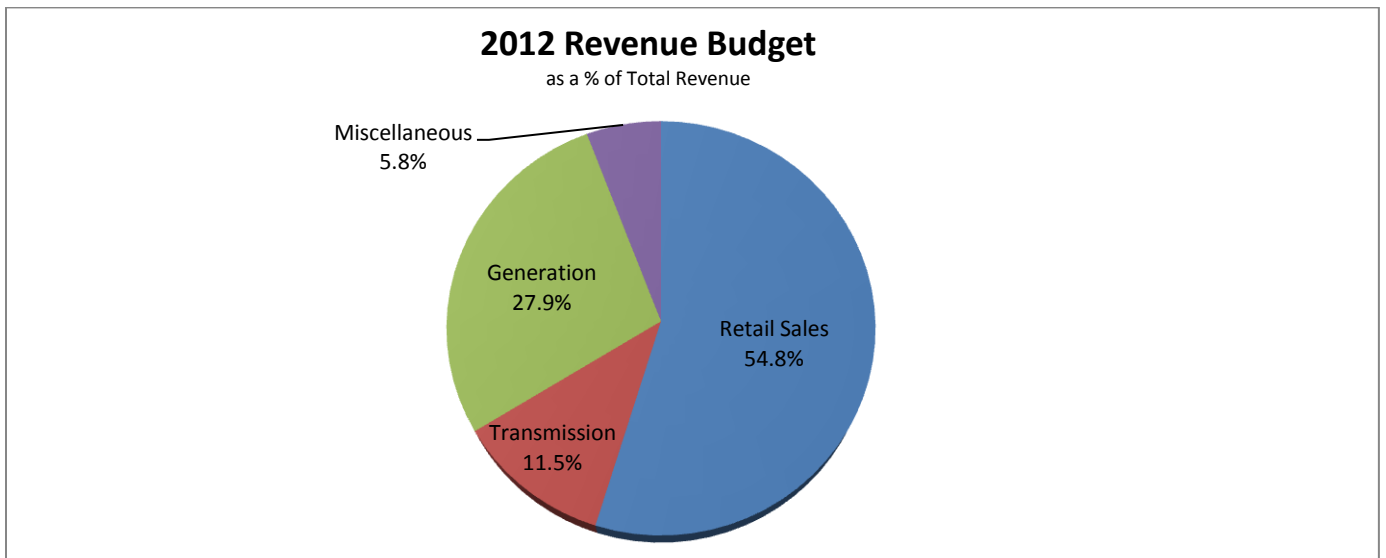
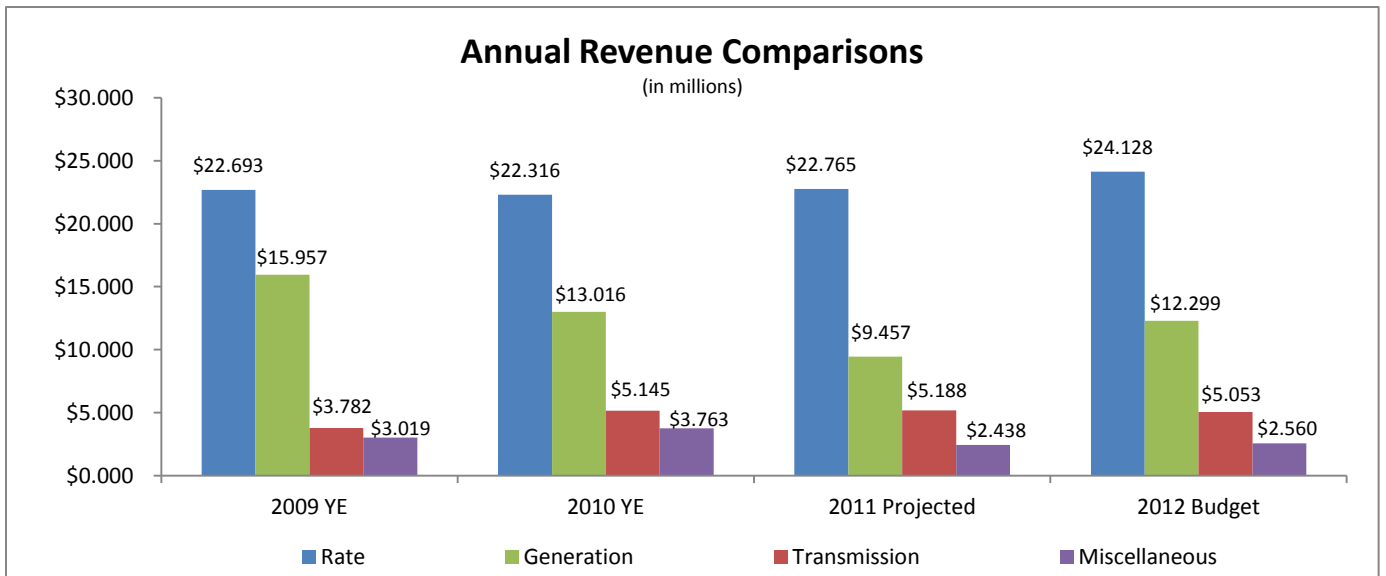


## 2012 Financial Outlook

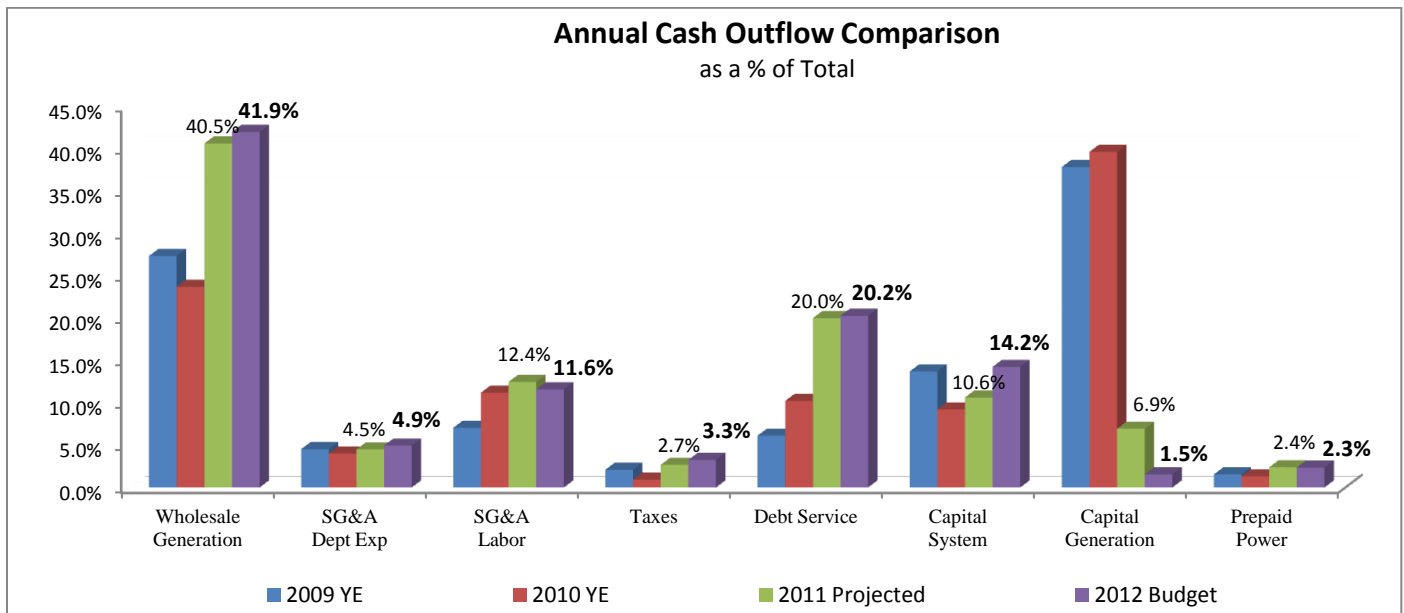
On December 13, 2011 the Public Utility District No. 1 of Klickitat County Board of Commissioners held a public hearing and approved the 2012 Operating Budget. The upcoming budget could potentially be one of the most challenging plans we have had to manage to, as the utility is faced with many factors to overcome throughout the year. With the continued downturn in the economy, inflation pressures and a continued decline in surplus power sales prices, PUD staff has had to take a hard look into many areas and make some difficult budgetary decisions for 2012. In the end, the budget that was presented to the commissioners was one that was well thought out and streamlined in regards to the overall spending of utility funds.

From a revenue standpoint, the districts primary source of revenue continues to be from retail rates (as seen from the charts below), accounting for 54.8% of the total revenue in 2012. Generation Revenues continue to gradually take on more of the district's total revenue and is budgeted to be 27.9% for 2012. As output from the HW Hill Landfill Gas project grows, Generation Revenue will continue to diversify your utility's revenue stream, which should reduce the impacts of BPA cost increases in the future. In 2012, Generation Revenue will increase 30.0% due to the additional megawatts being produced at the HW Hill plant, which are forecast to be an average of 18 megawatts (aMW). This additional generation will help offset the decline the district experienced in its wind generation revenues when a major electricity sales contract for the White Creek Wind project expired in April 2011. Due to low wholesale power prices, the district experienced a 61.5% decrease in the price that it received for the sale of its wind energy. In October 2011, the district implemented a 9.8% rate increase which will be fully recognized in 2012. This rate increase was implemented to help offset declining wholesale revenues and power cost increases from Bonneville.



With 2012 revenues budgeted for the same levels as 2010, the PUD staff spent a significant amount of time analyzing all of its costs to determine areas that could be cut or deferred to future years in order to decrease expenses. Part of the challenge was offsetting an increase in debt service payments that started in 2011 (as seen in the chart below). Through this process the staff identified some areas to defer for the upcoming year, such as pole testing, the college student summer program, salary increases through March, decreases in travel and training along with many items within each department. There are many items that management felt could be deferred for at least a year to help reduce costs without causing significant short term impacts to the utility and its customers.

Over the past several years, the utility has been heavily involved in expanding the HW Hill Landfill gas project and as the project reaches completion, capital system improvement expenditures will decrease significantly (as seen in the chart below under capital generation). However, we also know and understand that deferring capital improvements can only last for so long or we will start to see increased reliability issues and increased operations and maintenance costs. As a result, we will layer back in some of these capital system improvement items in future years.



In 2011, the PUD utilized a portion of its rate stabilization reserve fund in order to meet its debt service coverage ratio requirements. This was mainly due to the delay of the Landfill Gas project and the lower whole sale revenues in general. During the budgeting process, staff and the board of commissioners made the decision to put a plan together to increase this ratio starting in 2012. In order to accomplish this, there will be continued efforts on monitoring expenses and a continued focus on improving operational efficiency in all areas of the utility.

Shannon Crocker  
Chief Financial Officer