

Rates and Regulatory Affairs
Facsimile: 503.721.2516



August 20, 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

Re: UG 080546– Third 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 third 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.

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,

/s/ Jennifer Gross

Jennifer Gross
Rates & Regulatory Affairs

cc: EEAG

Enclosures

**Quarter Three 2009-2010 NW Natural Washington Pilot
Report to NW Natural**

April 1, 2010, through June 30, 2010

This Energy Trust of Oregon quarterly report covers the period 4/1/10 through 6/30/10, the third 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 revenues and expenditures, number of completed projects and incentives paid during the quarter, along with highlights of program activity.

I. QUARTERLY HIGHLIGHTS

1. General

- Steady growth continued through Q3, bringing in 10,729 therms saved in the Residential sector and 5,431 therms saved in the Commercial sector. Energy Trust intensified marketing outreach in Q3 to build the project pipeline resulting in an increased cost per therm in Q3. Therm savings are appearing in Q4.
- Planned and launched the New Homes Program in SW Washington on July 1st.
- Developed a marketing and awareness campaign about Energy Trust offerings in SW Washington that has rolled out in Q4. The campaign addresses the misperception that Energy Trust of Oregon is an Oregon-only company and reinforces Energy Trust's commitment to SW Washington customers.
- Home Energy Reviews completed remained steady through the spring and into June, totaling 235. This result is unusual since interest in energy audits usually tapers off as the weather improves.
- The commercial sector added new projects and built a robust pipeline of 65,000 therms which will ensure reaching program goals in Q4.
- Collaboration with Clark utilities, Clark County and City of Vancouver on Project Energy Savings led to additional cross-customer referrals during the Home Energy Review process and between the respective call centers.

2. Commercial Efficiency Programs

- Commercial projects completed in the food service, government and educational market segments in Q3 resulted in more than 5,000 therms saved. The program forecasts a total of 65,000 additional therms to be saved by the end of Q4.
- The commercial pipeline continued to grow. A number of bonus incentives hit the market and are expected to stimulate additional gas-saving projects. Targeted bonus incentives enabled

a number of projects to be implemented. The most likely to be completed first are occurring in school districts with a total of over 30,000 projected therms.

- A banner ad for the Greater Vancouver Chamber of Commerce website resulted in more than 34,000 impressions and 172 click-throughs.
- Energy Trust collaborated with the City of Vancouver to promote Energy Trust incentives through its “Land Here Live Here” campaign. The campaign markets directly to new and potential business owners and the Energy Trust has been utilizing this avenue to introduce our program offerings to new customers.

3. Residential Efficiency Programs

Existing Homes

- Q3 saw a steady flow of incentive applications and installed measures. 235 Home Energy Reviews were completed during Q3 ensuring that Energy Trust is building a market presence in SW Washington. Q1 and Q2 experienced a lag in therm savings due to the new market, but Q3 and Q4 savings goals are on target and increased market recognition will continue to draw savings.
- Since the pilot began, 14 residential participants installed one or more incentivized measures after having a Home Energy Review; 8 of those participants implemented during Q3. In Energy Trust experience, 30 percent of Home Energy Reviews lead to implementation of an incentivized measure within 24 months.
- To encourage the installation of multiple measures, Energy Trust launched a \$150 bundled incentive campaign for SW Washington customers from May through September. The incentive encourages the installation of two or more measures and was mailed out to approximately 50,000 SW Washington customers.
- Energy Trust supported Project Energy Savings, a joint energy savings outreach effort between Clark utilities, Clark County and City of Vancouver, during a door-to-door effort in the Hazel Dell neighborhood in June. Energy Trust contractors joined Project Energy Savings contractors during home energy audits to offer suggestions for both electric and gas savings opportunities.

New Homes Program

- The New Homes Program was prepared for launch at the beginning of Q4. SW Washington homebuilders appear interested in taking advantage of Energy Trust incentives, which support building homes that are at least 15 percent above current code standards.

4. Trade Ally Network

- Twelve new trade allies were added to the SW Washington service territory in Q3. Of the 129 trade allies serving Washington, 37 are Washington-based trade allies. During a Q3 review of the trade ally list, Energy Trust found that a number of contractors had expired or non-

active licenses in Washington. Energy Trust will contact these contractors in Q4 to encourage them to re-engage in the Washington market.

- A coordinated outreach effort between the residential and commercial programs encouraged contractors in Clark, Skamania and Klickitat counties to join the Energy Trust Trade Ally Network. A few contractors responded, and follow-up outreach will continue through Q4.
- Nine Home Performance contractors work in Washington. These contractors conduct a more in-depth energy audit of the homes resulting in increased measure suggestions from the contractor.

5. Revenues and Expenditures

- No revenues were received during the quarter, with expenditures of \$118,624.
- A total of \$38,717 in incentives was paid during Q3.

6. Washington Utilities and Transportation Commission Performance Metrics

The table below compares pilot goals, as established in NW Natural’s Energy Efficiency Plan, with Q3 results.

Metrics	Goal	Total	Quarter 1 Results	Quarter 2 Results	Quarter 3 Results	Quarter 4 Results
Therms Saved	97,500 – 130,000	44,057	7,811	20,086	16,160	
Total Program Costs*	\$780,000 – \$1,040,000	\$324,950	\$71,521	\$96,088	\$157,341	
Average Levelized Cost Per Measure	Not to Exceed \$0.65	\$0.43	\$0.48	\$0.20	\$0.51	
Dollars Spent Per Therm Saved	Less Than \$8	\$6.51	\$6.73	\$3.21	\$7.34	
% of Paid Out Incentives to Total Dollars Spent	At Least 60%	45%*	42%*	57%*	38%*	
Total Resource Cost (TRC) and Utility Costs (UC) at Portfolio Level	Greater than 1.0	n/a	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.

* Total Program Costs include total incentive dollars paid out. Numbers have been changed to reflect this.

II. QUARTERLY RESULTS

1. Revenues

Source	Actual revenues received Q3	Budgeted revenues Q3
NWN WA	\$0	\$135,833

Variances

- No revenues were received during Q3 from NW Natural. The funding agreement stipulates that the pilot receive funds in two payments. The first was in October 2009 (Q1) and the second in March 2010 (Q2).

2. Expenditures

Type	Actual Expenditures Q3	Budgeted Expenditures Q3
Programs	\$113,845	\$230,712
Administration	\$4,779	\$9,797
Total	\$118,624	\$240,509

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

3. Incentives Paid

	Q1	Q2	Q3	Q4	Total
NWN WA	\$18,950	\$31,512	\$38,717	\$0	\$89,179

Program	Total Program Expenditures	Adjusted Program Costs	Incentives	% Incentives
Total	\$118,624	\$100,830	\$38,717	38%

*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

Q3 Table

Gas Efficiency Savings	NW Natural WA Therms	Expenses	\$ / Therm	Levelized Cost/Therm
Commercial	5,431	\$40,593	\$7.5	49 ¢
Residential	10,729	\$78,031	\$7.3	52 ¢
Total	16,160	\$118,624	\$7.3	51 ¢

5. Projects Completed

	Q1	Q2	Q3	Q4
Commercial projects				
Existing buildings retrofitted	0	3	3	
Subtotal Commercial	0	3	3	
Residential projects				
Home energy reviews conducted	56	111	68	
Single-family homes retrofitted	80	61	102	
Subtotal Residential	136	172	170	
TOTAL ACTIVITY	136	175	173	

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	16,160 annual therms	36,246 annual therms	97,500 annual therms	37%	43 ¢	65 ¢

Expenditures

	Quarter Expenditures	Variance from Quarter Budget		YTD Expenditures	Variance from YTD Budget *		YTD \$/Ann Therm
Gas	\$118,624	\$121,884	50.7%	\$235,792	\$411,724	63.6%	\$6.51

Variance

- Expenditures in Q3 increased compared to previous quarters, reflecting the heightened focus on outreach, developing market penetration strategies and building pipelines in both the residential and commercial sectors. Although incentive payments did not meet projections, Energy Trust expects the increased outreach, along with the bundled incentive, to attract increased participation.

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