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WA-18

BPA Cost Increase Affects Rates

The Bonneville Power Administration recently proposed a rate increase to utilities that would average 8.3 percent for its customers effective October 1, 2011.

We anticipate Klickitat PUD's wholesale power costs will increase about 8 percent to 9 percent.

The larger drivers for this rate increase include increased costs from the Columbia Nuclear Generating Station at Hanford—BPA buys all of the output from this facility—an increase in the federal and nonfederal debt service costs, and increased maintenance work on the BPA transmission system and the federal hydro system.



As I discussed in my July 2010 Ruralite article, in October 2011, KPUD no longer will pay standard rates as we have historically done. Instead, we will start paying a percentage of BPA's costs in return for a percentage of the power available from its system. This will not change the fact that our share of the costs will go up.

During the first week of January, we also learned that BPA is forecasting a 40-percent chance it will increase our rates on a temporary basis somewhere between 7 percent and 18 percent. This is on top of the rate increase the agency already is planning.

BPA would use what is called a cost recovery adjustment clause in

its rate tariff. This is a mechanism BPA uses when there is the potential that its ability to meet its treasury payments is at risk.

We saw the use of this tool in the early 2000s, when electricity market prices skyrocketed. You remember Enron. It significantly increased BPA's costs and led to increased prices for utilities that buy power from BPA, like us.

At this point, we do not know how long this will affect us, if at all.

We anticipate we will need to raise our rates to cover these increases in October. As we move through this year, we will evaluate the markets, our performance, the impacts of BPA decisions on us and the impacts on our rates. We will keep you posted.

I think it is important to note we have not had a general rate increase since 2003. We have absorbed BPA increases and general cost increases in running our business without affecting your rates. We have accomplished this by using our generation and transmission business lines to offset these costs.

In the coming months, KPUD staff will attend service group meetings and community meetings to provide those who are interested with a more detailed update on your PUD.

Last year, we attended 25 such meetings in an effort to keep you informed. For schedules, watch the local newspapers and Ruralite magazine, be involved with your community action groups or give us a call.

Jim Smith, General Manager