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WA-18

2015 Financial Outlook

Mission statement: Public Utility District No. 1 of Klickitat County provides safe, reliable, cost-based utility services at the lowest possible cost consistent with sound business principles.

Following a public hearing, the KPUD Board of Commissioners adopted the 2015 budget on December 9, 2014. The budget was reviewed at three previous commission meetings and revised as a result of feedback during those public meetings.

So why are we starting this budget article with our mission statement? With respect to budgeting, the key in the mission statement is, “with sound business principles.” This means the board’s direction to staff is to operate as a sound business, not as a quasi-governmental agency.

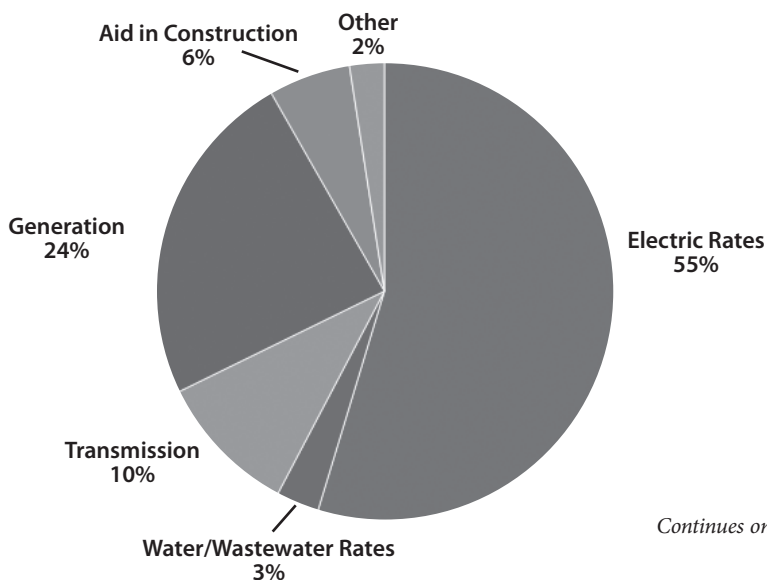
As far back as the early 1990s, our board of commissioners and management had the foresight to plan for when

we could no longer rely on Bonneville Power Administration—or anyone else, for that matter—to supply our wholesale power. They also wanted to place us in a position where additional revenues would be generated to help offset rates in the interim.

This led to decisions to diversify the business lines of our utility by investing in generation assets, such as H.W. Hill Landfill Gas Plant, White Creek Wind, and generating turbines at McNary and Packwood dams. We also built transmission lines and facilities to serve local wind projects. Today, this diversification provides many tools for us to use to generate revenue besides solely raising customer rates.

The sources of KPUD revenue are shown in the chart below. Note that revenue sources other than your retail rates provide 45 percent of our revenue requirements.

2015 Budget Revenue Sources



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2015 Financial Outlook

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Many expenses are required to operate a utility safely and soundly. The largest expense is acquiring the power to sell to our customers. It is important to note we already supply 11 percent of our power needs from our own generation project, the McNary Hydro Electric Project in McNary Dam. The 2015 expense budget is shown in the chart to the right.

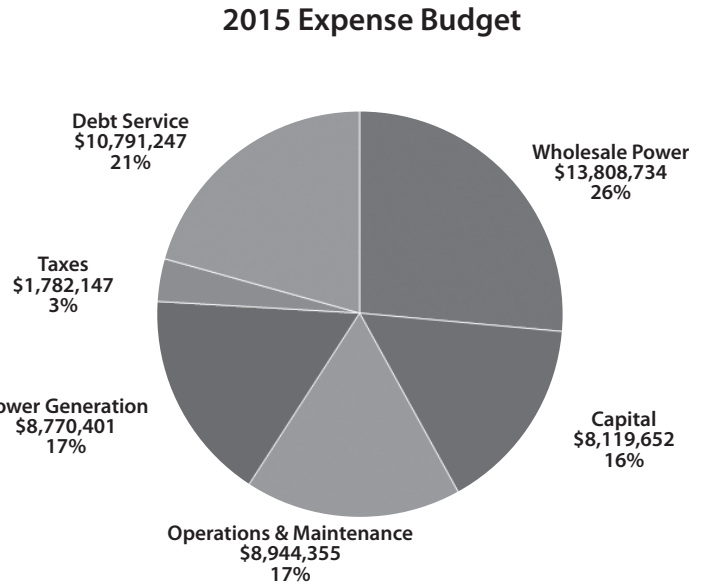
The past six years of operations have been challenging. As a result of the economic downturn, which has depressed the demand for electricity, and the addition of renewable energy sources driven by legislative forces that have increased electricity supply, power prices for generated energy have fallen. This means revenues from our generation sources have

declined, while the costs of goods and services needed to run KPUD have risen.

Almost all decisions we make in our business are not geared to ensuring long-term financial health and the reliability of your electric system. As such, we have been very active on cost-cutting measures and have tried to make adjustments on a proactive basis. By that, I mean plan ahead and make decisions for what we see coming, not just react to what already has happened.

If you look at the operations and maintenance category in the expense comparison chart below, you will note our efforts to control these expenditures.

The large changes in the power generation category are

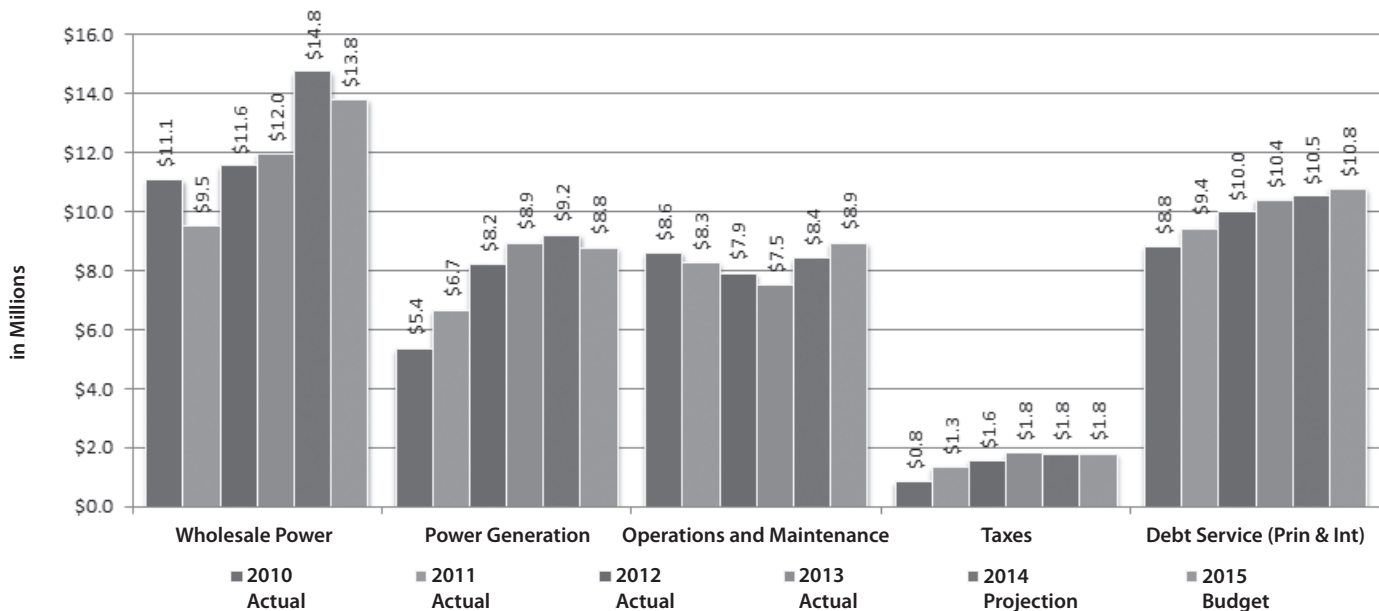


due to the expansion of that facility.

Each year, Klickitat PUD invests money to improve and upgrade its electrical and water/wastewater infrastructure and generation assets.

This capital investment is necessary to make sure we are able to meet the needs of our current and future customers by maintaining safe and reliable water, wastewater and electric systems.

2010-2015 Expense Comparison



Capital investments are paid for primarily through the use of revenue bonds. KPUD borrows funds and spreads the repayment of principal and interest (referred to as debt service) throughout the lives of the capital assets. In other words, the debt is paid by the customers using the assets, now and in the future.

Financial agencies that rate our bonds use a measure called Debt Service Coverage Ratio to show our ability to pay the debt. This is important because the ratings given determine, in part, the interest rates we pay for our bonds. Our board of commissioners has set a ratio goal of 1.40 debt service coverage for our utility. This correlates to \$1.40 of revenue for every \$1 of debt repayment obligation.

As discussed, the past several years have been challenging for your PUD. The chart to the right shows the positive effects of the work we have done since 2011 to improve our financial health and adjust for the changes in the electric utility industry.

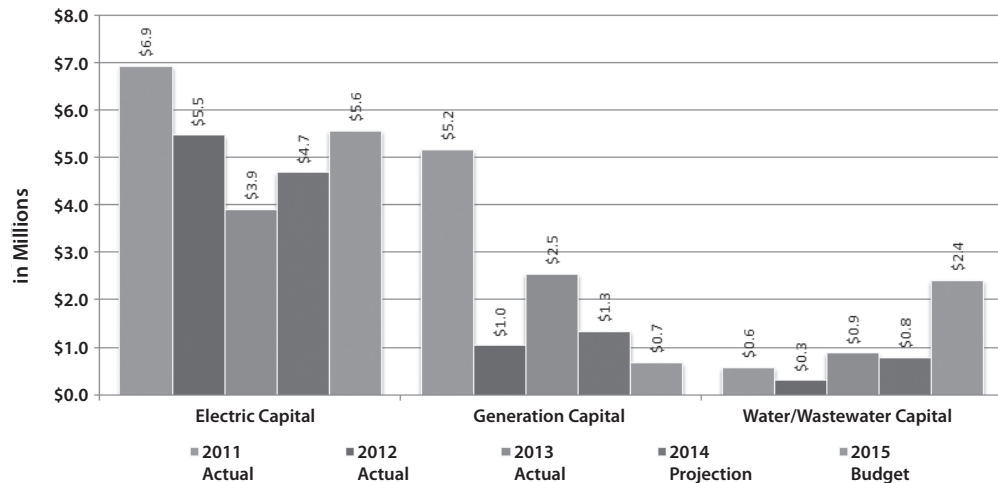
Since the initial effects of the economic downturn, we have systematically improved our debt service coverage ratio. As a result, we have maintained our "A" financial ratings.

All of us at Klickitat PUD are focused on working together with a common goal of providing safe, reliable and low-cost utility services to our customers.

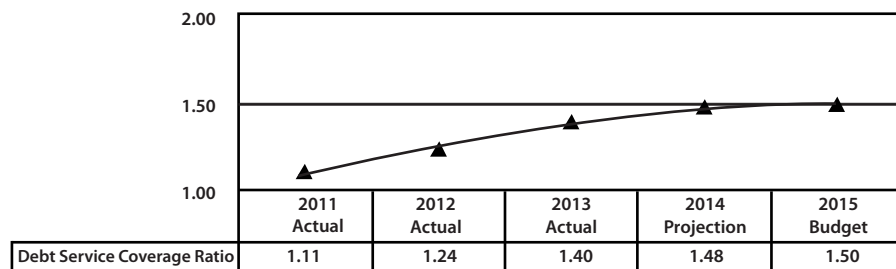
Please visit our website at www.klickitatpud.com for more financial information about our utility.

Jim Smith
General Manager

2011-2015 Capital Spending



Debt Service Coverage Ratio



Selected Financial Highlights

	2011 Actual	2012 Actual	2013 Actual	2014 Projection	2015 Budget
Rate Revenue	\$21,513,335	\$23,200,125	\$25,774,092	\$26,157,456	\$26,557,319
Generation Revenue	\$10,725,916	\$13,845,509	\$15,490,707	\$17,290,112	\$16,513,076
Other Revenue	\$2,480,590	\$4,470,406	\$2,029,407	\$5,041,398	\$4,015,813
Wholesale Power & Generation Exp	\$16,157,904	\$19,779,831	\$20,905,655	\$23,965,141	\$22,579,135
Operations & Maintenance Expense	\$7,355,917	\$6,924,407	\$6,568,369	\$7,347,758	\$8,038,382
Taxes	\$1,344,524	\$1,564,178	\$1,822,233	\$1,763,512	\$1,782,147
Number of Customers	12,206	12,253	12,324	12,431	12,526
Sales in kWh Units	324,437,333	343,008,165	357,192,925	357,781,238	TBD
Average Cost per kWh	\$0.067	\$0.071	\$0.076	\$0.078	TBD
Water/Wastewater Rate Revenue	\$1,366,790	\$1,494,224	\$1,418,190	\$1,462,042	\$1,469,688
Water/Wastewater O&M Expenses	\$926,413	\$979,723	\$948,190	\$891,321	\$905,973
Sales of Water in Gallons	126,478,200	128,332,200	120,866,900	137,663,700	TBD