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WA-18

## Manager's Message

This past week, the board authorized PUD staff to sign contracts to begin producing and selling renewable natural gas, which is currently used to generate electricity at the landfill in Roosevelt. With current and forecasted market prices for renewable electricity, there is more value selling the renewable fuel than using it for power generation.

Why? Electric generation facilities that use fossil fuels such as natural gas are efficient. However, internal combustion engines are inefficient, which results in more emissions for the amount of fuel burned. As a result, when renewable natural gas is used to replace diesel fuel or gasoline, there is significantly more environmental benefit and value for the product.

The challenge we face is that with current electric market values, the existing generation facility contributes about \$1 million to the PUD after the cost of operating. This position is unlikely to substantially improve over time. Three years ago, the board saw this challenge coming. It directed PUD staff to investigate ways to find more value from the LFG project and lower the risk we have in selling our electricity in the markets.

Since then, we have talked with more than 80 companies, discussed potential sales and partnership ideas with 23 entities, and had contract-level discussions with four companies. This was done before finding an arrangement that provided the value and financial security we sought. We also investigated closing, selling or leasing the facility and underlying gas rights. After months of analysis and negotiation, we ultimately completed contracts with IGI Resources.

The contracts provide for a guaranteed, fixed revenue stream for about 60 percent of the gas we sell them. This will provide consistent revenue to cover our operating costs and new debt repayment. Additional revenue will come from selling IGI the rest of the gas at market prices. This is expected to provide anywhere from \$1 million to \$12 million a year. This is a large improvement in our financial situation and long-term rates. To put these revenues in perspective, our total electric rate revenues are about \$30 million a year.

The agreements reached with IGI Resources and its parent company, British Petroleum North America, provide for a payment guaranty of \$45 million. This will allow the PUD to borrow \$35 million to build the facilities needed to further clean the gas and deliver it to a natural gas pipeline. Using a portion of the fixed revenue stream, the PUD will repay this loan within five years.

Design work is underway, financing is in place and construction is expected to be completed in mid-2018. The existing facility will continue to generate electricity until the conversion is made.

I am really excited about the positive impacts this project will have on our utility and our ability to provide low-cost, reliable electric service in the future.

For further details, please see our website, [www.klickitatpud.com](http://www.klickitatpud.com), and look for Renewable Natural Gas or RNG.

**Jim Smith**  
**General Manager**