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WA-18

2013 Financial Outlook

On December 11, 2012, the Klickitat PUD Board of Commissioners approved the 2013 operating budget during a public hearing. 2013 will be another year of challenges, with continued weak economic trends and a wholesale power market that is recovering slowly.

With that in mind, PUD staff has taken a conservative approach to planning for this year.

On the revenue side, we have been conservative in our forecasting of wholesale revenues and renewable energy credit values. We have assumed low growth rates in generation and loads.

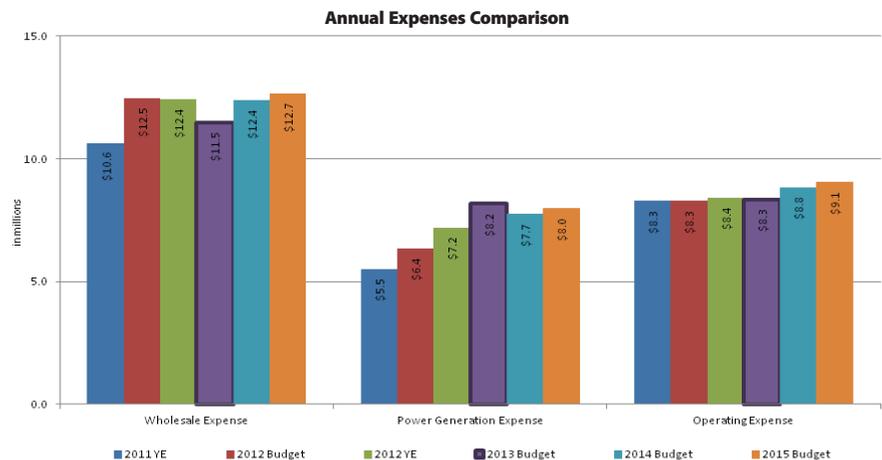
On the expense side, our overall 2013 budgeted expenditures have not increased from 2012. To accomplish this, we have maintained budget cuts implemented during the past three years. This includes the reduction in force we implemented late in 2012, and the elimination of cost-of-living

increases for 2013.

Our 2013 operating expenses are the same as they were in 2009. Sustaining these cuts could impact the PUD in future years, so we will be evaluating our position on an annual basis. Areas may be brought back as budgets and economic conditions permit.

Our expenses can be grouped into three separate areas, as shown in the annual expenses comparison chart.

Wholesale expenses reflect the net costs of acquiring power that we provide to our customers. We sometimes have surplus power from Bonneville Power Administration that we can sell. Sometimes we don't have enough and have to buy power. The costs and benefits of these sales are included in this section. They can vary year to year, depending on our loads and the amount of power coming to us from our share of the Federal Hydro System through BPA.

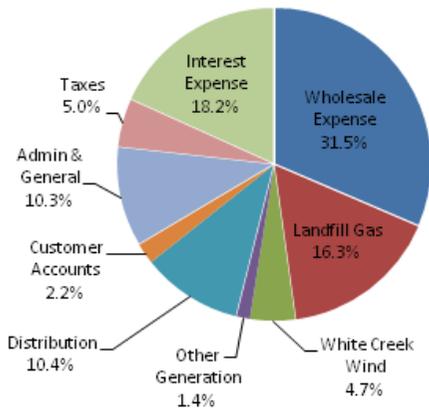


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2013 Financial Outlook

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2013 Expense Breakdown (excluding depreciation)



Generation expense reflects our costs to produce the green energy we then sell into the market. It increased from 2011 through 2013. This is primarily a result of the expansion of the H.W. Hill landfill gas generation facility.

Operating expenses is an area we tightly control, and is basically the cost

of running our electric and water/wastewater systems. As mentioned, operating costs for 2013 are forecast to be essentially at 2009 levels (the chart only shows information since 2011).

Wholesale power purchases and interest expense continue to be the largest portions of our annual costs, representing 50 percent. Generation represents 22 percent. The remaining 28 percent represents the cost of operating our systems.

H.W Hill accounts for the largest portion of our generation cost and, as mentioned, this has increased during the past three years as we expanded the facility.

So, why did we do this?

Looking at the generation revenue chart below, the revenue from the plant will continue to increase as renewable energy credit prices and power prices improve, and as the plant continues to increase its output. Output is

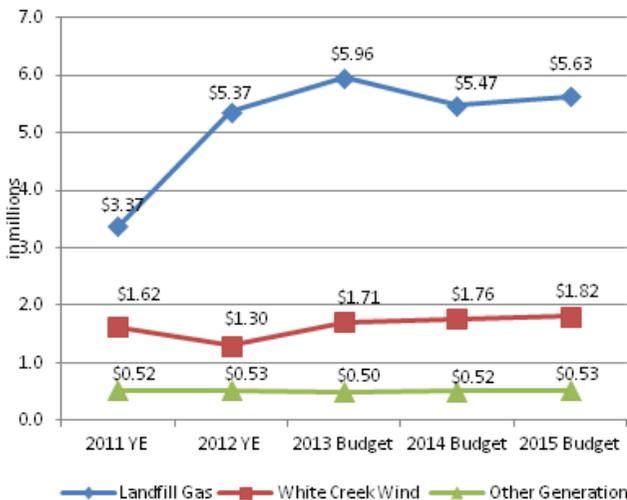
increasing as the landfill itself grows and as the methane generated by the landfill increases. At the same time, there is a minimal increase in operating costs to generate more power because our capacity and operating infrastructure is already in place. As a result, revenues from the expansion increase much faster than the costs from 2014 and beyond.

This is not unrealistic. So far, we have secured pricing for approximately 95 percent of our 2013 output and about 75 percent of our 2014 output from our projects to ensure we realize these revenues. As a result, the cost of the power from the facility will continue to decrease for some years and the benefits to our ratepayers will increase.

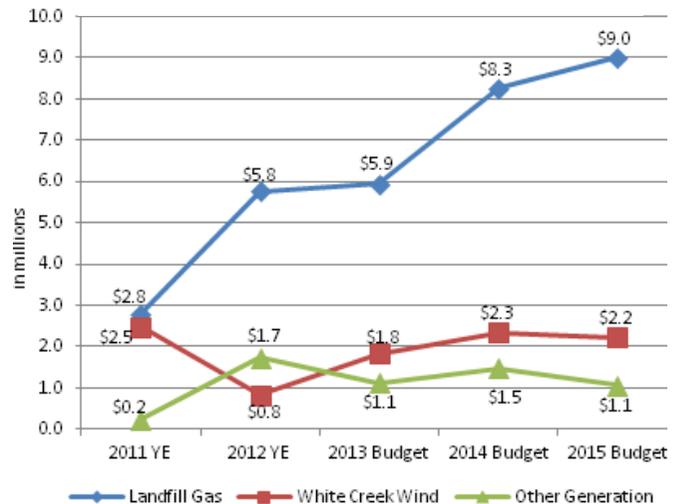
Electric rates continue to be the single largest source of revenue for the PUD. However, the continued growth of generation revenues will assist in offsetting future electric rate increases, as they did between 2003 and 2011.

We continue to believe diversifying

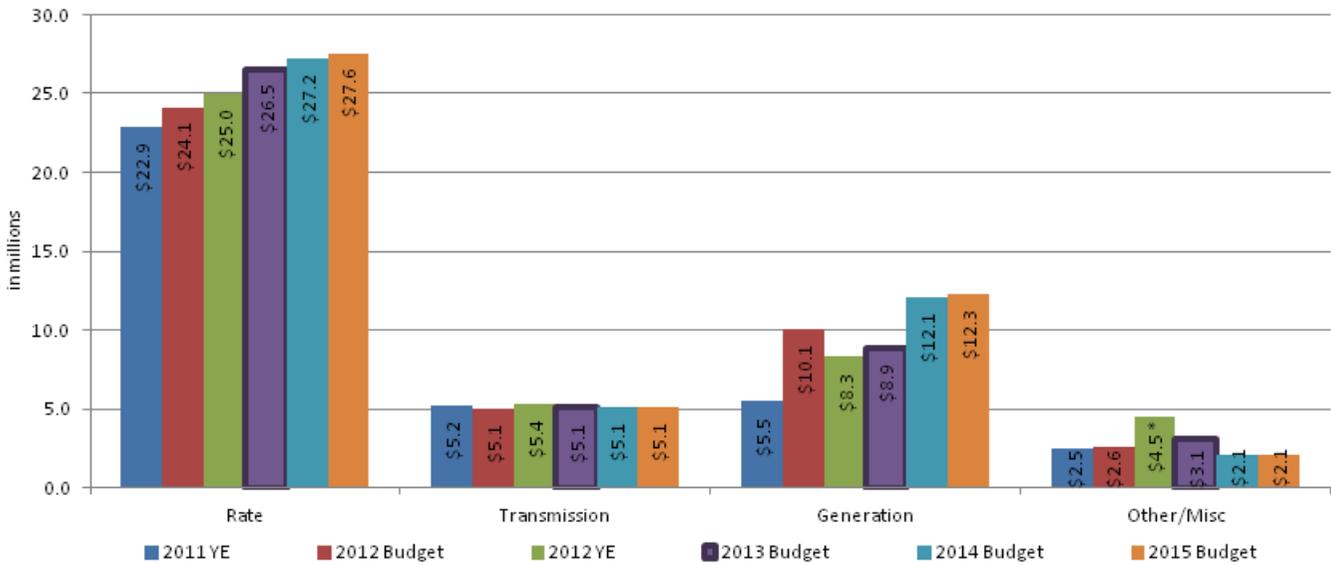
Generation Expense Details



Generation Revenue Details



Annual Revenue Comparison



* includes \$1.4M from FEMA for Jan2012 Outage

into generating renewable energy was the right long-term strategy for the PUD and will result in lower electric prices for our consumers in the long term.

Revenue from our transmission business line are forecast to remain at \$5 million per year as we do not see additional wind resources being completed in our county in the next several years.

Miscellaneous revenue covers things such as pole contacts, interest earned, billing and collection fees, dollars paid to us to build new services and credits back to us on our tax-exempt financing. This is generally a fairly flat item, but you will note that 2012—and 2013, to a lesser extent—appeared higher than the other years. This is a result of the Federal Emergency Management Agency paying back to us a portion of the costs we incurred during the January 2012 storms.

2012 was a difficult year for the PUD, and I am happy to have met our requirements. Between cost pressures, the continued decline in market pricing for the sale of energy, limited markets for renewable energy credit sales, the subsequent need to implement an electric rate increase and the difficult decision to let go of 8 percent of our workforce, it was a year to put behind us.

However, I am confident staff has put together a plan for 2013 and set the stage for improved performance going forward. I am excited about the coming years and working through challenges we know will come up while delivering cost-based safe, reliable electric, water and wastewater services to you at the lowest possible cost, consistent with sound business principles.

Shannon Crocker
Chief Financial Officer ■

2013 Revenue Breakdown

