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## Using Cost-Controlling Measures During Tough Economic Times

In past articles, I have mentioned how electric markets, low natural gas prices, an uncertain demand for renewable energy and various other market forces affect us. Many folks rightfully ask about areas we can control, and what we are doing in those areas given these tight economic realities. A few key points can help put things in perspective.

First, our largest cost component is for wholesale power. This represents 44 percent of our total 2012 budget. Debt service costs take up 20 percent, and taxes take up 3 percent. These are fixed costs, or costs that we do not control on an annual basis. They total 68 percent of our cash outflow. That means we have about 32 percent of our budget to actively manage daily.

Capital expenditures, which include replacing aging infrastructure and adding new lines to service our customers, account for 16 percent. This leaves 16 percent of our budget to cover our operating expenses, which include labor.

As you can see, significant cuts in the daily operating budgets will provide a relatively small impact on our overall expenses. I am not saying that controlling these costs is not important. It is very important, but it is also important to realize we cannot fundamentally change our costs in this area without also fundamentally impacting the services we provide.

So what have we done, and what are we doing? To control our operating expenses, we have not made cost-of-living adjustments to non-union salaries in 2011 or 2012. We have not added new staff, we have eliminated almost

all part-time help, and we have limited travel and reduced training. We have restructured our departments rather than hiring additional help. We have reduced office and general expenditures

and, as a result, are doing more with less.

The costs we pay for goods and services are increasing. Despite this, we have kept our operating budgets flat since the beginning of 2009. During this time, our cost of doing business has increased in the order of 10 percent. Transportation costs, for example, have increased 30 percent since 2010. We have absorbed these costs by being more efficient and developing better work processes.

We have been using these cost-controlling measures since I took over the general manager position at the PUD in late 2009, and I am proud of the work that has been accomplished. However, there is not much more we can do without affecting our ability to serve you in the manner you have come to expect. Even with the budgets we have, we will begin to see unanticipated cost impacts and potentially reliability impacts maintaining the current expenditures.

The coming years will be challenging, but I am confident in our staff. As always, feel free to contact me any time with your comments or concerns.



**Jim Smith**  
**General Manager**