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WA-18

Flexibility Important for Rate Control

Starting in 2011, the electric load in the Bonneville Power Administration's (BPA) service area will surpass the power available from the federal hydro system. As a result, BPA will have to purchase power in order to serve this load.

What does that mean to you as a consumer? It means that instead of relatively cheap hydropower, BPA will have to buy more expensive power from other sources. This will put upward pressure on our rates.

Given this marked change, BPA offered us two products that start October 2011. First we could continue as a "preference" customer as we have been in the past. However, given the limited amount of hydropower, the new rate structure is called a "two tier" system.

For the first tier, BPA assigns a portion of the low-cost hydro system to all of its customers and charges a traditional type of rate. By that, I mean our customers use the power, BPA reads our meters and sends us a bill.

For the portion of our load above the hydropower we are assigned, we would be billed a different, higher rate. Hence the term two tier.

BPA has not yet determined what this rate will be. To further complicate this rate design, we would need to tell BPA up front how we would use our own generation resources. We could choose to sell the output from our generation

projects or use it for our own load. Once we made that decision, however, it would be irrevocable. We would lose the flexibility of using our valuable resources to our best advantage.

The second option BPA offered was a product called "Slice." With this rate design, we would pay BPA for our share of its costs and get that same share of the output from BPA. In Klickitat PUD's case, this share is equal to about 0.53 percent of the system.

The issue with Slice is that in some years there is more power available and some years less, depending on the snowpack and what is referred to as a "good water year" or a "bad water year."

We would need to supply our own load above that base amount of power. We could do this either by using our own generation or buying power on the open market. Because we do not know how much power we would get each month, this would expose us to risks, but we would maintain the ability to sell KPUD's generation output or use it to serve our load.

This flexibility is something we are unwilling to give up.

We also believe we can do a better job of supplying our own loads and managing our own risks than BPA can. So, in the fall of 2009, we elected to become a Slice customer.

This starts in October 2011 and we are getting prepared to manage our resources to your best advantage. I'll continue this discussion next month.



Jim Smith, General Manager