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WA-18

# 2012 Budget Streamlines Spending

**By Shannon Crocker**  
Chief Financial Officer

The Public Utility District No. 1 of Klickitat County Board of Commissioners held a public hearing December 13, 2011, when it approved the 2012 operating budget.

The upcoming budget could be one of the most challenging plans we have had to manage. The utility will face many factors to overcome throughout the year.

With a continued downturn in the economy and a continued decline in surplus power sales prices, KPUD staff had to take a hard look into many areas and make some difficult budgetary decisions for 2012. In the end, the budget presented to the commissioners was well thought out and streamlined in regard to the overall spending of utility funds.

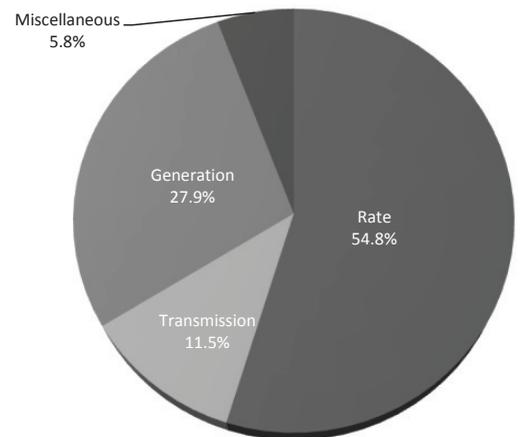
From a revenue standpoint, KPUD's primary source of revenue continues to be from retail rates (see revenue comparisons graph on page 28 and revenue pie chart above), accounting for 54.8 percent of total revenue in 2012. Generation revenue continues to gradually take on more of KPUD's total revenue, and is budgeted to be 27.9 percent for 2012.

As output from the H.W. Hill Landfill Gas Project grows, generation revenue will continue to diversify your utility's revenue stream, which should reduce the impact of Bonneville Power Administration cost increases in the future.

In 2012, generation revenue will increase 30 percent due to additional megawatts produced at the landfill gas plant, which are forecast to be an average of 18 megawatts. This additional generation will help offset the decline KPUD experienced in its wind generation revenue when a major electricity sales contract for the White Creek Wind Project expired in April 2011. Due to low wholesale power prices, KPUD experienced a 61.5-percent decrease in the price it received for the sale of its wind energy.

In October 2011, KPUD implemented a 9.8-percent rate increase, which will be fully recognized in 2012. This rate increase was implemented to help offset declining wholesale revenues and power cost increases from BPA.

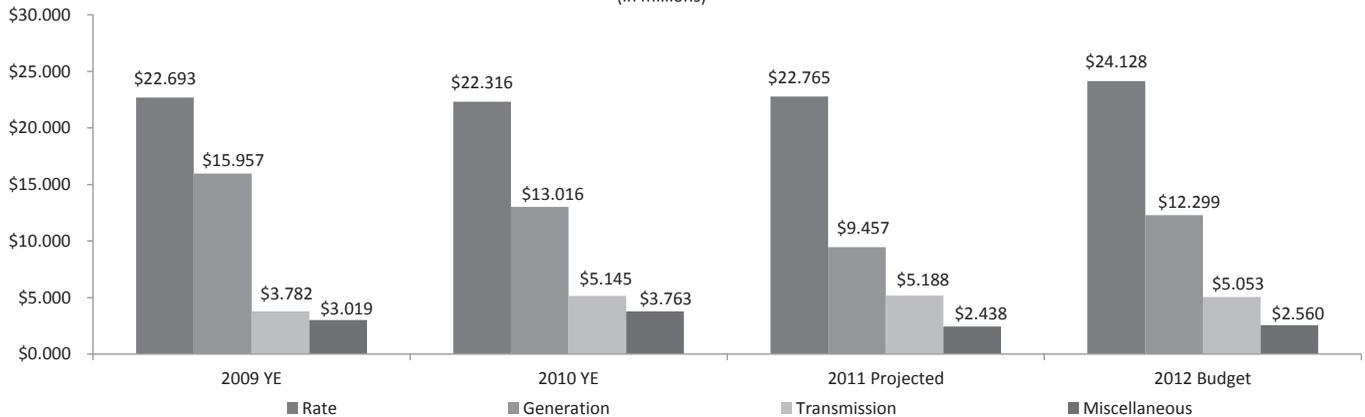
**2012 Revenue Budget**  
as a percent of total revenue



*continues on page 28*

## Annual Revenue Comparisons

(in millions)



## 2012 Budget Review

*continues from page 32*

With 2012 revenues budgeted for the same levels as 2010, KPUD staff spent a significant amount of time analyzing all of its costs to determine areas that could be cut or deferred to future years to decrease expenses.

Part of the challenge was offsetting an increase in debt service payments that started in 2011 (see cash outflow comparison chart). Through this process, KPUD staff identified some areas to defer for the upcoming year, such as pole testing, the college student summer program, salary increases through March, decreases in travel and training and many items within each department. Management felt many items could be deferred for at least a year to help reduce costs without causing significant short-term impact to the utility and its customers.

During the past several years, the utility has been heavily

involved in expanding the landfill gas plant. As the project reaches completion, capital system improvement expenditures will decrease significantly (see the capital generation column in the cash outflow comparison graph). However, we also know and understand that deferring capital improvements can last for only so long or we will start to see increased impacts on our reliability issues and increased operations and maintenance costs. As a result, we will layer back in some of these capital system improvement items in future years.

In 2011, KPUD used a portion of its rate-stabilization reserve fund to meet its debt service coverage ratio requirements. This mainly was due to the delay of the landfill gas project and the lower wholesale revenues in general.

During the budgeting process, staff and the board of commissioners decided to put a plan together to increase this ratio. To accomplish this, there will be continued efforts to monitor expenses and focus on improving operational efficiency in all areas of the utility. ■

## Annual Cash Outflow Comparison

as a percent of total

