

**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 2016.

**TOTAL ACTIVE ENROLLMENTS**

As of December 31, 2016, over 34,000 customers were enrolled in the program, increasing enrollment by 16 percent from the previous year. Of the 34,259 active residential customers enrolled, 22,019 or 64 percent have selected the volumetric option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2016 and enrollment changes since December 31, 2015.

**TABLE 1A – ACTIVE ENROLLMENT**

Actual				
System Total	# of Customers	% of Customers	Enrollments	Enrollment % change from prior year
Residential	656,855	5.22%	34,259	16.29%
Commercial	67,764	0.48%	326	4.49%
	724,619		34,585	16.17%

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

Actual				
Oregon	# of Customers	% of Customers	Enrollments	Enrollment % change from prior year
Residential	584,289	5.70%	33,281	16.42%
Commercial	61,113	0.52%	316	4.98%
	645,402		33,597	16.30%
Actual				
Washington	# of Customers	% of Customers	Enrollments	Enrollment % change from prior year
Residential	72,566	1.35%	978	12.16%
Commercial	6,651	0.15%	10	-9.09%
	79,217		988	11.89%

**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, 2016 net of an uncollectible allowance and amounts designated for marketing and administration during the year.

**TABLE 2 – FUNDS COLLECTED AND TRANSFERS DUE**

	2016
Collections, net of uncollectible allowance	\$1,813,136
Less: 30% for marketing and administration	\$543,941
Total due to The Climate Trust for offset purchases	\$1,269,195

Due to the lag between bills issued and funds collected, \$282,513, which are funds from the November and December 2016 billings, will be transferred to The Climate Trust within the first two months of 2017. NW Natural spent approximately \$556,599 for the year on marketing and administrative costs.

**REPORT ON THE CLIMATE TRUST**

Carbon Reduction

The commitment of total carbon reductions for the reporting period is approximately 101,153 tons. The Climate Trust received \$1,236,675<sup>1</sup> for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2016, received by The Climate Trust totaled \$6,256,394 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2016, The Climate Trust has obligated program funds for 540,125 short tons<sup>2</sup> of offsets, fully meeting the requirement through 2016. The status of obligating funds for terms of demand is reflected as short tons in table 3.

TABLE 3 - COMMITMENT STATUS AS OF 12/31/16

Year	Demand Short Tons	Short Tons Obligated	Obligation Deadline[1]	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	85,699	1/1/2017	100%
2016	101,153	101,153	1/1/2018	100%
	522,641	522,641		100%

**CARBON OFFSET PROJECTS**

The Smart Energy™ program obligated funds or acquired offsets in 2016 from the projects listed in table 4.

TABLE 4 – 2016 PROJECT OBLIGATIONS AND RETIREMENTS

Farm Power Misty Meadow
Mass Energy Works Van Warmerdam
J.R. Simplot Moses Lake
Lochmead Farms
Oak Lea
Farm Power Rexville
Farm Power Tillamook
TMF Biofuels

<sup>1</sup> This amount is different from the \$1,269,195 stated in Table 2 for 2016 net collections because of the two-month lag for transfers. It includes November and December 2015 net collections transferred in 2016 and excludes November and December 2016 net collections due to be transferred in 2017.

<sup>2</sup> The total obligated exceeds program demand at year end 2016 as a result of the risk mitigation fund being used to secure a preferred project type that was available.