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WA-18

Electric Rate Design and Limits on Power

This month I would like to talk about some decisions we need to make in the next three or four months regarding rate design.

As some of you know, there is a limit on how much electric power we receive from the Bonneville Power Administration. The amount we are entitled to receive from BPA per contract is referred to as Tier I power. Klickitat PUD pays BPA 0.5 percent of its costs, and we receive 0.5 percent of the output from BPA's resources. These resources are primarily the federal hydro system and Energy Northwest's Columbia Generating Station.



However, our customer load already exceeds the power we receive from BPA some hours of the year. That means we already buy additional power from the open market to service our current loads. These purchases are referred to as Tier II power.

As of today, the price per unit for Tier II power is close to the cost of power we buy from BPA. This is not expected to continue. We anticipate that in the future, Tier II power will be more expensive than power from BPA. If that is the case, new loads could cause our retail rates to increase as we buy more expensive power to serve these new loads.

We anticipate that we will start blending the Tier I and Tier II costs of wholesale power for the residential, small general and medium general service rate classes. By that I mean we will add the costs to buy the power required for each of these three rate classes, and these costs will drive the rate for each rate class. Given the relatively small individual loads in these rate classes and relatively large number of customers, this likely would be the most effective way to handle load growth.

Large general service customers are another matter. I anticipate there will be an established load size and anything below it will be a blended wholesale cost. Anything above it will become individual contracts to acquire the power for these larger new loads. That means that new large general service customers would be exposed to some of the volatility of wholesale power markets, but existing ratepayers would be insulated from cost increases as a result of new loads.

The irrigation customer rate class is more complicated, as existing loads receive a 15 percent irrigation mitigation discount from BPA. Any load growth we experience in this rate class is not subject to that discount. That creates more issues to resolve and potentially larger impacts of load growth on existing customers.

I anticipate that any electric rate changes would most likely occur in April 2015.

We plan to undertake specific outreach workshops to provide further information about this subject, and to obtain feedback and ideas from our customers in the new year. We look forward to seeing you and hearing your thoughts.

Jim Smith, P.E.
General Manager