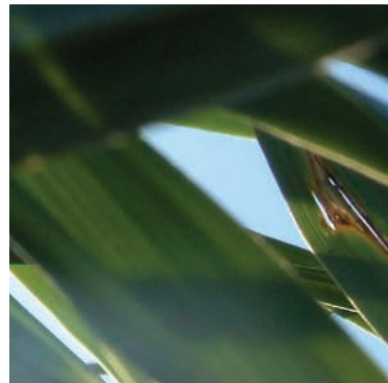
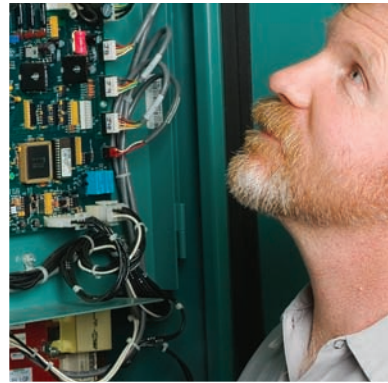


2005

ANNUAL REPORT



LETTER FROM THE EXECUTIVE DIRECTOR AND CHAIR

2005 marked the first year of the current five-year funding cycle for the Northwest Energy Efficiency Alliance. The voluntary funding contributions totaling \$20 million a year are made by the Bonneville Power Administration, the region's electric utilities and public benefits administrators. Under the Alliance, these funders join with the region's state governments, Northwest Power and Conservation Council, public interest groups and efficiency industry representatives to support regional market transformation. Market transformation works to encourage the development of new energy-efficient products and services and accelerate their acceptance in the marketplace.

Market change is what we're after and that takes time. But after nearly 10 years, we have seen the potential of market transformation to change the way Northwest consumers choose the products they buy and the way our region's businesses think about managing energy use.

RESIDENTIAL LIGHTING GAINS SOLID FOOTING

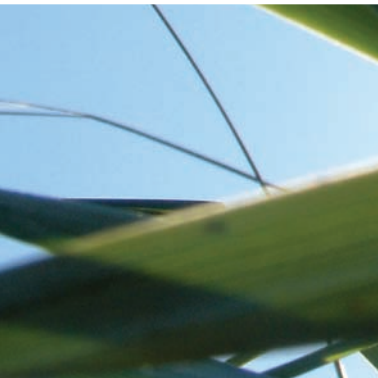
In 2005, we saw a number of examples of success in market transformation. The most stunning was in residential lighting where the regional sales of ENERGY STAR qualified compact fluorescent light bulbs increased by about a third from 2004 to 6.8 million bulbs purchased by consumers in 2005. This increase exceeded the goal of raising bulb sales by 1 million bulbs a year through 2009.

The increased sales are the culmination of a decade of dedicated efforts to bring CFLs into the mainstream residential lighting market. Through regional market transformation efforts focused on manufacturer and retailer relationship, local utility program efforts and coordination with national energy efficiency groups and quality testing programs, the Northwest's investments are now paying off. We see four times as many bulbs per capita being sold here as the national average.

STRATEGIC ENERGY MANAGEMENT GETS A NOD

Newer than ENERGY STAR qualified CFLs is the region's investment in promoting high performance commercial buildings through BetterBricks. The effort, which was approved in 2005 for continued funding by the Alliance Board of Directors, is focusing on specific markets including hospitals and healthcare, grocery stores and eventually commercial office buildings.

Most notably in 2005, Providence Health Systems and Providence Health Care formally adopted a strategic





NORTHWEST ENERGY STAR

We definitely benefit from the regional publicity and marketing support the Alliance provides.”

—Betsy Pahut, customer education and outreach specialist, NorthWestern Energy, Butte, Montana

Energy-saving lighting, appliances and new homes are the focus of the region’s market transformation efforts in the residential sector. While each effort is different with unique strategies at work to bring market change that will favor energy-efficient versions of each of these products, they all build off the value and recognition offered by the ENERGY STAR label.

ENERGY STAR is the national symbol for energy efficiency and part of a program run jointly by the U.S. Department of Energy and the Environmental Protection Agency.

RESIDENTIAL LIGHTING BEARS FRUIT

For many years now, entities in the Northwest have worked to bring ENERGY STAR qualified compact fluorescent light bulbs (CFLs) to the Northwest market. The most recent evaluation report on the ENERGY STAR Consumer Products program indicates that this effort is paying off.

Market share of compact fluorescent bulbs in the Northwest is about 14% and the Northwest sells four times more qualified bulbs per capita than the national average. More importantly though, was the finding that 80% of the people who have purchased CFLs in the past intend to replace them with a qualified product, an indicator of sustained market share into the future.

A NEW TWIST ON SAVINGS

In 2005, about 6.8 million CFLs were sold in the Northwest. More than 880,000 of those were purchased during a regionally coordinated promotion called Savings With a Twist. The five-month campaign worked with manufacturers to obtain low promotional pricing for qualified

products. The price cuts kept per unit costs down and spurred sales to the point where some retailers couldn’t keep CFLs in stock.

This was truly a regional effort. In all, seven utilities, five manufacturers, 800 retail locations and 15 retail chains in the region participated. In addition, five new retail relationships were established, expanding product placement into new markets and introducing quality products to new consumers.

CLOTHES WASHER MARKET SHARE CONTINUES TO LEAD THE NATION

The sale of ENERGY STAR qualified resource efficient clothes washers continued to be high in the Northwest in 2005, about 10 percentage points higher than the national average of 33%. Most recent program efforts have focused on raising the bar for efficiency standards in clothes washers and promoting higher efficiency machines with a modified energy factor (MEF) of at least 1.8 to Northwest consumers. MEF is a measure that compares relative energy efficiency of clothes washer models. A recent survey indicated that of the washers sold in the region during 2005, about 60% met the higher MEF.

RAISING THE BAR ON NATIONAL SPECIFICATIONS

In 2005, Alliance and Consortium for Energy Efficiency staff, along with others, negotiated for an improved ENERGY STAR specification for clothes washers to go into effect in 2007, including an MEF level of 1.8 or better and water factor of less than 7.5. Water factor measures the amount of water used during a wash cycle.

Energy Code Support

Upgraded state and federal energy codes allow efficiency improvements in technologies and building techniques, which become widely practiced, to be locked into place. Regional market transformation efforts focus on adoption of improved codes as well as training and technical support to help educate code officials and builders on ways to best enforce and comply with new codes.

While improvements to energy codes do not by themselves make typical buildings or equipment more energy efficient, they do improve the average efficiency of the stock by prohibiting the use of more inefficient practices and models.

A recent evaluation report attributes 2.95 average megawatts (aMW) of electricity savings during 2005 to regional market transformation efforts related to energy codes. These efforts were undertaken by the Alliance along with state, utility and public benefits entities. In 2005, highlights included:

- Changes made to the Washington State Energy Code in 2004 became effective in July 2005.
- In Washington and Idaho, site trainings with building officials were completed in 16 and 14 jurisdictions, respectively.
- A two-year training program in Oregon to educate over 300 people on the state's recently adopted energy code upgrade was completed.
- The 2003 International Energy Conservation Code, which was adopted in Montana in 2004, continued to be implemented in 2005.
- Finally, the Northwest Energy Code Group proposed 14 improvements to the International Code Council. Ten of those proposals were accepted and will be incorporated into the International Conservation Code series in 2006.



The Department of Energy's recently announced specification fell short of our goal with an MEF of at least 1.72 and water factor of less than 8.0, however this is the first time water has been included in the specification.

ENERGY STAR NEW HOMES BUILDS ON INFRASTRUCTURE

2005 was the second full year of implementation for the ENERGY STAR New Homes program and work centered on expanding the infrastructure necessary to support the effort. While the program started out more slowly than initially anticipated, progress is being made.

During the year, 205 builders signed on committing to build at least a portion of their homes to the Northwest ENERGY STAR specification, bringing the total number of builders on board to 337. Of those, 101 have said they will build 100% of their homes to ENERGY STAR standards. In all, 988 homes were certified during 2005.

During the year, the program also trained 69 new duct testers and 30 additional verifiers to inspect houses once they're constructed bringing the total of qualified inspectors to 131 and 80, respectively.

Builders are beginning to see the value of participating in the program. The most recent market progress evaluation report on the program found that 40% of participating builders interviewed listed the ENERGY STAR name as one of the biggest advantages to participating in the program.

Coordination on the program in the region has been strong with 80 utilities providing various levels of support for ENERGY STAR homes. Twenty-three are offering incentives for the whole house and 75 for components.



BETTERBRICKS

“BetterBrick’s involvement assisted me in sharpening our long-standing energy management plan into a high performance hospital strategic energy management plan that has yielded record operational cost savings over the past two years.”

—Richard Beam, director, energy management services, Providence Health Services, Seattle, Washington

In 2005, BetterBricks, the Northwest’s market transformation initiative for the commercial sector, was renewed for funding through 2009 by the Northwest Energy Efficiency Alliance’s Board of Directors. BetterBricks works to promote high performance building in the region including practices such as integrated design, daylighting and efficient building operations.

The effort is focused on specific markets including hospitals and healthcare, grocery and office buildings. In addition, BetterBricks has built relationships with the region’s design and construction and building operations trade allies to help develop the support, tools and training needed to ensure architects and building service companies can deliver high performance buildings.

Changing business practices among these target audiences is the aim of BetterBricks. Program staff work with business decision makers and operations managers to encourage them to think differently about energy management. This shift in thinking is further supported by the network of trade allies specializing in high performance building services and related utility energy efficiency programs and services.

DAYLIGHTING IS A LEADING PRACTICE

In 2005, BetterBricks opened its sixth design lab at the University of Montana in Bozeman. This facility along with the others located in Eugene, Portland, Seattle, Spokane and Boise are part of a network that has made the Northwest a national leader in daylighting and integrated design. Daylighting does not simply mean more windows, but is a design practice that allows the sun’s natural light to permeate deep within a building.

BUILDING PERFORMANCE TESTING IDENTIFIES POTENTIAL

In addition to high performance design practices, ongoing building operations are a key area of focus for BetterBricks. Over 20 commercial buildings participated in Building Performance Services tests in 2005. These tests were sponsored by utilities in the Puget Sound area and the Energy Trust of Oregon and conducted by service companies including McKinstry Company, Siemens Building Technologies, Trane and Control Contractors, Inc.

All the buildings that went through diagnostic testing in Puget Sound-area and Oregon had energy savings opportunities ranging from 6% to 15% of annual usage. Most building owners are following through with their electric utilities and service providers to capture the energy savings identified. BetterBricks will continue to build on the information collected through the tests to develop further tools and information needed to help trade allies provide high performance building operations services.

CONNECTING WITH DECISION MAKERS

Much of 2005 was spent establishing relationships with leaders in the hospital/healthcare and grocery markets. Market specialists met with representatives from companies such as Providence Health System and Providence Health Care (regional), Kalispell Regional Medical Center (Montana), St. Luke’s (Idaho), Yokes Fresh Market (Washington/Idaho), and Albertsons (regional) to lay out the business case for strategic energy management and encourage adoption of practices favoring energy efficiency.

These efforts are at varying stages of progress, but most notably Providence Health System has formally



80 PLUS

80 PLUS is a national program working to improve efficiencies of power supplies in personal computers (PCs) and PC-derived servers. The effort, which is supported in the Northwest through a regional market transformation program managed by the Alliance, is expected to save 8.5 million kilowatt-hours of electricity annually in the Northwest.

Nationally, 11 electric utilities and energy efficiency organizations, including the Alliance, have signed on as sponsors of 80 PLUS. Ten system integrators are participants and 12 power supply manufacturers have qualified over 30 models so far. In 2005, computer supplier Alden Associates in Seattle, became the first manufacturer to make 80 PLUS products commercially available when it delivered 160 qualifying PCs to Seattle-area schools.

In addition, in 2005, 80 PLUS became a requirement in the Environmental Protection Agency's first revision of the desktop computer specification to address active mode energy consumption. The specification if it becomes final is expected to go into effect in 2007 and could be the factor that transforms the market in favor of 80 PLUS power supplies. Currently 98% of computers now qualify for the ENERGY STAR label. Rather than losing the right to use the mark, it's likely that manufacturers will begin incorporating the energy-saving device into new machines.

adopted a strategic energy management plan and energy efficiency requirements are now included in their capital budgeting process.

HIGH PERFORMANCE CLASSROOM BUILT

In 2005, BetterBricks helped fund the construction and study of a full-size high performance classroom prototype built in Mt. Angel, Oregon. The modeled savings are as much as 70% better than current Oregon code without significant additional construction cost.

Oregon school district officials, architecture and engineering firms and others toured the facility and the information gathered through the project has been used to further educate school officials on how the tested concepts could be integrated into new school construction.

Efforts to support high performance building practices in schools and other building types are further reinforced through BetterBricks education and training workshops, roundtables and brown bag sessions. In 2005, 93 events were held across the region with over 1,800 attendees.

BETTERBRICKS AWARDS HIGHLIGHT LEADERS

Leaders in high performance building were honored in 2005 with continuing BetterBricks awards events. The award celebrated its first year in the Puget Sound area last fall. They were also held for a third year in Portland/Southwest Washington and a second year in Idaho. The award recognizes commercial building professionals and others who have demonstrated excellence in high performance building practices that have resulted in energy savings, reduced building operation and maintenance costs, and enhanced productivity of building occupants.

INDUSTRIAL EFFICIENCY ALLIANCE

“Energy efficiency is far more than a series of projects . . . it’s a way of thinking and changing our behavior about energy business decisions we make.”

—Pat Loupin, technology resource manager, Boise Cascade, St. Helens, Oregon

The regional market transformation effort in the industrial sector was officially launched in April 2005 and is currently focused on the food processing and pulp and paper industries. The initiative, called the Industrial Efficiency Alliance (IEA), fosters energy-efficient business practices by helping Northwest industries use energy more efficiently in their day-to-day operations.

In addition, IEA is establishing relationships with trade allies offering services in compressed air, pumps, motors and refrigeration. The intent is to transform the market for industrial equipment and services so that trade allies develop and deliver energy-efficient, systems-oriented products and services to their industrial customers.

DEVELOPING AN INFRASTRUCTURE

IEA is focused on both the food processing and pulp and paper industries because they are intensive energy users in the Northwest and because market analysis indicates they are both likely to be open to opportunities presented by improved energy management.

Much of 2005 was spent laying the foundation for the Industrial Efficiency Alliance’s efforts, including building relationships with executives at targeted companies and with trade allies and developing a training program and best practices standards for the various systems technologies.

In addition, IEA has also been working with the Bonneville Power Administration (BPA), local electric utilities, state agencies and others to develop coordinated strategies for approaching industrial customers both at the corporate level, as well as at site-specific facilities. This coordination allows the various programs and incentives

to be offered as seamless opportunities for the industrial customer without forcing them to wade through the who’s who of the Northwest energy efficiency industry. The aim is to affect changes in business practices favoring Continuous Energy Improvement, IEA’s process that dovetails with productivity, safety and environmental improvement processes that many companies already have in place.

Energy assessments, using a management diagnostic process for energy practices called EnVINTA One-2-Five, were conducted with a number of companies around the region including New Season Foods, Henningsen Cold Storage, Basic American Foods, Boise Cascade, Smurfit-Stone and Potlatch. This assessment is the first step in the process to establish Continuous Energy Improvement.

TRAINING TAKES OFF

Over 600 pulp and paper, food processing and supporting service industry employees attended IEA trainings last year. A regional collaborative of the BPA, local electric utilities, industry trade associations and trade allies supported and sponsored these events. Session topics varied and included new courses developed by IEA such as:

INDUSTRIAL PUMP SYSTEMS 101: An Introduction to Energy Efficiency curriculum developed by internationally recognized pump industry experts and premiered in Longview, Washington, in partnership with Cowlitz County Public Utility District.

INDUSTRIAL COMPRESSED AIR SYSTEMS: SHOP FLOOR AIR TRAINING curriculum developed by internationally recognized compressed air industry



experts and piloted for shop floor operators at Weyerhaeuser's Cottage Grove plant.

ENERGY EFFICIENCY AWARENESS TRAINING for plant employees is under development and being piloted.

In addition, an on-line Regional Industrial Training Calendar was developed in 2005 offering IEA trainings and other education opportunities developed by the U.S. Department of Energy, utilities, trade associations, educational institutions and state agencies.

A BEST PRACTICES APPROACH

In 2005, an *Industrial Refrigeration Best Practices Guide* was developed through a collaborative process with industry and Cascade Engineering, an IEA contractor. The Refrigerating Engineers & Technicians Association (RETA) has since adopted the guide to use for training and reference purposes and distributed over 500 copies. RETA is the only organization in the country dedicated to the professional development of industrial refrigeration operators and technicians.

A second best practices guide on compressed air is currently under development in partnership with industry experts and staff at Tacoma Power.

Distribution Efficiency Initiative

Northwest utilities continue to work with their customers to help them use energy more efficiently, but they are also now looking at what they can do on their own side of the meter to deliver energy to their customers more efficiently through capital improvements and operational changes to the distribution system.

Under a regional market transformation effort, called the Distribution Efficiency Initiative, 15 utilities are participating in tests to determine how much energy could be saved, at what cost, and how to best capture the savings.

The purpose is to determine the energy savings associated with effectively managing the typical operating voltage range of 120 to 125 volts to between 118 to 122 volts. The minimum voltage required by the American National Standards Institute (ANSI) is 114 volts. A 1987 study conducted by the Bonneville Power Administration showed about 250 average megawatts could be saved through conservation voltage regulation (CVR) and other distribution system efficiency and operational measures.

The initiative kicked into gear in 2005 when 500 Northwest homes were outfitted with an on-site voltage regulation (OVR) device next to the electric meter. In addition, participating utilities are regulating voltage at selected substations and investing in other distribution system enhancements to regulate voltage at lower end of the allowable delivery range. Initial findings are expected to be available in 2006.



FINANCIAL SUMMARY

Statement of Financial Position

December 31, 2005 (audited)

Assets

Cash.....	\$6,830,588
Funder Receivables	\$741,052
Other Assets.....	\$216,896
TOTAL ASSETS	<u>\$7,788,536</u>

Liabilities & Fund Balance

Liabilities.....	\$3,987,151
Fund Balance.....	\$3,801,385
TOTAL LIABILITIES & FUND BALANCE	<u>\$7,788,536</u>

Statement of Activities

Year end December 31, 2005

Revenues

Contributions.....	\$17,943,584
Interest Income.....	\$254,180
Contract Revenues.....	\$119,275
TOTAL REVENUE.....	<u>\$18,317,039</u>

Expenses

Project Costs	\$19,282,804
General Operations	\$1,580,179
TOTAL EXPENSES	<u>\$20,862,983</u>

Change in Net Assets <\$2,545,944>



**ALLIANCE
BOARD
AND
EXECUTIVE
DIRECTOR**

(as of June 2006)



Margaret Gardner, Executive Director
Northwest Energy Efficiency Alliance

Lynn Anderson
Idaho Public Utilities Commission

Jim Baggs
Idaho Power Company

Richard Beam
Consumer Representative, Providence Health System

C. Norman Beckert
Consumer Representative

Larry Blaufus, Treasurer
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**NORTHWEST
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The Northwest Energy Efficiency Alliance is a non-profit corporation supported by Bonneville Power Administration, electric utilities, public benefits administrators, state governments, public interest groups and energy efficiency industry representatives. These entities work together to make affordable, energy-efficient products and services available in the marketplace.

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