

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 2018.

TOTAL ACTIVE ENROLLMENTS

As of December 31, 2018, over 48,000 customers were enrolled in the program, increasing enrollment by 19 percent from the previous year. Of the 48,441 active residential customers enrolled, 33,134 or 68 percent have selected the Climate Neutral option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2018 and enrollment changes since December 31, 2017.

TABLE 1A – ACTIVE ENROLLMENT

Actual				
System Total	# of Customers	% of Customers	Enrollments	Enrollment % change from prior year
Residential	680,134	7.12%	48,441	19.58%
Commercial/Industrial	70,287	0.45%	317	-1.86%
	750,421		48,758	19.41%

Table 1b – Active Enrollment by State

Actual				
Oregon	# of Customers	% of Customers	Enrollments	Enrollment % change from prior year
Residential	602,777	7.80%	47,002	19.79%
Commercial/Industrial	62,994	0.49%	307	-1.60%
	665,771		47,309	19.62%
Actual				
Washington	# of Customers	% of Customers	Enrollments	Enrollment % change from prior year
Residential	77,357	1.86%	1,439	13.13%
Commercial/Industrial	7,293	0.14%	10	-9.09%
	84,650		1,449	12.94%

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, 2018 net of an uncollectible allowance and amounts designated for marketing and administration during the year.

TABLE 2 – FUNDS COLLECTED AND TRANSFERS DUE

Collections, net of uncollectible allowance	\$2,533,206.25
Less: 30% for marketing and administration	\$759,961.88
Total due to The Climate Trust for offset purchases	\$1,773,244.38

Due to the lag between bills issued and funds transferred, \$395,646.98, which are funds from the November and December 2018 billings, will be transferred to The Climate Trust within the first two months of 2019. NW Natural spent approximately \$1,236,206.51 for the year on

marketing and administrative costs which was derived from the \$759,962 of 2018 collections (see Table 2) and \$250,000 from funds re-allocated from The Climate Trust to marketing¹.

REPORT ON THE CLIMATE TRUST

Carbon Reduction

The commitment of total carbon reductions for the reporting period is approximately 141,324 tons.

The Climate Trust received \$1,729,798² for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2018, received by The Climate Trust totaled \$9,563,252 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2018, The Climate Trust has obligated program funds for 756,556 short tons of offsets, fully meeting the requirement through 2017. The status of obligating funds for terms of demand is reflected as short tons in table 3.

TABLE 3 - COMMITMENT STATUS AS OF 12/31/17

Year	Demand Short Tons	Short Tons Obligated	Obligation Deadline ³	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%
2017	131,243	131,243	1/1/2019	100%
2018	141,324	102,672	1/1/2020	73%
	795,208	756,556		95%

CARBON OFFSET PROJECTS

The Smart Energy™ program obligated funds or acquired offsets in 2018 from the projects listed in table 4.

TABLE 4 – 2018 PROJECT OBLIGATIONS AND RETIREMENTS

Castelanelli Brothers Dairy
Farm Power Misty Meadow
Farm Power Rexville
Farm Power Tillamook
J.R. Simplot Moses Lake 2
Lochmead Farms
Maas Energy Works Van Warmerdam

¹ If offsets are purchased at a cost that is less than The Climate Trust's price cap, the difference is placed into the risk mitigation fund which is used for three purposes: 1) Purchase additional offsets to meet future Smart Energy demand when preferred projects are available, but current customer demand is less than the opportunity and program funds cannot cover the obligation; 2) Cover potential cost differential between contracted price and replacement price, should a project underperform; and 3) Fund additional program activity. The Company consults with The Climate Trust before it determines the appropriate use of risk mitigation funds.

² This amount is different from the \$1,773,244 stated in Table 2 for 2018 net collections because of the two-month lag for transfers. It includes November and December 2017 net collections transferred in 2018 and excludes November and December 2018 net collections due to be transferred in 2019.

³ Schedule 400 in Oregon and Schedule U in Washington, NW Natural must obligate funds for offsets within 24 months of issuing a bill.