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WA-18

Talking Points: Rates and Projects

I would like to share a few talking points with those of you who have not attended public service group meetings or the various Chamber of Commerce or community meetings when we have been talking.

What Everyone Wants to Know: Electric Rates

Bonneville Power Administration raised our rates 8 percent October 1, 2011, and we, in turn, raised electric rates 9.8 percent. This was our first rate increase since 2003, despite BPA power costs increasing 70 percent in the same period.

We have no rate increase planned for this year, but being only two months into the year, it's too early to be certain.

Our 2011 budgeted revenues and expenses were about \$47 million. Year-end revenues were down to \$40 million. We adjusted our expenses accordingly, but we still used about \$1.3 million in rate stabilization funds to meet financial targets. This is a reserve fund we keep to help stabilize rates.

Our 2012 budget is \$44 million. We expect things to be very tight. Impacts from the January storm might affect our budget even further.

To put this storm into perspective, we anticipated the 9.8-percent electric rate adjustment to increase our revenues about \$2 million. We spent just under \$2 million in 10 days during the storm. We are working with Federal Emergency Management Agency and hope to recover 75 percent of those costs.

What makes things tight for us?

- The current poor economic climate continues to affect our revenues.
- The electric power markets are still low, which decreases revenues from our generation projects.

- Natural gas markets are also low, and the California electricity market regulatory environment is unstable.

This all creates uncertainty, which leads to lower revenues from our surplus sales. As a result, we are trying to manage our business very conservatively:

- We have kept our annual operations and maintenance budget and general staffing levels for 2012 at 2009 levels, as we did in 2010 and 2011. General and administration budgets are also the same as our 2009 G&A expenditures.

- We are holding our capital plan for the next three years in the \$5 million to \$7 million range, down significantly from the past several years, when we were driven by the support for wind generation expansion in our county.

Project Update

- The HW Hill landfill gas expansion project is on line, running at 18 megawatts, with power sales contracts in place for 2012 and 2013.

- The White Creek Wind project is having an above-average wind year through March.

- The McNary hydro project should not experience generation curtailments during the high run-off this year as it did in 2011.

- Our transmission business line continues to perform well, providing more than \$5 million in revenues.

As our economy and markets improve, I am confident we will enjoy benefits from the trials and tribulations we are going through for many years to come.

Jim Smith
General Manager