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REPORT NAME: NW Natural's 2016 Smart Energy Program 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 in OAR 860-001-0070 or the terms of an applicable protective order.

If known, please select designation: RE (Electric) RG (Gas) RW (Water) RO (Other)

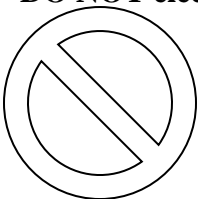
Report is required by: OAR Enter rule number
Statute Enter Statute
Order Enter PUC Order No.
Other Required by Tariff Schedule 400

Is this report associated with a specific docket/case? No Yes

If yes, enter docket number: RG-2

List applicable Key Words for this report to facilitate electronic search:
NW Natural 2016 Smart Energy Program Report, Offset, Schedule 400, Carbon

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- Any daily safety or safety incident reports or
- Accident reports required by ORS 654.715

Please file the above reports according to their individual instructions.

GAIL HAMMER
Rates and Regulatory Affairs
Tel: 503.226.4211 ext. 5865
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March 20, 2017

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: RG 2 - NW Natural's 2016 Smart Energy™ Annual Report

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

Please address correspondence on this matter to me with copies to the following:

eFiling
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, Oregon 97209
Telephone: (503) 226-4211, x3589
eFiling@nwnatural.com

Sincerely,

/s/ Gail Hammer

Gail Hammer
Rates and Regulatory Affairs

attachment

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 \$1,236,675¹ 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 tons² 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

¹ 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.

² 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.