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WA-18

Determining Strategic Goals

This month, I want to talk about some strategic planning we have done the past two years.

In 2013, we established a strategic direction to re-evaluate all areas of our business that create revenues. We were concerned the markets for our surplus electric energy could remain low for an extended period of time. That situation could hurt our financial strength if we did not react.

We looked at each generation asset: H.W. Hill landfill gas generation, McNary fish attraction hydro project, Packwood hydro project and the White Creek wind project. Then we evaluated alternatives—from longer-term power sales to operating them differently to selling some of the assets.

During this review, it became apparent the largest potential we had was with our H.W. Hill landfill gas generation project. The project is considered renewable in Washington, Oregon and California.

In July 2014, Congress implemented a change in the Federal Renewable Fuel Standard (RFS). This is the program that drove the 10 percent ethanol you see in our gasoline at the pumps.

In the RFS program, landfill gas is recognized as renewable natural gas (RNG), and is one of the cleanest and most valuable transportation fuels available. The change last year further increased the potential value of landfill gas.

Since that change last year, we have explored options to further clean the methane gas captured in the landfill in Roosevelt, inject it into the pipeline system and sell it as a transportation fuel. Given the current markets, this

could considerably increase the value of the gas collected at the landfill.

If we used the RNG as a transportation fuel, we could potentially use the existing generators at the site to provide capacity, ramp capacity and other ancillary electric services, and further increase the value of this renewable resource.

We would continue to capture and maximize the landfill gas, but how we use it would change from what is now seen as normal. But that is the point.

We continue to evaluate opportunities to find more value for our ratepayers as markets change. I will provide more information to you on how this might affect us if we reach the right business arrangement with one of the parties with whom we are talking.

The current direction is that your PUD would bring the gas rights, most of the infrastructure and the experienced operations staff. The potential business partner would bring the necessary capital and construction, and buy the renewable natural gas and associated environmental attributes.

The strategic goal here is to find ways to increase the value we receive from our resources—as well as the value we expect in the future—and, at the same time, reduce our exposure to markets with longer-term product sales contracts.



Jim Smith
General Manager