

Rates and Regulatory Affairs
Facsimile: 503.721.2532



January 24, 2006

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

Attention: Filing Center

RE: Oregon Low-Income Energy Efficiency Program (OLIEE)
Annual Report (Program Year 2004-2005)

Northwest Natural Gas Company, dba NW Natural (NW Natural or company), submits herewith the Annual Report for the Oregon Low-Income Energy Efficiency Program (OLIEE) for the Program Year 2004-2005 in accordance with the company's Tariff P.U.C. Or. 24, Schedule 320.

Please do not hesitate to contact me should you have any questions about this report.

Sincerely,



Onita King, Manager
Tariffs & Regulatory Compliance

Enclosure (1)

cc w/encl: Judy Johnson, OPUC
Lynn Kittilson, OPUC
Ellen Prouty
Tim Abshire
Steve Bicker
File

NW NATURAL

**OREGON LOW-INCOME ENERGY
EFFICIENCY PROGRAM (OLIEE)**

ANNUAL REPORT

PROGRAM YEAR 2004-2005



January 24, 2006

**NW Natural's
Oregon Low-Income Energy Efficiency (OLIEE)
Program Year October 2004 Through September 2005**

BACKGROUND

In October 2002 NW Natural began collecting public purposes funds to reduce the energy burden of low-income homes by providing increased weatherization funding. Funds for low-income weatherization are collected through a public purposes surcharge of .25 percent of gross revenues from residential rates on Oregon residential customer bills in accordance with OPUC Order No. 02-634 in Docket UG-143. The Oregon Low-Income Energy Efficiency (OLIEE) Program, to be administered by NW Natural, was approved by the Public Utility Commission of Oregon effective with service on and after October 31, 2003.

The purpose of the Oregon Low-Income Energy Efficiency program (OLIEE) is to assist income-eligible households in lowering their gas bills by decreasing heating usage through the adoption of energy efficiency measures. The program covers single-family residences whether renter or owner occupied including duplexes, triplexes and fourplexes. The Community Assistance Program (CAP) agencies install the energy efficient measures and are reimbursed from OLIEE funds for the net present value of the avoided cost per therm for each therm saved. On average this amount usually covers a little more than half of the costs involved in installing these measures. The remainder of the funds needed to complete the projects comes from other sources such as the Federal Low Income Energy Assistance Program (LIEAP) funds and other grants. The design of the program provides for greater reimbursement of funds for those measures that save more therms. The rebates are not intended to meet the entire cost of the program, but to supplement existing funds to increase the number of customers served. In addition to the rebate, the CAP agencies will receive \$225 for program delivery and administration costs for each unit treated. With the additional funds available, it was estimated that the CAP agencies would be able to ramp up the delivery of the program and serve approximately 700 to 800 homes per year.

When the program was implemented at the end of October 2003, funding had been collected for almost a year. At this point a total of \$1,108,164 had been collected including interest. This amount was allocated for dispersal over a two-year period from 2003-2005.

PROGRAM POTENTIAL

The Baseline Study completed in 2004 estimated that approximately 26,000 households could benefit from the program, 18,000 of which are in the Portland Metro area.

PROGRAM ADMINISTRATION

Internal Controls. NW Natural has adopted internal policies and procedures to help ensure that the OLIEE assets are properly managed, that OLIEE account records are accurate and complete, and that the OLIEE program is administered in a cost-effective and efficient manner. A copy of the NW Natural's internal control document is attached as Table 2.

Program Outreach: NW Natural has provided low-income energy efficiency program information to customers through bill insert publications such as the Comfort Zone, and the Energy Efficiency Tips flyer. The company also participates in agency sponsored low income fairs providing energy efficient tips and equipment information.

Agency Education: The Company actively participates in the Oregon Energy Coordinators Agency (OECA) meetings and uses the round table break out sessions to discuss program issues and recommendations. The company organizes and directs the OLIEE Advisory Council meetings, which meet quarterly to address issues and concerns that affect program implementation. All agencies are invited to participate and/or submit agenda items for these meetings. NW Natural also visits the individual agencies to communicate program processes and improvements. NW Natural randomly inspects households where the energy efficient measures have been installed by the CAP agencies.

Customer Eligibility: The OLIEE program uses the same eligibility requirements as LIEAP, Oregon Low Income Gas Assistance Program (OLGA), and Oregon Energy Assistance Program (OEAP). Customers are eligible for assistance through the OLIEE program if they are owners or renters of a single-family residence that uses natural gas as the main heating source and their household income is at or below 60% of the state of Oregon's median income. Duplexes and fourplexes are eligible for the program if low-income residents occupy half of the building. Triplexes are eligible if low-income residents occupy at least 66% of the units. The Company's primary goal for the OLIEE program is to provide a cost effective program that will increase the number of homes insulated. Since OLIEE provides additional funds to already established weatherization programs, the existing procedures for establishing eligibility are already in place. These procedures give precedence to homes that are occupied by low-income elderly, disabled, and low-income households with children six years of age and under.

Fund Allocation. At the inception of the program, the allocation of funds available to the agencies followed the same percentages as LIEAP allocation of OLGA funding for 2001. In order to spend the funds under cost-effective guidelines, each agency would have to at least triple the number of homes it weatherized. The ability of the agencies in the program to spend the funds collected has been a concern. A fund reallocation process was implemented to reallocate funding to agencies that were able to make the best use of allocated funds and leveraging of other funding sources.

The reallocation process did allow additional funding to be allocated to the agencies that were using the larger percentage of funds, but because the agencies have not been able to ramp up quickly to deliver the program, an excess of funds are accumulating.

Payment System. Each agency completes a rebate application form from the workbook sent electronically by NW Natural. The rebate amounts are automatically calculated based on the approved cost-effectiveness criteria¹. The form is signed by the agency representative and mailed to NW Natural along with receipts or invoices for the work performed. Upon receipt of the rebate application, NW Natural enters the data in the CIS (Customer Information System) database and prints a report. A request for payment is sent to accounting. Accounting issues the check and it is mailed to the agency along with the report.

NW Natural Administration. For the first program year, NW Natural was allowed reimbursement of up to \$100,000 in program set up and first year delivery costs. Reimbursement for administrative costs in addition to program set up was not to exceed 5% of collectibles. After the first program year NW Natural is reimbursed on a monthly basis for administrative costs not to exceed 5% of annual collectibles. For 2004-2005 NW Natural was reimbursed \$71,911. The OLIEE Program Evaluation provided by Quantec, an independent evaluator, was completed in June 2005 at a cost of \$49,820. (see Table 1)

SUMMARY OF 2004-2005 PROGRAM RESULTS

- Funding for the OLIEE program began to be collected on November 21, 2002 and by September 30, 2005 a total of \$3,709,995 had been collected. The unspent funds have been placed in an interest-bearing account and since inception a total of \$72,357 has been earned, bringing the total fund collections to \$3,782,352. (see Table 1)
- By September 30, 2005 a total of \$3,782,352 had been collected in revenues and interest over the three-year period. Since inception, a total of \$1,363,153 had been spent leaving a balance of \$2,419,199.
- For the program year of October 1, 2004 through September 30, 2005, a total of \$1,407,595 in revenues was collected. The interest accumulated over this time period was \$54,330 bringing the total for the program year to \$1,461,926. A total of \$776,568 was spent on rebates, admin and evaluation which is 55% of the 2004-2005 collected program revenues.
- In the 2004-2005 program year, 337 homes were weatherized, an increase of 17% over the previous year when the agencies weatherized 287 natural gas homes. The agencies had predicted that they would be able to

¹ The net present value of the avoided cost per therm for every therm saved.

weatherize approximately 549 homes in the 2004 -2005 program year, but fell well short of this prediction, achieving 61% of the goal. (see Table 3)

- The agencies received \$579,012 in the form of rebates for energy efficiency measures completed - an average of \$1718 per home. The Integrated Resource Plan was updated on February 23, 2005 resulting in an increase in the net present value of the avoided cost per therm from \$9.62 to \$14.68. This increased the amount that the agencies were paid in rebates. (See Table 3)
- It is estimated that 59,041 were saved, well below the goal of between 89,487 therms if 549 homes were served. (See Table 3)
- The agencies received \$75,825 for program delivery and administrative costs.
- 9 Community Action agencies are qualified to deliver the program to NW Natural's customers. (see Table 4)
- Slowly the agencies have been ramping up to implement the OLIEE program. But even though they have increased the number of homes served this program year by 17% over the 2003 –2004 year and a total of 55% over the last two years, it is doubtful that they will be able to increase implementation to a level that will spend the accumulated funds. The following issues are still restricting the number of homes served:
 - Inadequate implementation resources. There are training and insurance requirements that limit the resources available to deliver the program and install the measures in some cases.
 - The CAP agencies are still adjusting to a large influx of funds from the Energy Conservation Helping Oregonians (ECHO) program that is used to provide weatherization for low-income customers of Pacific Power and PGE. This program was mandated by Senate Bill 1149 and the CAP agencies are still ramping up to make use of the available funding.
 - In most districts there is a higher level of funding available per house for electrically heated homes making it easier to complete these projects.
 - The majority of additional funds that are needed to complete a project would come from LIEAP. These funds are limited and often are used for repair, for the replacement of defective or dangerous furnaces and non cost-effective energy improvements. Many agencies use a whole house approach to weatherization with the intent to complete the entire weatherization project and therefore eliminate the need to return to the house in the future when increased costs of energy may make currently non-cost effective items cost-effective.

PROGRAM EVALUATION

NW Natural contracted with Quantec an independent program evaluator, to provide a program evaluation. Overall the OLIEE program is considered to be a huge improvement over previous weatherization model offered by NW Natural and the participants thought that the program was simple and easy to use. The following are some of the recommendations for program improvement:

- Move toward a \$/Therm saved model similar to ECHO. This would allow more cost effective measures to carry the less cost effective ones if the allowed rebate for the more cost effective measures was more than the measure installed cost.
- Add an energy education component that would include a standardized approach for all agencies.
- Add energy education as a component for OLGA.
- Use energy education recipients as a pool of potential future weatherization participants.
- Allow for other delivery channels to deliver the program such as rehab, tribes and other agencies.
- Expand the OLIEE Advisory board to include participation by a broader range of energy advocates such as the OHCS, Department of Energy, low income advocates etc.

The Company is currently working on a proposal to amend the tariff to include other delivery channels and participation at the advisory level by a broader range of energy advocates. It is expected that the other recommendations will be addressed in the new open solicitation process currently being designed.

2005-2006 PROGRAM YEAR

The Company does not expect that the agencies will achieve a significant increase in the number of homes served under this program in 2005-2006. It is believed that the agencies are near their maximum implementation capacity under this program. NW Natural intends to implement some changes to the OLIEE program to increase the number of low income homes served in the future. Currently a tariff revision is being designed that would include an open solicitation process designed to cost-effectively provide energy efficiency assistance to a greater number of low-income households in NW Natural's Oregon service territory through a broad and diverse network of delivery channels. The project is overseen by a recently appointed OLIEE Oversight Council consisting of NW Natural staff and outside subject experts. NW Natural will have an impact evaluation study of the OLIEE program that will be completed by the end of the third quarter of 2006.

NW Natural

Table 1

Second Annual Report

OLIEE (Oregon Low Income Energy Efficiency)
October 2002 through September 30 2005

Billing Month	Transaction Month	Beginning Balance	Revenues			Expenditures						Ending Balance	
			Interest	Program Revenues	Total Revenues Balance	Rebates to CAP Agencies for Measures Installed	Admin Payments to CAP Agencies	NW Natural Admin	Postage, Mileage, Conferences and Misc	Program Evaluation	Total Expenditures		
2004													
September	October	\$1,733,841	\$2,202	\$42,603	\$1,778,645	0	0	0	0	0	0	0	1,778,645
October	November	\$1,778,645	\$2,309	\$5,795	\$1,786,749	0	0	0	0	0	0	0	1,786,749
November	December	\$1,786,749	\$2,867	\$125,241	\$1,914,856	-91,787	-14,400	-507	-507	-129,311	-507	0	1,785,545
December	January	\$1,785,545	\$3,210	\$202,068	\$1,990,824	0	0	0	0	0	0	0	1,990,824
2005													
January	February	\$1,990,824	\$3,366	\$248,759	\$2,242,948	0	0	0	0	0	0	0	2,242,948
February	March	\$2,242,948	\$4,411	\$216,918	\$2,464,277	-167,987	-24,975	-261	-261	-223,661	-261	-14,888	2,240,616
March	April	\$2,240,616	\$4,875	\$170,577	\$2,416,069	0	0	0	0	0	0	0	2,416,069
April	May	\$2,416,069	\$5,573	\$139,087	\$2,560,729	0	0	0	0	0	0	0	2,560,729
May	June	\$2,560,729	\$5,836	\$92,925	\$2,659,490	-207,993	-23,625	-796	-796	-272,353	-796	-24,048	2,387,137
June	July	\$2,387,137	\$6,227	\$65,081	\$2,458,445	0	0	0	0	0	0	0	2,458,445
July	August	\$2,458,445	\$6,659	\$53,038	\$2,518,142	0	0	0	0	0	0	0	2,518,142
August	September	\$2,518,142	\$6,797	\$45,504	\$2,570,443	-111,245	-12,825	-398	-398	-151,243	-398	-10,884	2,419,199
Total 2004-2005 Activity			\$54,330	\$1,407,595	\$1,461,926	(\$54,837)	(\$75,825)	(\$1,962)	(\$1,962)	(\$776,588)	(\$1,962)	(\$49,820)	2,419,199

Billing Month	Transaction Month	Beginning Balance	Revenues			Expenditures						Ending Balance	
			Interest	Program Revenues	Total Revenues Balance	Rebates to CAP Agencies for Measures Installed	Admin Payments to CAP Agency	NW Natural Admin and Program Set up costs	Customer Information System Enhancements	Baseline Study	Total Expenditures		
2003													
September	October	\$1,069,749	\$742	\$37,673	\$1,108,164	0	0	0	0	0	0	0	\$1,108,164
October	November	\$1,108,164	\$227	\$46,741	\$1,155,132	-\$37,597	-\$7,875	-\$13,728	-\$13,728	-\$74,602	-\$13,728	-\$74,602	\$1,141,404
November	December	\$1,141,404	\$945	\$100,084	\$1,242,432	\$0	\$0	-\$29,130	-\$29,130	-\$74,602	-\$29,130	-\$74,602	\$1,167,830
December	January	\$1,167,830	\$999	\$170,938	\$1,339,767	0	0	0	0	0	0	0	\$1,339,767
2004													
January	February	\$1,339,767	\$946	\$214,816	\$1,555,529	0	0	0	0	0	0	0	\$1,555,529
February	March	\$1,555,529	\$966	\$203,696	\$1,760,191	-\$122,849	-\$21,150	-\$24,227	-\$24,227	-\$168,226	-\$24,227	-\$168,226	\$1,591,965
March	April	\$1,591,965	\$1,055	\$151,796	\$1,744,816	0	0	0	0	0	0	0	\$1,744,816
April	May	\$1,744,816	\$1,800	\$106,078	\$1,852,694	-\$126,293	-\$21,600	-\$26,210	-\$26,210	-\$180,727	-\$26,210	-\$6,624	\$1,852,694
May	June	\$1,852,694	\$1,116	\$66,721	\$1,919,531	0	0	0	0	0	0	0	\$1,919,531
June	July	\$1,919,531	\$1,034	\$57,005	\$1,976,843	-\$84,549	-\$13,950	-\$25,218	-\$25,218	-\$149,302	-\$25,218	-\$5,045	\$1,796,843
July	August	\$1,796,843	\$2,999	\$43,728	\$1,843,570	-\$371,288	-\$64,575	-\$118,514	-\$118,514	-\$586,585	-\$64,575	-\$11,669	\$1,843,570
August	September	\$1,843,570	\$1,924	\$37,649	\$1,883,143	0	0	0	0	0	0	0	\$1,883,143
Total 2nd Year			\$13,753	\$1,236,925	\$1,250,678	(\$371,288)	(\$64,575)	(\$118,514)	(\$118,514)	(\$586,585)	(\$64,575)	(\$11,669)	\$1,733,841

NW Natural

Table 1
Second Annual Report
OLIEE (Oregon Low Income Energy Efficiency)
October 2002 through September 30 2005

2002-2003		Revenues			Expenditures				Ending Balance	
Billing Month	Transaction Month	Beginning Balance	Interest	Program Revenues	Total Revenues Balance	Rebates to CAP Agencies for Measures installed	Admin Payments to CAP Agencies	NW Natural Admin and Program Set up costs	Baseline Study and IT Enhancements	Total Expenditures
2002	October	\$0	\$13	\$44,852	\$44,865	0	0	0	0	44,865
	November	\$44,865	\$92	\$98,180	\$143,137	0	0	0	0	143,137
	December	\$143,137	\$181	\$135,547	\$278,865	0	0	0	0	278,865
2003	January									
	February	\$278,865	\$248	\$161,255	\$440,368	0	0	0	0	440,368
	March	\$440,368	\$395	\$138,457	\$579,220	0	0	0	0	579,220
	April	\$579,220	\$497	\$138,270	\$717,987	0	0	0	0	717,987
	May	\$717,987	\$512	\$106,745	\$825,244	0	0	0	0	825,244
	June	\$825,244	\$590	\$81,094	\$906,928	0	0	0	0	906,928
	July	\$906,928	\$574	\$48,165	\$955,668	0	0	0	0	955,668
	August	\$955,668	\$592	\$78,509	\$1,034,769	0	0	0	0	1,034,769
	September	\$1,034,769	\$579	\$34,401	\$1,069,749	0	0	0	0	1,069,749
Total 1st Year			\$4,274	\$1,065,475						1,069,749
2002 - 2004 TOTAL REVENUES			\$72,357	\$3,709,995	\$3,782,352					\$2,419,199
Total Expenditures										-1,363,152.95

Table 2

NW NATURAL’S INTERNAL CONTROLS FOR OLIEE

To provide assurance that NW Natural’s objectives are achieved. That OLIEE assets are well managed, to ensure reliable records, and to maintain an efficient operation that follows it policies, the following control procedures have been established:

1. **Authorization:** All OLIEE transactions and activities are properly authorized. OLIEE activities have been authorized by management and documented in NW Natural’s tariff and contracts with the Community Action Agencies
2. **Recording Transactions:** All OLIEE transactions are recorded to facilitate preparation of financial statements and to establish accountability for OLIEE assets. Program payments to the Community Action Agencies are entered into NW Natural’s Customer Information System as they are received. The payment request is forwarded to Accounting, which issues the check.
3. **Limited Access:** The OLIEE funds and processing systems are limited solely to NW Natural management’s authorized personnel. NW Natural’s billing, payment processing, treasury, and accounting systems are secured systems and are password protected.
4. **Periodic Independent Verification:** The OLIEE processing records are checked by a representative in NW Natural’s Accounting Dept. This representative is not responsible for the OLIEE funds.
5. **Separation of Duties:** The OLIEE organizational plan with in NW Natural separates functional responsibilities as follows:

RESPONSIBLE PARTY	DUTIES
Director Consumer Planning and Development	<ul style="list-style-type: none"> ▪ OLIEE Operations Manager
Program Manager	<ul style="list-style-type: none"> ▪ Program Administrator ▪ Allocates program funds to Agencies. ▪ Reviews and approves Agency’s documentation for reimbursement of energy efficient product implementation and administrative costs ▪ Prepares quarterly and year-end reports ▪ Reconciles monthly and year-end reports with General Ledger and Treasury ▪ Directs OLIEE Advisory Council Meetings ▪ Participates in OECA meetings
Legal	<ul style="list-style-type: none"> ▪ Drafts, reviews and approves OLIEE Vendor agreements

Accounting	<ul style="list-style-type: none"> ▪ Upon receipt of the approved documentation, issues rebate and admin checks to the agencies ▪ Provides program manager with general ledger reports to balance accounts
Finance Analyst	<ul style="list-style-type: none"> ▪ Provides Program manager with quarterly fund transaction report ▪ Manages monthly transfers from OLIEE accounts to reimburse NW Natural for rebate and admin checks issued to CAP agencies
Treasury	<ul style="list-style-type: none"> ▪ Manages OLIEE interest-bearing brokerage account and the transfer of OLIEE funds ▪ Authorizes transfers from OLIEE accounts to reimburse NW Natural
Independent Firm	<ul style="list-style-type: none"> ▪ Independent review of OLIEE Program

Table 3**2004-2005 CAP OLIEE Program Summary**

Number of homes served	337				
Average rebate and CAP admin per home	1943				
	Total job costs	Total rebates	Total jobs	Est. therms saved	Total sq ftg installed
Ceiling insulation <R-2	201,983	146,751	170	13,645	155,056
Ceiling Insulation <R-12	82,816	33,930	76	2,656	78,111
Wall Insulation	141,443	107,605	132	8,863	119,775
Floor Insulation	224,347	117,251	187	9,197	176,874
Duct Insulation	63,621	31,322	143	2,610	19,193
Infiltration	68,712	30,774	257	3,392	-
Duct Sealing	87,345	75,254	230	13,570	-
High Efficiency Furnace	90,047	26,731	40	2,440	-
Furnace Tune-up	19,567	9,394	127	2,667	-
TOTAL	979,881	579,012		59,041	-
Total CAP Admin Fee		75,825			
Total CAP Payments		654,837			

Table 4
OLIEE PROGRAM DELIVERY SYSTEM
 2004-2005 Program Year

The OLIEE program is delivered to NW Natural customers through 9 Community Action Agencies. These Agencies are bona fide Oregon nonprofit corporations or governmental agencies. In each case, these Agencies are contracting or subcontracting with the State of Oregon, Department of Housing and Community Services (OHCS), and are eligible to administer funding under the Federal Low Income Energy Assistance Program (LIEAP). The Community Action Agencies and the counties they served are listed below:

Agency	County(s) Served
Multnomah County Office of Schools and Community Partnership	Multnomah
Community Action Organization	Washington
Community Action Team	Clatsop, Columbia
Clackamas County Social Svcs. Div.	Clackamas
Community Services Consortium	Benton, Lincoln, Linn
Yamhill County Action Agency	Yamhill
Lane County Human Svcs. Commission Health & Human Services	Lane
Community Action Organization of Southwest Oregon	Coos Bay
Mid-Willamette Valley Community Action	Marion, Polk