

March 26, 2024

Dear Customer,

I wanted to start this letter by thanking you for being a customer, and to assure you that we understand how important access to affordable, reliable energy is to your household and business. It's why we're proud that, setting aside the cost of complying with a new state climate program, NW Natural customers are still paying less today than they did 15 years ago for their natural gas bills. It's also why we're committed to working with elected officials and policymakers to advance solutions that balance the need to move to a low-carbon future while ensuring energy affordability.

In recent notices with your bill, we provided information about the State of Washington's Climate Commitment Act (CCA), a new law administered by the Department of Ecology. By now, you have seen fees and credits on your monthly bills related to compliance with Washington's CCA, a market-based program to reduce greenhouse (GHG) emissions, which have been reviewed and approved by the Washington Utilities and Transportation Commission. We have received many customer questions about the CCA, so we wanted to reach out to provide more information.

### Washington Climate Act Fees

The new fees are tied to consumer and business energy usage across the state's economy. The *Climate Act Fee* on your bill is a charge per therm (\$0.49726) tied to your natural gas usage. Because your therm usage changes month to month, the total amount for the CCA charge on your monthly bill will vary.

### Where the new fees go

100% of the CCA fees collected from customers are used for compliance and will be paid into Washington's market-based program. **NW Natural does not keep any of these fees.** In fact, we have already delivered millions of dollars to state agencies in compliance with the program. To learn more about how these funds are spent by the State of Washington, please visit: [ecology.wa.gov/air-climate/climate-commitment-act/auction-proceeds](http://ecology.wa.gov/air-climate/climate-commitment-act/auction-proceeds)

### Credits help offset costs for some

As part of the program, the Department of Ecology issues allowances for gas utilities to cover a portion of customer emissions. Each allowance equates to one metric ton of greenhouse gas emissions. The law requires natural gas utilities to sell a portion of these allowances at the CCA auctions each year.

The funds from the sale of these allowances generate the funds for *Climate Act Credits*. NW Natural returns these funds to customers as credits on monthly bills, alongside the fees, to help mitigate the cost impacts of the program. However, by law, only low-income customers and customers connected to the system prior to July 26, 2021, are eligible for these credits.

Unlike the fee, by law the Climate Act Credit is a fixed amount. NW Natural customers were credited a higher amount during the colder weather months of January through March 2024, to help offset higher winter usage and costs. Conversely, customers will be credited a new, lower amount for billing periods between April through October (warmer months) when they typically have lower natural gas usage. In November, the credit will revert back to a higher amount. The credit varies by customer type, so please see our FAQ provided for details.

If you are a customer facing financial hardship, we encourage you to visit the Payment Assistance Options page at [nwnatural.com](http://nwnatural.com) to learn more about how income-qualifying customers can receive assistance for Climate Act Fees.

The CCA program is important to understand but complex, so we also encourage customers to visit the Department of Ecology's website to learn more about how it works: [ecology.wa.gov/air-climate/climate-commitment-act](https://ecology.wa.gov/air-climate/climate-commitment-act)

I want our customers to know that while we'd like to see changes made to the CCA to make it more affordable, NW Natural believes the economy-wide approach taken by Washington is valuable to achieving a low-carbon future. For example, we're pleased that Washington intends to expand its market-based efforts by linking to other similar programs in North America in the years to come. This can help moderate future costs for Washingtonians in their natural gas and electric bills, in goods and services, and at the gasoline pump.

These are important details to us. And we know that they are important to you because they affect your daily lives. We remain dedicated to working with state leaders to meet the program's goals while minimizing negative impacts on our customers.

Thank you again for being our customer, and for taking the time to learn more.

Sincerely,

A handwritten signature in black ink that reads "David H. Anderson". The signature is written in a cursive, flowing style.

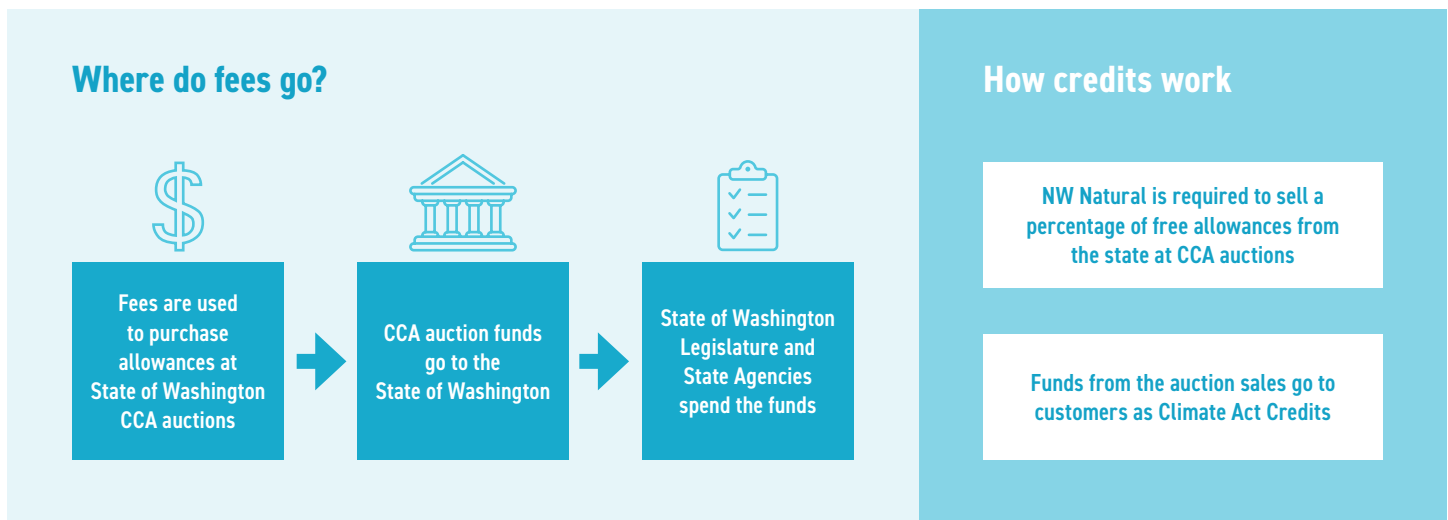
David H. Anderson  
CEO of NW Natural

## What is the Climate Commitment Act?

In 2021, the Washington Legislature passed the Climate Commitment Act (CCA). Following this legislation, a mandated Cap and Invest Program and associated rules were adopted by the Washington Department of Ecology. This establishes a market-based program to reduce greenhouse gas (GHG) emissions and achieve state-set GHG limits. It impacts every energy user in Washington. Learn more at the Washington Department of Ecology's website: [ecology.wa.gov/air-climate/climate-commitment-act](https://ecology.wa.gov/air-climate/climate-commitment-act)

## What does NW Natural do with my fees?

**NW Natural does not keep any of the fees associated with the CCA.** The fees on customer bills are entirely associated with the cost of complying with the state's law.



## Why is my fee different every month?

The Climate Act Fee is a per therm charge based on each customer's natural gas usage. Typically, our customers use more therms in the winter than in warmer months, and that was especially true this winter given the very low temperatures that our region saw during the mid-January storm, so we expect that Climate Act Fees will level out accordingly.

## Are the fees to comply based on actual costs or projected costs?

For this first year of compliance with the state's program, the fees reflect a combination of actual costs of purchasing allowances in CCA auctions held in 2023 and a projection of what will be needed to purchase allowances through 2024. **Any differences between projected costs and actual costs will be accounted for in an annual rate filing with the Washington Utilities and Transportation Commission, ensuring customers will not pay more than is necessary to comply with the program.**

This is a similar approach to how most utilities purchase energy resources for customers. For NW Natural, every fall is when rates are adjusted in the Purchased Gas Adjustment filing to reflect changes in both the expected cost of natural gas for the upcoming winter heating season and account for the differences between the estimated and actual cost of natural gas from the previous year.

This approach also minimizes related financing costs associated with CCA funds (lowering overall costs to customers) and helps ensure compliance is met, helping avoid even higher cost penalties for non-compliance.

## How is my credit calculated?

By law, qualifying low-income customers will receive a credit equal to their Climate Act Fee. For the remainder of customers, the law specifies that credits can't be issued on a per therm basis. Therefore, the Climate Act Credit is a fixed amount that will not exceed your Climate Act Fee.

Credits returned to customers are based on estimated revenue from selling emission allowances in Washington's CCA auctions. The Climate Act Credit for residential customers (Rate Schedule 2) was \$32.62 from January through March and will be \$9.88 from April through October. For commercial customers (Rate Schedule 3), the Climate Act Credit was \$127.46 from January through March and is \$48.67 from April through October. (As a reminder, your April billing cycle may overlap with March, so you may see two credit amounts on your bill, which will revert to one credit in May.)

## Why is my credit lower this month?

Customers were credited a higher amount during the colder weather months of January through March 2024, to help offset higher winter usage and costs. During warmer months, customers typically use less natural gas, which means that Climate Act Fees will also typically be lower. Customers will be credited a new, lower credit amount for billing periods between April through October. In November, the credit will revert back to a higher amount.

## Why do I not see a credit on my bill?

State rules direct utilities to only issue credits for those customers that connected to the system prior to July 26, 2021, and identified low-income customers, which unfortunately means newer customers are not eligible to receive credits.

## I'm concerned about paying my bill. Is assistance available?

If you are a customer facing financial hardship, please visit the Payment Assistance Options page at [nwnatural.com](http://nwnatural.com). Through our bill discount program, income-qualifying customers can save 15% to 80% on their monthly NW Natural bills based on household income. Additionally, under the CCA, qualifying low-income customers can receive assistance for their Climate Act Fees, ensuring the program will not increase their energy costs. Community Action Partners can also connect income-qualifying households with free energy efficiency and weatherization upgrades through Washington programs. Visit [nwnatural.com/ways-to-save/savings-programs](http://nwnatural.com/ways-to-save/savings-programs) to learn more.

## Who must comply with this program on behalf of Washington energy users?

Under the CCA, natural gas distributors, electricity providers, transportation (vehicle) fuel suppliers, and large stationary sources are required to comply with the program.

## Do electric utility customers pay these fees?

Electric utilities must comply with the CCA, but they are treated differently under the rules than natural gas utilities, therefore fees will vary. Other cost impacts related to climate policy affecting Washington electric energy users will be driven by compliance with a different law called the Clean Energy Transformation Act (CETA). CETA requires electric utilities to have 100% clean electricity by 2045, which will also have cost impacts.

## Are there changes to the CCA that could be made to lower costs while reducing emissions?

NW Natural believes modifications to the program could make it more affordable. For example, allow for a slower reduction requirement that recognizes the complexity of decarbonization. The program could include cost caps, and it could direct CCA fees paid for by natural gas customers to go back to those customers to fund deeper energy efficiency, carbon offsets, and new technologies – all changes that could lower costs. NW Natural has asked state leaders to consider these changes and will continue to do so.