,040	\$ 7.80	\$ 0.586
TOTAL		31,534	\$ 7.30	\$ 0.577

- Through Q2, programs achieved about 30 percent of conservative savings goal, roughly on par with the percent of goal achieved in Q2 2013.

¹ Variance is expressed in total dollars *below* budget or (total dollars) *above* budget.

- Consistent with prior years, dollars spent per therm saved and levelized cost are expected to decrease as savings accrue in the latter half of the year.

III. YEAR-TO-DATE RESULTS

A. Activity—sites served

	Q1	Q2	Q3	Q4	Total
Existing Commercial					
School/college retrofits	0	1			1
Other commercial retrofits	4	8			12
Studies	4	1			5
Existing Homes					
Weatherization (insulation, air and duct sealing and windows)	19	32			51
Gas hearths	26	32			58
Gas furnaces	32	67			99
Water heaters	4	5			9
Home Energy Reviews	16	9			25
New Homes					
Builder Option Packages	37	38			75
Clothes washers	83	179			262

B. Revenues

Source	Actual revenue YTD	Budgeted revenue YTD
NW Natural	\$ 527,177	\$ 645,551

C. Expenditures²

		Actual expenditures YTD	Budgeted expenditures YTD	Variance
Commercial programs	Existing Buildings	\$ 143,216	\$ 246,473	\$ 103,257
	Subtotal	\$ 143,216	\$ 246,473	\$ 103,257
Residential programs	Existing Homes	\$ 133,180	\$ 208,292	\$ 75,112
	New Homes	\$ 149,078	\$ 183,589	\$ 34,511
	Subtotal	\$ 282,258	\$ 391,881	\$ 109,623
Administration		\$ 18,991	\$ 32,957	\$ 13,965
Total		\$ 444,465	\$ 671,311	\$ 226,846

² Variance is expressed in total dollars *below* budget or (total dollars) *above* budget.

D. Incentives paid

		Actual incentives YTD
Commercial programs	Existing Buildings	\$ 43,027
	Subtotal	\$ 43,027
Residential programs	Existing Homes	\$ 52,165
	New Homes	\$ 61,022
	Subtotal	\$ 113,187
Total		\$ 156,214

- Incentives paid account for approximately 41 percent of year-to-date program expenses, when total program expense is adjusted down 15 percent to account for costs that a utility-delivered program would recover through rates. Incentives, as a percentage of total expenses, will continue to increase in future quarters as more projects close.

E. Savings

		Therms saved YTD	Annual goal (conservative)	Percent achieved YTD	\$/therm	Levelized cost/therm
Commercial programs	Existing Buildings	29,530	127,500	23%	\$ 5.07	\$ 0.469
	Subtotal	29,530	127,500	23%	\$ 5.07	\$ 0.469
Residential programs	Existing Homes	18,494	48,607	38%	\$ 7.52	\$ 0.544
	New Homes	18,296	44,761	41%	\$ 8.51	\$ 0.696
	Subtotal	36,790	93,368	39%	\$ 8.01	\$ 0.612
Total		66,320	220,868	30%	\$ 6.70	\$ 0.551

F. Program evaluations

Energy Trust completed the following evaluations in Q2 2014:

- Process evaluations for the Existing Homes program, including activities in both Oregon and Washington service territories. The report is available at www.energytrust.org/library/reports/EH_Process_Eval_0414.pdf
- A billing impact analysis of the now-discontinued rooftop HVAC unit tune-up offering, available at www.energytrust.org/library/reports/RTU_Tune-up_2010-2011_Billin_Analysis.pdf

Washington Low Income Energy Efficiency Program (WA-LIEE) Q2 Status 2014

NW Natural (NWN) partners with Clark County's Housing Preservation Program to administer its Washington Low Income Energy Efficiency (WA-LIEE) program. The WA-LIEE program reimburses 90% of all cost-effective measures up to \$3500 per home. The agency is also allots 15% of job costs (up to the cap) for administrative costs and an average of \$440 per home for Health, Safety, and Repair (HSR), which are not subject to cost effectiveness tests. A WA-LIEE job could cost the program no more than \$4465 and includes the following energy upgrades, provided they are modeled as cost-effective¹:

WA-LIEE funded measures:

- 90% + High Efficiency Furnace
- Infiltration (Shell Sealing)
- Duct Insulation
- Floor Insulation
- Wall Insulation
- Duct Sealing
- Hot Water Pipe Insulation
- Ceiling Insulation

The table below lists the 2014 program goals for WA-LIEE as stated in the Company's EE Plan and the actual results as of June 30, 2014 as compared to our progress at this point over the last two years:

	Estimated	Actual as of 6/30/14	Actual as of 6/30/13	Actual as of 6/30/12
Homes served	20-25	4	7	4
Average Cost of Incentives per home	\$3,500	\$3,238	\$3,334	\$3,400
Cost per home (\$3,500 incentives + \$440 health, safety and repairs and \$525 administration costs)	\$4,465	\$4,164	\$4,274	\$4,350
Total cost	\$89,300 to \$111,625	\$16,654	\$29,920	\$17,402
Modeled therms saved per home	211	262	458	420
Total modeled therms saved	3165 to 4220	1048	3206	1680

The County is actively partnering with the Vancouver Housing Authority to weatherize low income housing as other maintenance and repair work is being completed. NWN is hopeful this partnership will help us achieve program goals before year end.

¹ The measures completed in 2014 are in bold.