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Your PUD Update

I am frequently asked about Klickitat PUD's debt levels, often from those with the belief the levels are too high.

They are definitely higher than we want. And, since that is the case, one can reasonably question what we plan to do about it and how we will measure progress.

Last fall, Klickitat PUD commissioners and managers finished updating our strategic plan. The plan is intended to provide direction and overarching policies to your PUD management and staff. We believe we are at the point where debt reduction can be a major focus. We have spent many years working on our costs and building our revenue side with the commercial operation of the HW Hill RNG facility. We believe we can now start to address our debt load.

We look at debt in three ways: actual debt, leverage ratio and the impact of debt repayment on our rates.

Klickitat PUD's actual debt today is about $160 million. We plan to repay a minimum of $12 million a year on this debt over the next five years. That would leave us with $100 million in debt by 2023.

The leverage ratio is a measure of the amount of debt relative to the amount of assets. Our total assets before depreciation are about $400 million. Given that our total long-term debt—including the new RNG facility—is about $160 million, that is a leverage ratio of 40 percent. Another way to look at it is that we have a $160 million mortgage on $400 million worth of property and equipment.

Lastly, the cost-to-service debt paid by rates is about $10 million a year, or about 30 percent of electric rate revenue. Our strategic goal is to reduce the impact of debt on our rates by reducing that debt over time to $60 million.

You will note that we intend to repay a minimum $12 million annually for each of the next five years. We believe we can exceed this repayment rate, and the board has challenged us to reduce our debt by a further $40 million in that time frame. That means our goal is to reduce the debt level down to $60 million in the next five years. We believe this will allow us to lower our rates relative to other Washington electric utilities.

I am happy with our progress the past 10 years. I think we have made significant improvements in our business risk models, which means a more stable rate forecast for the utility. I look forward to what we can deliver to you as our customers in the coming years.

Jim Smith
General Manager