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WA-18

Electric Rate Increase

I am writing this prior to the rate hearing scheduled by the Board of Commissioners for November 23-24. I hope you attended these public meetings to learn about changes in our industry and what we are doing at your PUD.

This month, I want to talk about why the rate increase was proposed.

At our November 10 board meeting, the commissioners directed staff to set a public electric-only rate hearing to consider an electric rate increase proposed to be 3 percent January 1, 2016, and 2 to 3 percent July 1, 2016. This is after reviewing five-year financial forecasts your PUD management team and I compiled.

The financial forecast includes all parts of our electric, water and wastewater business at the PUD, including our retail business, White Creek Wind project, HW Hill landfill gas project and our 230-kilovolt business lines. Our draft 2016 budget, which is the first year of the five-year forecast, includes a 2.2 percent increase in total expenses, or \$1.1 million. Of this, roughly \$700,000 is increased net costs from the Bonneville Power Administration. The remaining \$400,000 represents an increase in our other costs of less than 1 percent. In other words, roughly 64 percent of the proposed budget increase is due to BPA cost increases.

The board asked staff to split any rate increases so not all of the impact would occur before this winter, when residential bills usually are higher. A 3 percent and a 2 percent rate increase is about \$1.1 million in annual revenues, which would result in an average residential electric bill of \$150 increasing by about \$7.50 a month.

The issue we continue to face is the

depressed market pricing for our surplus energy and renewable energy credits created by these renewable generation projects. This has been affecting us for some years now, but the markets are trending worse.

These reductions mean our wholesale revenues are forecast to be significantly reduced, starting in 2017. This could drive up future electric rates. Prices could get better—or they could get worse—but I do not expect them to improve significantly in the five-year financial planning time frame. That suggests we should work to increase our revenues from other sources and continue to control our costs, or we will face continued rate pressures in coming years.

Many of you have been following proposed carbon legislation being discussed in Olympia. Because our surplus electrical generation is renewable, this is one area that could result in additional revenues for our PUD. As a result, we are in Olympia actively supporting the parts of the proposed carbon legislation that could improve our revenues and help offset the investments made in our renewable energy generation facilities. We also are evaluating renewable natural gas and other renewable transportation fuels.

All of us at your PUD will continue to work on staying within our approved budgets and evaluate alternative sources of revenue to help with our financials.



Jim Smith, General Manager