

Rates and Regulatory Affairs
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May 21, 2010

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

2010 MAY 24 AM 8:35
STATE OF WASHINGTON
UTILITY DIVISION
COMMUNICATIONS SECTION

Re: UG 080546– Second Quarterly Report on NW Natural’s Energy Efficiency (EE) Program

Dear Mr. Danner:

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), hereby submits the second quarterly report on the Company’s Energy Efficiency program. This report is submitted in compliance with the Company’s Energy Efficiency plan approved under UG 091044.

This report was prepared by the Energy Trust of Oregon, a non-profit organization that is currently administering the Company’s program.

Also attached is a brief update on the progress of the Company’s Washington Low Income Energy Efficiency (WA-LIEE) program which was launched at the same time as the Energy Trust delivered program.

The Company’s Energy Efficiency program was developed and implemented, and continues to be 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, UG 080546.

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

Sincerely,



Jennifer Gross
Rates & Regulatory Affairs

cc: EEAG

Enclosures

**Quarter Two 2009-2010 NW Natural Washington Pilot
Report to NW Natural**
January 1, 2010 through March 31, 2010

This Energy Trust quarterly report covers the period 1/1/10 through 3/31/10, the second quarter of the NW Natural Washington Pilot program year. This report addresses progress toward goals for the pilot year of the NW Natural energy efficiency program in Washington. It includes information on revenue and expenditures, number of completed projects and incentives paid during the quarter, along with highlights of program activity.

I. QUARTERLY HIGHLIGHTS

1. General

- Second quarter activities built upon the successful ramp up in Quarter One, resulting in more efficiency projects, therms saved and incentives paid.
- Growing awareness and interest in the program was demonstrated by a doubling in the number of Home Energy Reviews compared to the previous quarter, for a total of 167.
- The commercial program brought in its first projects and continued developing a promising pipeline for installations in quarters three and four.
- Program staff reached out to SW Washington utilities and governments regarding opportunities for collaboration for utilizing program incentives.
- Staff continued to collaborate with Clark Public Utilities, Clark County and the City of Vancouver on their weatherization-centric Project Energy Savings program, which is supported by American Recovery and Reinvestment Act 2009 (ARRA) funds.

2. Commercial Efficiency Programs

- Second quarter activities continued the development of a healthy commercial pipeline. The first commercial projects to be completed included a large weatherization project that saved over 11,000 therms and measures in two foodservice businesses.
- Staff joined the Greater Vancouver Chamber of Commerce, Camas Chamber of Commerce and the Washington Healthcare Association. Both chambers ran articles featuring Energy Trust commercial offerings in their monthly publications, and outreach staff spoke at local meetings hosted by the Port of Vancouver, International Real Estate Managers Association and the Washington Healthcare Association.
- Based on local and national experience, most of the pilot year savings are forecast to land during the third and fourth quarters. The program has identified at least 20 potential projects with commitments from participants that could be completed during the second half of the pilot year. Estimated savings totaling 30,000 annual therms are associated with half of these projects; savings estimates are not available for the remaining projects.

3. Residential Efficiency Programs

- Second quarter saw a doubling in the number of Home Energy Reviews, while the number of measure installs remained steady. Residential sector activity is on a path to exceed expectations for the number of Home Energy Reviews, meet expectations for number of projects and exceed the conservative savings goal for the pilot year.
- Since the pilot began, six residential participants implemented one or more incentivized measures resulting from a Home Energy Review. In Energy Trust experience, 30 percent of Home Energy Reviews result in implementation of an incentivized measure within 24 months. A total of 167 reviews were completed by the end of quarter two.
- Energy Trust responded to media inquiries which resulted in articles featuring the residential program in *The Columbian* newspaper and its associated website in January and March.
- Energy Trust conducted training on offerings available to SW Washington residents for volunteers from Project Energy Savings, the ARRA-funded efficiency program implemented by Clark Public Utilities, the City of Vancouver and Clark County. In addition Energy Trust commercial and residential outreach staff participated in the Community Energy Fair associated with Project Energy Savings.
- Second quarter saw 316 new home starts in Clark County, up from 205 in first quarter. This second consecutive quarter with more than 200 new home starts has triggered planning for a New Homes program. A proposal will be presented to the Energy Efficiency Advisory Group in late May.

4. Trade Ally Network

- The Trade Ally Network in SW Washington added six new trade allies during the second quarter. Of the 135 trade allies that enrolled and began serving SW Washington customers, 36 are based in Washington, and the program is continuing to focus on enrolling new Washington-based trade allies. Development of the Trade Ally Network will continue during third quarter with an invitational letter being sent to over 1,900 contractors based in Washington.
- Outreach to potential trade allies in SW Washington continued during the quarter. Trade Allies operating in the residential program were encouraged to serve commercial customers, and vice versa, if appropriate.
- A rural Trade Ally outreach strategy to engage contractors in Skamania and Klickitat counties launched in March and will continue through the remainder of the pilot year.

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The first quarterly report incorrectly stated the number of trade allies at 68 due to an error in the reporting system. The 68 trade allies all are based in Washington but some support our electric measures and/or industrial services in Oregon and therefore do not serve the NW Natural pilot.

5. Revenues and Expenditures

- \$407,500 in revenues were received during the quarter, with expenditures of \$64,576.
- A total of \$31,512 in incentives was paid during the quarter.

6. Washington Utilities and Transportation Commission Performance Metrics

The table below compares pilot goals, as established in NW Natural’s Energy Efficiency Plan, with second quarter results.

Metrics	Goal	Quarter 1 Results	Quarter 2 Results	Quarter 3 Results	Quarter 4 Results
Therms Saved	97,500 – 130,000	7,811	20,086		
Total Program Costs	\$780,000 to \$1,040,000	\$52,571	\$64,576		
Average Levelized Cost Per Measure	Not to Exceed \$0.65	\$0.48	\$0.20		
Spend Per Therm Saved	Less Than \$8	\$6.73	\$3.21		
Dollars Spent Paid Out In Incentives	At Least 60%	42%*	57%*		
Total Resource Cost (TRC) and Utility Costs (UC) at Portfolio Level	Greater than 1.0	Reported Annually	Reported Annually	Reported Annually	Reported Annually

*Percent of incentives is calculated using the adjusted program expenditures, where total program expenditures are adjusted down by 15% to account for costs that a utility delivered program would be recovering through base rates.

Additional information that further explains progress toward the year-end metrics is provided in the tables included in sections II and III.

II. QUARTERLY RESULTS

1. Revenues

Source	Actual revenues received Q2	Budgeted revenues Q2
NWN WA	\$407,500	\$183,933

Variations

- The variance in revenues received is explained by the payment schedule from NW Natural. The funding agreement stipulates that the pilot receives the agreed funds in two payments. The first was in October 2009 and the second occurred in March during this quarter.

2. Expenditures

Type	Actual Expenditures Q2	Budgeted Expenditures Q2
Programs	\$61,664	\$209,050
Administration	\$2,912	\$9,127
Total	\$64,576	\$218,177

*See variance note, Section III, Year to Date Results, Expenditures.

3. Incentives paid

	Q1	Q2	Q3	Q4	Total
NWN WA	\$18,950	\$31,512	\$0	\$0	\$50,462

Program	Total Program Expenditures	Adjusted Program Costs	Incentives	% Incentives
Total	\$64,576	\$54,889	\$31,512	57%

*Percent of incentives is calculated using the adjusted program expenditures, where total program expenditures are adjusted down by 15% to account for costs that a utility delivered program would be recovering through base rates.

4. Savings and generation

Quarterly Table

Gas Efficiency Savings	NWN WA Therms	Expenses	\$ / Therm	Levelized Cost/Therm
Commercial	12,817	\$33,333	\$2.6	15 ¢
Residential	7,269	\$31,244	\$4.3	34 ¢
Total	20,086	\$64,577	\$3.2	20 ¢

5. Projects completed this quarter

	Q1	Q2	Q3	Q4
Commercial projects				
Existing buildings retrofitted	0	3		
Subtotal Commercial	0	3		
Residential projects				
Home energy reviews conducted	56	111		
Single family homes retrofitted	80	61		
Subtotal Residential	136	172		
TOTAL ACTIVITY	136	175		

III. YEAR TO DATE RESULTS

Savings

	Quarter Savings	Annual Savings Year-to-date	Annual Goal (Conservative)		YTD Levelized Cost	
			Goal	% Achieved YTD	Actual YTD	Action Plan (Conservative)
Gas	20,086 annual therms	27,897 annual therms	97,500 annual therms	29%	27 ¢	65 ¢

Expenditures

	Quarter Expenditures	Variance from Quarter Budget		YTD Expenditures	Variance from YTD Budget *		YTD \$/Ann-Therm
Gas	\$64,577	\$153,599	70.4%	\$117,168	\$289,837	71.2%	\$4.20

Variations

- Incentive payments represent the majority of the budgeted expenditures in the pilot year. As expected the pilot saw an increase in the incentive payments from quarter one to quarter two. This reflects the program's expectations that incentive payments would increase as the program matures and the initial ramp up phase in Q1 leads to savings.

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

Washington Low Income Energy Efficiency (WA-LIEE) Program Six Month Update

NW Natural launched its Washington Low-Income Energy Efficiency (WA-LIEE) program on October 1, 2010. This program was modeled after the Company's Oregon based low income energy efficiency program that employs a whole-house perspective rather than the traditional approach of rebating prescribed measures at the same rate for all homes. Like the Oregon program, WA-LIEE uses the whole-house perspective and offers a 90% reimbursement of measure costs, not to exceed \$3500, for all installed measure costs deemed cost-effective as determined by the residential energy analysis software used by the agencies that are administering the program. WA-LIEE also allows agencies to apply an average of \$440 to each home for repairs necessary to make the home safe. This health, safety and repair allowance can be used to fix a broken furnace or repair holes in walls.

In the first six months of the first program year, WA-LIEE has weatherized 15 homes, all of which have been in Clark County. The program is saving an average of 141 therms per home, which is a lower per home savings than anticipated. On page 10 of NW Natural's Energy Efficiency Plan, the Company estimated saving 219 therms per home. This estimate was based on the savings projections generated through RemRate, the energy analysis software used by agencies that administer the Company's Oregon low income program. The Company has recently learned that RemRate overstates savings potentials. The Washington agencies are using a different energy analysis program called Treat. Savings projections from Treat seem to be more accurate.

The Company is on target to achieve its goal of weatherizing 20 homes in the first year. If NW Natural can exceed this goal by 11, it will reach its initial saving target of 4,380 therms.

In the first six months, the Company has learned that the most commonly installed measures are duct sealing, duct insulation and shell sealing (sealing infiltration). High efficiency furnaces have also been a popular installation because the whole-house perspective employed by WA-LIEE allows agencies to finance more of them. One third of the homes have received a high efficiency gas furnace.

To-date, no health, safety and repair money has been used.

Since all program activity has been generated through Clark County, the Company has reached out to the agencies in Klickitat and Skamania counties, offering to help generate leads for them. The Company will continue to work on its relationships with these agencies to ensure applicable customers in these areas are receiving service under the program.