

e-FILING REPORT COVER SHEET

REPORT NAME: RG-2, NW Natural's 2012 Smart Energy Annual Report

COMPANY NAME: NW Natural

DOES REPORT CONTAIN CONFIDENTIAL INFORMATION? No Yes

If yes, please submit only the cover letter electronically. Submit confidential information as directed OAR 860-001-0070 or the terms of an applicable protective order.

If known, please select designation: RE (Electric) RG (Gas) RW (Water)
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Report is required by: OAR Enter Rule number:
 Statute Enter Statute:
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Key words: RG-2, NW Natural, 2012, Smart Energy, Annual Report

If known, please select the PUC Section to which the report should be directed:

- Corporate Analysis and Water Regulation
- Economic and Policy Analysis
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- Electric Rates and Planning
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JENNIFER GROSS

Tariffs and Regulatory Compliance
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February 26, 2013

Public Utility Commission of Oregon
550 Capitol Street, N.E., Suite 215
P.O. Box 2148
Salem, Oregon 97308-2148

Attn: Filing Center

Re: **RG-2**, NW Natural's 2012 Smart Energy™ Annual Report

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), hereby files its Smart Energy™ Annual Report in compliance with the terms established in Schedule 400, Smart Energy™ Program.

Please contact me at (503) 226-4211, extension 3590, if you have any questions.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
Rates & Regulatory Affairs

enclosures

WE REDUCED OUR CARBON FOOTPRINT WITH SMART ENERGY

Smart Energy™ Annual Report
September 1, 2011 - December 31, 2012



INTRODUCTION

Smart Energy™ is a carbon offset program designed to support the development of renewable energy projects and reduce greenhouse gas emissions. Under this program, residential, commercial, and industrial customers may offset their natural gas usage by purchasing high-quality greenhouse gas offsets acquired through the development of regional biogas projects. The Company has partnered with The Climate Trust, a nationally recognized leader in the carbon market, to implement the Smart Energy™ program. The Climate Trust acquires the offset projects and leads the effort to quantify, verify and retire each offset. Oregon customers have been able to participate in Smart Energy since 2007 and Washington customers, since 2010.

According to the terms and conditions of Oregon Schedule 400 and Washington Schedule U, NW Natural is hereby providing 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 period September 1, 2011, through December 31, 2012. In 2011, the Company received approval to move from reporting on a program year perspective to reporting on a calendar year perspective. This is the first annual report since that decision was issued, and to accommodate this change, Section One presents results for the calendar year of 2012 and Section Two reports on the period September 1, 2011 through December 31, 2011.

SECTION ONE

January 1, 2012 – December 31, 2012

TOTAL ACTIVE ENROLLMENTS

As of December 31, 2012, over 16,000 customers were enrolled in the program, increasing enrollment by 22 percent from the previous year. Since the program's inception, a total of 20,776 residential customers have enrolled in Smart Energy™. Of the 16,212 active residential customers enrolled, 9,034 or 57 percent have selected the volumetric option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2012 and enrollment changes since December 31, 2011.

Table 1a – Active Enrollment

| Actual | | | | |
|--------------|----------------|----------------|-------------|---------------------------------------|
| SYSTEM TOTAL | # of Customers | % of Customers | Enrollments | Enrollment % increase from prior year |
| Residential | 621,399 | 2.6% | 16,212 | 22.7% |
| Commercial | 63,580 | 0.5% | 300 | 8.7% |
| | | | 16,512 | 22.4% |

Table 1b – Active Enrollment by State

| Actual | | | | |
|-------------|----------------|----------------|-------------|---------------------------------------|
| Oregon | # of Customers | % of Customers | Enrollments | Enrollment % increase from prior year |
| Residential | 555,961 | 2.8% | 15,721 | 22.7% |
| Commercial | 57,781 | 0.5% | 291 | 7.8% |
| | | | 16,012 | 22.4% |

| Actual | | | | |
|-------------|----------------|----------------|-------------|---------------------------------------|
| Washington | # of Customers | % of Customers | Enrollments | Enrollment % increase from prior year |
| Residential | 65,438 | 0.8% | 491 | 21.2% |
| Commercial | 5,799 | 0.2% | 9 | 50.0% |
| | | | 500 | 21.7% |

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, 2012 net of an uncollectible allowance and amounts transferred during the year.

Table 2 – Funds Collected and Transfers Due

| | 2012 |
|---|------------|
| Collections, net of uncollectible allowance | \$985,674 |
| Less: 30% for marketing and administration | \$ 295,702 |
| Total due to The Climate Trust for offset purchases | \$689,972 |

Due to the lag between bills issued and funds collected, \$141,844, which is two months of program revenue billed in 2012, will be transferred to The Climate Trust within the first two months of 2013.

NW Natural spent approximately \$355,000 for the year on marketing and administrative costs, which was derived from the \$295,702 of 2012 collections (see Table 2) and approximately \$60,000 of carryover from 2011.¹ Administration costs consist primarily of payroll and payroll overheads associated with the program manager. Generally, half of the program manager’s time is spent on marketing activities and the other half is spent on program administration and managing offset supply.

REPORT ON THE CLIMATE TRUST

Carbon Reduction

The Climate Trust is contractually obligated to purchase offsets in accordance with the dollars received in a calendar year. The commitment of total carbon reductions for the reporting period is approximately 54,413 tons. The Climate Trust received \$680,174² for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2012 received by The Climate Trust totaled \$2,238,033 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2012, The Climate Trust has obligated program funds for 212,459 tons of offsets, fully meeting the requirement for the first 5 program years.

Table 3 - Commitment Status as of 12/31/12

| Program Year | Timeline (Sept 1-Aug 31) | Tons Demand | Tons Obligated | PUC Deadline | Status (% met) |
|---------------|--------------------------|-------------|----------------|--------------|----------------|
| 1 | 2007-2008 | 13,733 | 13,733 | 1/1/2010 | 100% |
| 2 | 2008-2009 | 23,268 | 23,268 | 1/1/2011 | 100% |
| 3 | 2009-2010 | 31,992 | 31,992 | 1/1/2012 | 100% |
| 4 | 2010-2011 | 44,017 | 44,017 | 1/1/2013 | 100% |
| 5 | 9/1/11 – 12/31/11 | 16,856 | 16,856 | 1/1//2014 | 100% |
| Calendar Year | | | | | |
| | 2012 | 54,413 | 54,413 | 1/1/2014 | 100% |
| | 2013 | TBD | 28,181 | 1/1/2015 | TBD |
| | Total | 179,403 | 212,460 | | |

¹ This carryover amount includes approximately \$40,000 that was re-allocated in 2011 from The Climate Trust to marketing and administration. As discussed in NWN’s Mid Pilot Review (page 17) and 2011 Annual Report (page 4), if The Climate Trust accumulates funding due to an ability to secure offsets at a price better than anticipated, the Company may choose to reallocate the unspent funds.

²This differs from the \$689,972 in 2012 net collections as a result of the two-month lag for transfers. It includes November and December 2011 net collections transferred in 2012 and excludes November and December 2012 net collections due to be transferred in 2013.

SECTION TWO

Since this 2012 Annual Report is the first report in which the Company is presenting results on a calendar year basis, as opposed to a September 1 to August 31 program year, Section Two is included to present results for between the months following the last program year and the 2012 calendar year, September 1, 2011 – December 31, 2011.

TOTAL ACTIVE ENROLLMENTS

As of December 31, 2011, over 13,000 customers were enrolled in the program, increasing enrollment by over 7 percent from the previous reporting period. Since the program's inception, a total of 16,280 residential customers have enrolled in Smart Energy™. Of the 13,218 active residential customers enrolled, 7,148 or 54 percent have selected the volumetric option.

Tables 1a and 1b demonstrate active enrollments as of December 31, 2011 and enrollment changes since August 31, 2011.

Table 1a – Active Enrollment

| Actual | | | | |
|--------------|----------------|----------------|-------------|------------------------------------|
| SYSTEM TOTAL | # of Customers | % of Customers | Enrollments | Enrollment % increase from 8/31/11 |
| Residential | 615,670 | 2.1% | 13,218 | 7.2% |
| Commercial | 62,914 | 0.4% | 276 | 14.0% |
| | | | 13,494 | 7.3% |

Table 1b – Active Enrollment by State

| Actual | | | | |
|-------------|----------------|----------------|-------------|------------------------------------|
| Oregon | # of Customers | % of Customers | Enrollments | Enrollment % increase from 8/31/11 |
| Residential | 551,038 | 2.3% | 12,813 | 6.5% |
| Commercial | 57,431 | 0.5% | 270 | 13.9% |
| | | | 13,083 | 6.7% |

| Actual | | | | |
|-------------|----------------|----------------|-------------|------------------------------------|
| Washington | # of Customers | % of Customers | Enrollments | Enrollment % increase from 8/31/11 |
| Residential | 64,637 | 0.6% | 405 | 34.1% |
| Commercial | 5,483 | 0.1% | 6 | 20.0% |
| | | | 411 | 33.9% |

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 four months ended December 31, 2011, net of an uncollectible allowance, and amounts transferred during the year.

Table 2 – Funds Collected and Transfers Due

| | 9/1/11 – 12/31/11 |
|---|-------------------|
| Collections, net of uncollectible allowance | \$301,929 |
| Less: 30% for marketing and administration | 90,579 |
| Total due to The Climate Trust for offset purchases | \$211,350 |

Of the total due to The Climate Trust, \$132,854 was due to be transferred within the first two months of 2012.

NW Natural spent approximately \$74,000 in the reporting period on marketing and administrative costs, resulting in a carry-over of around \$16,000 for future marketing and administrative costs. Administration costs consist primarily of payroll and payroll overheads associated with the program manager. Generally, half of the program manager’s time is spent on marketing activities and the other half is spent on program administration and managing offset supply.

REPORT ON THE CLIMATE TRUST

Carbon Reduction

The Climate Trust is contractually obligated to purchase offsets in accordance with the dollars received in a calendar year. The commitment of total carbon reductions for the reporting period is approximately 11,619 tons. The Climate Trust received \$145,243³ for offset purchases for program participants during the reporting period.

Offset Funds

Program revenues from inception to December 31, 2011 received by The Climate Trust totaled \$1,559,701 for the purchasing and managing of offset project contracts.

Funding Obligation Commitment

As of December 31, 2011, The Climate Trust has obligated program funds for 100,135 tons of offsets, fully meeting the requirement for the first 3 program years.

Table 3 - Commitment Status as of 12/31/11

| Program Year | Timeline (Sept 1-Aug 31) | Tons Demand | Tons Obligated | PUC Deadline | Status (% met) |
|--------------|--------------------------|-------------|----------------|--------------|----------------|
| 1 | 2007-2008 | 13,733 | 13,733 | 1/1/2010 | 100% |
| 2 | 2008-2009 | 23,268 | 23,268 | 1/1/2011 | 100% |
| 3 | 2009-2010 | 31,992 | 31,992 | 1/1/2012 | 100% |
| 4 | 2010-2011 | 44,017 | 31,142 | 1/1/2013 | 71% |
| 5 | 9/1/11 – 12/31/11 | 11,619 | 0 | 1/1//2014 | 0% |
| | Total | 124,629 | 100,135 | | |

³This differs from the \$211,350 in the reporting period net collections as a result of the two-month lag for transfers. It includes July and August 2011 net collections transferred in the reporting period and excludes November and December 2011 net collections due to be transferred in 2012.

SECTION THREE

CARBON OFFSET PROJECTS

The graphic below shows active carbon offset projects funded by Smart Energy customers as of December 31, 2012.

Smart Energy is helping farmers throughout the region turn waste to fuel

Manure stored in lagoons emits methane, a harmful greenhouse gas. Anaerobic digesters capture the methane and produce biogas, which can be used as an on-demand renewable energy source.

FARM POWER REXVILLE, MT. VERNON, WA

The Farm Power project pumps cow waste from two dairies into a one-million-gallon tank, and creates 750 kilowatts of power – enough to power 500 homes each year. The waste heat is used to warm the digester tank.

FARM POWER LYNDEN LYNDEN, WA

This Farm Power digester is located less than a mile from a family owned dairy that provides manure which is piped to the digester. Waste heat is used in the commercial greenhouses adjacent to the digester, and power is sold to Puget Sound Energy.

FARM POWER MISTY MEADOW, TILLAMOOK, OR

Misty Meadow is a family owned farm in Tillamook. The digester began operations in November, generating electricity that is sold to Pacific Power.

JR SIMPLOT MOSES LAKE, WA

The ENERGY STAR-rated potato processing plant has a digester that treats wastewater and creates biogas, which is burned in boilers and used for plant operations.

LOCHMEAD FARM, JUNCTION CITY, OR

Lochmead Farm is a family owned dairy that turns its cow waste into biogas, which fuels a 240 kilowatt-capacity engine generator. The generator creates electricity that is sold to Emerald People's Utility District.

OAK LEA FARM AUMSVILLE, OR

A digester at Oak Lea dairy turns waste from 815 cows into biogas that fuels a 190-kilowatt-capacity generator, which produces enough electricity to power 300 homes. The power is sold to Pacific Power.

SECTION FOUR

SUMMARY

NW Natural considers the program completing its milestone fifth year, growing 22% and contracting its sixth project as qualified examples of the programs continued success.

Looking forward, NW Natural remains committed to Smart Energy™ and communicating the important messages about climate change, energy efficiency, and carbon emissions. The Company will continue pursuing the Smart Energy™ goals of encouraging its customers to “use less and offset the rest”, growing program participation, and helping bring new biodigester projects to the Pacific Northwest.