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WA-18

# Rates are Based on Many Factors

I have been asked a very good question several times in the past couple of months. It also was asked in our recent customer survey. That question is, "If the electricity markets are way down, why are our electric rates going up?"

It doesn't seem to make sense, does it? Read on and I will explain this contradiction.

Let us look at the Bonneville Power Administration first. The agency is experiencing a drastic drop in surplus sales revenue due to electricity market prices being so low.

However, BPA still has to pay for power from the dams, which includes the cost of generation, dam maintenance and salmon mitigation. Therefore, even with electricity markets falling, the cost of producing power has not changed.

BPA needs to recoup its losses from somewhere. Besides cutting some costs, the only way BPA can increase revenues is raise its rates. That increases the cost Klickitat PUD pays to buy BPA's wholesale power.

Before you get too unhappy with this situation, keep in mind we are one of the few areas in the country that has access to federal power at cost. You all know this power is significantly cheaper than in other areas of the country.

So now let us look at KPUD. We have three main sources of revenue: electric rates we charge our customers, fees we charge to supply transmission to wind projects and wholesale power sales—electricity we generate at our McNary and

Packwood hydro, White Creek wind and landfill gas projects.

Our revenues from rates and transmission services have not changed much recently. However, our wholesale revenues are down because of the low prices we are getting for our surplus power sales.

In responding to this situation we have reduced budgets significantly. However, the majority of our costs of supplying electricity to our customers have not changed. In fact, most of these costs have gone up.

These circumstances resulted in the "last straw," so to speak, after eight years of absorbing continued cost increases in products and materials, we had to increase rates to make up the difference.

The next question is "If falling market prices are the result of the rate increases, why did we build these resources?"

KPUD's generation projects are the reason your rates have not increased during the past eight years. If we did not have these projects, we would have passed along every BPA rate increase we have absorbed since 2003.

BPA rates are more than 50 percent higher today than they were before 2003. That would equate to multiple electricity rate increases during the past eight years, totaling in the range of 25-percent higher electricity bills.

By contrast, as a result of KPUD managing its assets and costs, your rates increased only 9.8 percent and not until this year. That is a significant difference.

I hope this makes some sense to you. If not, please give me a call and we can talk directly. You know where to find me.

**Jim Smith, General Manager**

