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## Energy Markets Are Hard to Predict

The economy has affected us here at Klickitat PUD, and therefore affects you as our owners and ratepayers, but not in ways you might think.

Revenues from our local sales to electric users in Klickitat County have not fallen in the past year despite the economy. This is great. So how does this affect us then and why are we talking about a potential rate increase?



Believe it or not, it's low prices.

The slow economy has decreased the demand for electricity. Applying the basic economic theory of supply and demand, with lower demand the price falls. In addition, there has been an increase in generation that was built to supply renewable energy requirements. These are developments such as the wind projects and our H.W. Hill landfill gas generation facility.

The increase in generation also increases supply, which further puts downward pressure on electricity prices.

This issue relates to wholesale market prices, which are the prices utilities pay for power for short-term contracts, sometimes as short as hourly or daily.

These prices do not apply to power supply contracts to serve our load.

So, how do these low prices hurt us? KPUD buys power from the Bonneville Power Administration. The rate it charges for power is based on its costs and revenues.

When wholesale market prices are low, any power BPA doesn't have under contract gets sold into the market. This is surplus power, and the surplus can be significant at times.

With depressed prices, BPA's total revenue goes down as prices for surplus power are lower. However, BPA's costs haven't changed. As a result, BPA needs more revenue.

To increase revenue, BPA raises its rates. That is part of the reason why BPA is raising rates 8.5 percent in October.

This situation also affects our wholesale power sales. Any power we generate not under contract gets sold at these low prices. This, in turn, affects our revenues and is part of the reason we will likely raise rates this fall.

If we had a choice, we would have long-term contracts in place right now. Timing is everything, but timing the entire power market is like timing the stock market. It sure would be great if we could.

**Jim Smith, General Manager**