

KPUD 2011 Budget Analysis

Diversity helps revenue portfolio grow, but rate pressure and weak economy bring change

For the past several months, Klickitat PUD staff has worked on developing the 2011 budget and pulled together a plan that looks out for the best interests of the utility and its customers.

There is no doubt 2011 will be a challenging year, with the economic downturn still looming and continued cost pressures we all are facing. Many of you have experienced this first hand, and KPUD is not immune to these forces, either.

KPUD has experienced decreased revenues, increased material and fuel costs, tax increases and increased health care costs. The utility also has been notified by the Bonneville Power Administration that it will face an 8.3-percent rate increase in its wholesale power purchases in 2011.

On December 14, 2010, KPUD commissioners held a public hearing and approved the 2011 budget. Below is a summary of what was presented and approved. As you can see from the charts and graphs below, revenues are projected to be down 11.7 percent compared with the 2010 budget.

Even with a proposed rate increase of 6 percent to help

partially offset the BPA power cost increase, starting in October 2011, generation revenues are falling 20.5 percent, which is hard to offset in a short period.

Generation revenues are affected by continued falling market prices that affect new and expiring power sale contracts for both the White Creek wind project and the H.W. Hill Landfill Gas project.

KPUD's revenue portfolio continues to grow stronger as it diversifies (as shown below in the pie chart) with its basic electric rate revenues still making up the largest portion at 48.2 percent. The largest single electric rate component is residential rates at 23.9 percent. However, generation revenue is now a huge component to KPUD's revenues at 36.8 percent. This will continue to increase as the landfill gas plant grows.

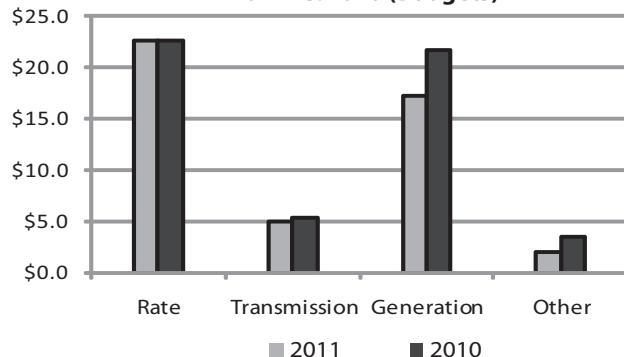
Due to the forecasted decrease in revenues, KPUD recognized the need to reduce expenses. Staff has done considerable work and proposed an 8.4-percent decrease in expenses for 2011 compared with the 2010 budget.

Klickitat PUD Budget Revenue

2011 vs. 2010
(in millions)

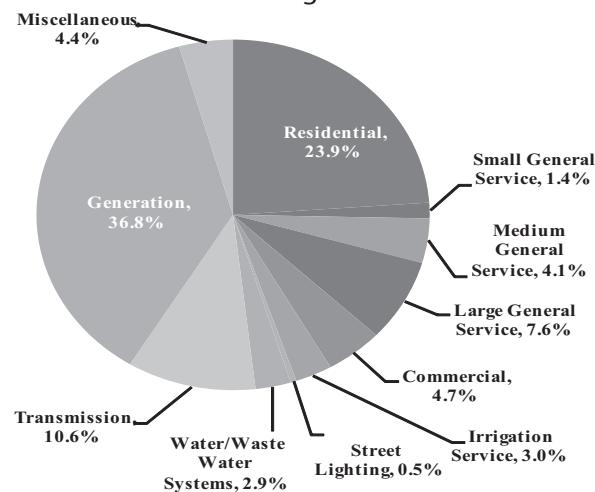
Revenue			
Description	2011	2010	Variance
Rate	\$ 22.621	\$ 22.575	0.2%
Transmission	\$ 4.983	\$ 5.336	-6.6%
Generation	\$ 17.267	\$ 21.712	-20.5%
Other	\$ 2.081	\$ 3.560	-41.5%
Total Revenue	\$ 46.952	\$ 53.183	-11.7%

Revenue
2011 vs. 2010 (Budgets)



Revenue Allocation

2011 Budget



Along with the focus on reducing operating expenses, capital spending was another main area of focus. KPUD's fleet was looked at extensively. Miles and hours currently used as guidelines for vehicle replacement will be extended. Time also was spent looking at KPUD's long-range plan, and adjustment were made to key areas of focus during the next couple of years.

As a result, decisions were made to push several projects into the future, when KPUD's cash flow is expected to see a more positive impact from the landfill gas plant.

During the past couple of years, KPUD has invested considerable time and money in the expansion of the landfill gas project. The implementation of this project, over time, should prove to be a great source of net revenues for KPUD and continue to help diversify the district's revenue stream.

However, as with any new plant, there is a period of time of growing pains. Many new processes must be learned as we embark on this new generating resource. Much of the potential for this plant comes from the Washington State Renewable Portfolio Standards. These standards require many Washington PUDs to meet a certain percentage of their power through a green energy source.

Similar requirements are in place in other states as well,

the most significant of which is California. This is expected to increase demand for green power, such as the landfill gas generation project, which will increase the value of this project and provide a positive impact to the bottom line and cash flow of KPUD.

KPUD has taken a conservative approach to its budgeting methodologies for 2011 and has spent time looking at many scenarios.

The 2011 budget that was presented and approved by the board reflects our best estimates for 2011 based on the information known at the time.

As has been discussed in recent Ruralite articles, there are many unknowns as we approach 2011, such our changing BPA power supply contract and the changing electricity markets. As a result, your KPUD staff has been proactive in preparing financial models that allow flexibility in providing the board changing forecasts so KPUD can be assured it adjusts the budgets and expenditures as required.

We look forward to a challenging and rewarding year in 2011. ■

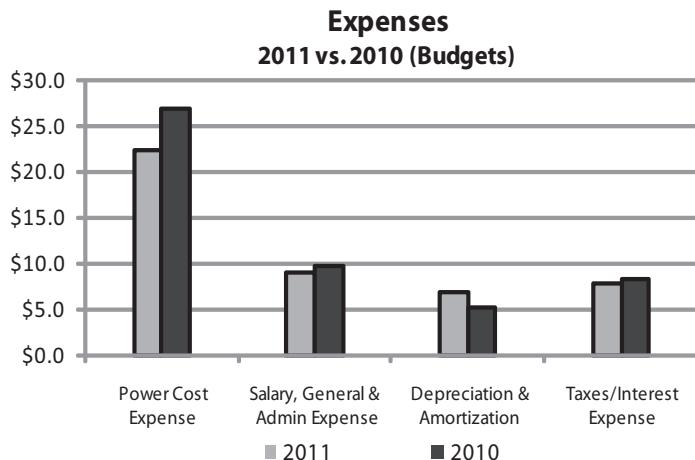
This report was prepared by Klickitat PUD General Manager Jim Smith and Chief Financial Officer Shannon Crocker.

Klickitat PUD Budget

Expenses

2011 vs. 2010
(in millions)

Expenses			
Description	2011	2010	Variance
Power Cost Expense	\$ 22.376	\$ 26.936	-16.9%
Salary, General & Admin Expense	\$ 8.983	\$ 9.714	-7.5%
Depreciation & Amortization	\$ 6.788	\$ 5.174	31.2%
Taxes/Interest Expense	\$ 7.733	\$ 8.283	-6.6%
Total Expenses	\$ 45.880	\$ 50.107	-8.4%



Expense Allocation

2011 Budget

