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Flexibility and Complexity Provide Value

In previous articles, we have covered the changes at Klickitat PUD during the past 10 years, including all of the resource investments. It's time to pull all of this together to provide an understanding of how these investments have created flexibility that ultimately provides value to you, the customer.

There soon will be a transition in how electricity from the federal hydro system is allocated in the Northwest.

Due to the hydro system at near capacity, BPA has determined a two-tier rate structure. The transition will begin on October 1, 2011, when the Bonneville Power Administration (BPA) will no longer be required to provide all of the energy necessary to meet KPUD loads at the current low-cost rates. This is referred to as being above the "high water mark," a term used by BPA to designate the allocation of the federal system.

KPUD has a couple of options for managing our load increases: procuring electricity from nonfederal resources at market prices, or use the many KPUD assets, consisting of energy produced from the landfill gas project, the McNary and Packwood hydro projects and the White Creek wind farm.

During power product evaluation in 2008, KPUD was given the choice to continue with a load-following contract, rigid in integrating tier 2, or a contract with more flexibility that allows easier integration through an hourly slice of

the BPA system output. KPUD chose a slice/block contract with BPA to provide KPUD a monthly block of energy. The slice/block option is the best tool for KPUD staff to be able to integrate non-federal power into our system.

The Power Management Department's role here at KPUD is to create value from this flexibility by managing a diverse set of assets. This will ensure KPUD has plenty of energy available to serve its customers' load. We will do this by using the least cost resources for our load, and marketing our green generation. Each morning, KPUD must provide an hourly schedule of loads and generation to BPA staff detailing the next day's delivery. KPUD is poised to be flexible and will continue to provide value during this time.

Initiative 937 is a state renewable energy requirement. At this time, KPUD is exempt from the renewable energy requirements of I-937 because its customer base falls short of the minimum for compliance. Therefore, KPUD is able to demand a premium for the renewable energy it produces, bundling the attributes of the energy for larger utilities to meet the initiative's requirements.

All of this boils down to KPUD trying to keep rates stable as we begin to integrate market-based resources that typically trade at a 100-percent increase above BPA pricing. KPUD has accumulated the pieces that provide the most flexibility and the staff feels this complexity will yield the value we will require for the customers.

Greg Gallagher, Power Manager

