

Q2 2015 REPORT ON ACTIVITIES FOR NW NATURAL IN WASHINGTON

April 1 through June 30, 2015

This quarterly report covers the period April 1 through June 30, 2015. This report addresses progress toward 2015 goals for the NW Natural energy-efficiency program in Washington. It includes information on expenditures, gas savings, projects completed and incentives paid during the quarter and year to date.

I. PROGRAM SUMMARY

A. General

- **Energy Trust saved 28,816 annual therms in Q2 2015**—including 13,489 annual therms in Existing Homes, 9,520 annual therms in New Homes and Products and 5,807 annual therms in Existing Buildings. Savings in Q2 2015 were 9 percent lower than savings in Q2 2014.
- **Year-to-date savings were approximately 21 percent of Energy Trust's annual goal** of 257,063 therms, which roughly aligns with NW Natural's stretch performance measure of 259,895 therms.
- **Energy Trust expects to meet 2015 goals** with a strong pipeline of projects anticipated to complete by year-end.
- **Savings are typically lower in the first half of the year** as more studies and assessments are completed compared to the second half of the year when projects close. This report focuses on the development of potential projects expected to save or generate energy and contribute to organizational goals by year-end.
- **Energy Trust hosted a networking event for all commercial and residential trade allies working in Washington**, in collaboration with Clark Public Utilities. The event provided information about Energy Trust offerings and allowed trade allies to meet others in the network.

B. Commercial sector highlights

Existing Buildings

- **Existing Buildings saved 5,807 annual therms in Q2**, primarily through a foodservice equipment contest, an insulation bonus and outreach promoting efficient showerheads to assisted living facilities.
- **The program launched a contest for distributors to promote energy-efficient foodservice equipment sales**, which will offer incentives for top-selling foodservice vendors.
- **The program launched and promoted an insulation bonus in Q2.**
- **To help meeting annual goals, Existing Buildings identified additional projects** expected to complete in late 2015 and 2016.

C. Residential sector highlights

Existing Homes

- **Existing Homes saved 13,489 annual therms in Q2**, primarily through installation of efficient gas hearths, furnaces, water heaters and windows.
- **Trade allies and customers provided positive feedback about instant incentives.** Paid directly to contractors for water heating and HVAC equipment, instant incentives enable customers to receive discounted equipment at time of purchase and reduce up-front costs.

- **Existing Homes introduced incentives for sales staff at GENSCO, a southwest Washington distributor of HVAC and water heating equipment.** Sales performance incentives are an innovative strategy to drive market activity for energy-efficient products.
- **A new web portal gave Existing Homes trade allies access** to real-time information about participant projects, allowing trade allies self-service options that reduce reliance on Energy Trust and Program Management Contractor staff to provide information about project status and incentive payments.
- **The program updated NW Natural's 2015 Energy Efficiency Plan** to the Washington Utilities and Transportation Commission to better define qualifying criteria for Energy Trust's on-bill financing repayment offering. On-bill financing allows customers to repay a loan through a monthly utility bill, and savings from energy-efficiency upgrades may offset much of the loan cost.

New Homes and Products

- **New Homes and Products saved 9,520 annual therms in Q2**, primarily through ENERGY STAR® certified new homes, clothes washer sales, Energy Saver Kits and efficient showerheads.
- **The program completed transition to a new modeled performance path methodology for achieving ENERGY STAR Home Certification** using REM/Rate™ modeling software. This replaced the prescriptive Builder Option Package path.
- **A high-volume trade ally builder, Lennar, completed construction of several energy-efficient new homes** in Q2, with more expected in subsequent quarters.

D. Washington Utilities and Transportation Commission performance metrics

The table below compares quarterly results to 2015 program goals, as established in NW Natural's Energy Efficiency Plan for Washington (updated December 2014).

Metrics	Goal	2015 total YTD	Q1 results	Q2 results	Q3 results	Q4 results
Therms saved	220,991 – 259,895	53,285	24,469	28,816		
Total program costs	\$1,342,559 – \$1,570,292	\$520,797	\$241,732	\$279,065		
Average levelized cost per measure	Less than \$0.65	\$0.75	\$0.89	\$0.68		
Dollars spent per therm saved	Less than \$6.50	\$9.77	\$9.88	\$9.68		
Total resource cost and utility costs at portfolio level	Greater than 1.0	n/a	Reported annually	Reported annually	Reported annually	Reported annually

Dollars spent per therm saved are typically higher in the first half of the year as Energy Trust invests in studies and outreach that result in completed projects by year-end.

II QUARTERLY RESULTS

A. Expenditures¹

		Actual expenditures Q2	Budgeted expenditures Q2	Variance
Commercial programs	Existing Buildings	\$ 65,530	\$ 160,438	\$ 94,907
	NEEA commercial	\$ (1,368)	\$ 5,328	\$ 6,696
	Subtotal	\$ 64,162	\$ 165,766	\$ 101,604
Residential programs	Existing Homes	\$ 124,365	\$ 103,918	\$ (20,447)
	New Homes	\$ 80,474	\$ 74,888	\$ (5,586)
	NEEA residential	\$ 2,203	\$ 6,012	\$ 3,809
	Subtotal	\$ 207,042	\$ 184,818	\$ (22,224)
Administration		\$ 7,861	\$ 14,287	\$ 6,426
Total		\$ 279,065	\$ 364,871	\$ 85,806

Energy Trust allocated budget to NEEA for gas market transformation activities. While there were no associated savings in Q2, savings are expected in subsequent quarters.

B. Incentives paid

		Actual incentives Q2
Commercial programs	Existing Buildings	\$ 13,499
	Subtotal	\$ 13,499
Residential programs	Existing Homes	\$ 62,280
	New Homes	\$ 28,559
	Subtotal	\$ 90,839
Total		\$ 104,338

C. Savings

		Therms saved Q2	\$/therm	Levelized cost/therm
Commercial programs	Existing Buildings	5,807	\$ 11.93	\$ 0.91
	Subtotal	5,807	\$ 11.67	\$ 0.91
Residential programs	Existing Homes	13,489	\$ 9.36	\$ 0.62
	New Homes	9,520	\$ 8.71	\$ 0.64
	Subtotal	23,009	\$ 9.18	\$ 0.63
TOTAL		28,816	\$ 9.68	\$ 0.68

Energy Trust allocated budget to NEEA for gas market transformation activities. While there were no associated savings in Q2, savings are expected in subsequent quarters.

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

III YEAR-TO-DATE RESULTS

A. Activity—sites served

	Q1	Q2	Q3	Q4	Total
Existing Buildings					
School/college retrofits	0	1			1
Other commercial retrofits	2	2			4
Studies	1	1			2
Existing Homes					
Weatherization (insulation, air and duct sealing and windows)	6	36			42
Gas hearths	11	36			47
Energy Saver Kits	19	5			24
Smart thermostats	20	1			21
Gas furnaces	39	95			134
Water heaters	2	12			14
Home Energy Reviews	31	28			59
New Homes					
ENERGY STAR Home Certification	22	43			65
Clothes washers	303	124			427

Smart thermostats were offered through a pilot that completed early in Q2, with results expected by year-end.

New homes are now certified through ENERGY STAR Home Certification, which replaced the Builder Option Package path.

B. Revenue

Source	Actual revenue YTD	Budgeted revenue YTD
NW Natural	\$ 678,392	\$ 705,676

C. Expenditures²

		Actual expenditures YTD	Budgeted expenditures YTD	Variance
Commercial programs	Existing Buildings	\$ 153,809	\$ 326,309	\$ 172,501
	NEEA Commercial	\$ 4,018	\$ 10,607	\$ 6,589
	Subtotal	\$ 157,827	\$ 336,916	\$ 179,089
Residential programs	Existing Homes	\$ 189,592	\$ 206,562	\$ 16,970
	New Homes	\$ 143,419	\$ 142,974	\$ (446)
	NEEA Residential	\$ 9,059	\$ 11,505	\$ 2,446
	Subtotal	\$ 342,071	\$ 361,040	\$ 18,970
Administration		\$ 20,899	\$ 33,175	\$ 12,276
Total		\$ 520,797	\$ 731,132	\$ 210,335

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

D. Incentives paid

		Actual incentives YTD
Commercial programs	Existing Buildings	\$ 44,046
	Subtotal	\$ 44,046
Residential programs	Existing Homes	\$ 87,137
	New Homes	\$ 50,490
	Subtotal	\$ 137,627
Total		\$ 181,672

- **Incentives paid account for approximately 41 percent of year-to-date program expenses**, when total program expense is adjusted down by 15 percent to account for costs that a utility-delivered program would recover through rates.

E. Savings

		Therms saved YTD	Annual goal	Percent achieved YTD	\$/therm	Levelized cost/therm
Commercial programs	Existing Buildings	19,376	150,000	13%	\$ 8.49	\$ 0.84
	Subtotal	19,376	150,000	13%	\$ 8.70	\$ 0.86
Residential programs	Existing Homes	19,417	51,148	38%	\$ 9.96	\$ 0.67
	New Homes	14,492	55,915	26%	\$ 10.31	\$ 0.76
	Subtotal	33,909	107,063	32%	\$ 10.39	\$ 0.73
Total		53,285	257,063	21%	\$ 9.77	\$ 0.75

Energy Trust allocated budget to NEEA for gas market transformation activities. While there were no associated savings in Q2, savings are expected in subsequent quarters.

Energy Trust's budgeted annual savings goal roughly aligns with NW Natural's stretch performance measure of 259,895 therms.

F. Program evaluations

- **In Q2, Energy Trust completed and posted three evaluations and market studies, including:**
 - [True Up 2014: Tracking estimate corrections and True Up of 2002-2013 savings and generation](#)
 - [Energy Trust of Oregon Windows Delphi Panel Study](#)
 - [2012 Existing Buildings Program Impact Evaluation](#)
- **Research continued to evaluate savings potential of gas hearths in new construction homes**, and results will inform a potential strategy to install gas hearths in new homes.

Washington Low Income Energy Efficiency Program (WA-LIEE) Q2 Status 2015

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 allotted 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-effective³:

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 2015 program goals for WA-LIEE as stated in the Company's EE Plan and the actual results as of June 30, 2015 as compared to our progress at this point over the last three years:

	Estimated for 2015	Actual as of 6/30/15	Actual as of 6/30/14	Actual as of 6/30/13	Actual as of 6/30/12
Homes served	10-12	6	4	7	4
Average Cost of Incentives per home	\$3,500	\$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	\$4,465	\$4,164	\$4,274	\$4,350
Total cost	\$44,650 to \$53,580	\$26,790	\$16,654	\$29,920	\$17,402
Modeled therms saved per home	211	377	262	458	420
Total modeled therms saved	2110 to 2532	2262	1048	3206	1680

The increased outreach efforts taken by the county have resulted in precise tracking to their stretch goal. As reported at the EEAG call in June, the County is educating all customers receiving bill assistance as to the merits of weatherization. Additionally, they are providing home visits to each gas referral rather than the traditional office-based assessment.

Based on the TREAT estimates for therm savings, the measures completed this year are predicted to save significantly more than estimated. The total estimated therms saved for these six homes already meet the annual goal. These estimates have not been audited however.

³ The measures completed in 2015 are in bold.

While this reflects the County's determination to reach customers and meet their target, the goal for this year is half of years prior for multiple reasons:

- It remains challenging to find qualifying measures in the homes that are interested and qualify because the housing stock is relatively new
- The low cost of gas creates challenges passing the cost-effectiveness test
- Health and safety dollars are not sufficient for the level of work needed in these homes

The EEAG is teed up to address these issues during the September call. Both the County and NW Natural are committed to finding and serving as many gas heated homes as possible.

Washington Energy Efficiency Program Q2 2015 Transactional Audit Results

With the Washington Utilities and Transportation Commission (“Commission”) review and approval of NW Natural’s request for amortization of 2013 energy efficiency program costs (Docket UG-143333), the Commission adopted the recommendation made by Commission Staff that NW Natural (“NW Natural” or “Company”) conduct a transactional audit of program costs relating to the Energy Trust of Oregon’s (“Energy Trust”) administration of the Company’s energy efficiency programs. NW Natural agreed to the following audit schedule:

- By April 1 of each year, NW Natural will select a random sample of prior year program cost transactions from the Energy Trust. The sample size will be based on the population of transactions. A summary of the audit process and the Company’s findings or recommendations will be included in the April 25 Annual EE Report.
- By August 1 of each year, NW Natural will select a random sample of program cost transactions from the Energy Trust for the current year January through June 30 time period. The sample size will be based on the population of transactions. A summary of the audit process and the Company’s findings or recommendations will be included in the August 25th second quarter EE Report.

Q2 2015 Program Cost Audit

NW Natural’s Internal Audit Department (IA) has completed a review of the Energy Trust of Oregon (Energy Trust) expenditures billed during the period of January 1, 2015 – June 30, 2015.

The assessment consisted of a review of Energy Trust’s allocation and territory reporting policies, chart of accounts, and Annual Report data relating to program effectiveness. IA Management and Staff visited the Energy Trust Offices and met with employees. .

Utilizing a statistical sampling model a representative sample of 40 (based on 80% confidence level and a 10% interval) transactions were selected for detail review.

For selected transactions IA verified balances were correctly captured within the proper period, transactions were appropriately classified and coded to NW Natural territories, allocations were completed per Energy Trust policy and were related to NW Natural specific programs and territories, incentive details were properly captured, and management and program expenses appeared appropriate. Lastly, IA verified that programs captured within the detail testing were included within the Energy Trust report and reviewed for program effectiveness.

IA noted no issues as a result of the review. All expenditures reviewed appear to be appropriate.