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WA-18

Overcoming Industry Challenges

I think you all know the past seven or eight years have been difficult for the electric utility business. Klickitat PUD has not been immune from those difficulties.

I want to take this space to commend your PUD employees and highlight the work they have done in spite of these challenges.

We have faced several hurdles.

Since 2009, there have been significant changes in the electricity industry. Prices for our surplus renewable electric generation dropped to less than half of what they used to be, and continue to be at all-time lows. Contributing factors include an abundance of recently built renewable generation in the Pacific Northwest and California, along with extremely low natural gas prices. We do not expect electricity prices to improve during the next several years.

Given these factors, the PUD took significant actions during the past eight years to ensure the stability of the utility. We adjusted rates, reduced staffing levels, adjusted our processes and reduced operating costs. Our 2016 actual operations and maintenance costs were the same as they were in 2009.

2017 has been a much better year, in part because of work we have done to increase our revenues. Our 2017 year-to-date performance continues to be better than our budgeted numbers. We believe the renewable natural gas project will improve our financial performance further, starting in 2018 and continuing for many years.

I am proud of our employees and the work they have done to reshape the utility and make us more efficient while maintaining our service levels and reliability.

A reflection of our success is our financial bond ratings. Companies doing the ratings evaluate our financial performance, as well as our leadership and business practices. These ratings are used by purchasers of bonds as a measure of how well we run as a business. I am happy that Fitch ratings service just affirmed our A- rating. In doing so, they said, "The district has taken steps to bolster its financials over the past five years. The initiatives have included rate increases, power-hedging strategy, cost-cutting measures and some staff reductions."

The state auditor and Moss Adams LLC also recently completed our compliance and financial audits for 2016. These audits were completed without any findings or material weaknesses in our reporting or procedures. These external evaluations show that your PUD is operated with sound business principles, and your commissioners provide clear strategic direction. Even more than that, I think it is a clear signal of the excellent work our employees are doing. They have been facing the challenges and responding with new ideas, and working together to reshape the utility to be successful in a changing industry.

Jim Smith
General Manager