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WA-18

PUD Community Meeting Updates

I want to share some of the information we are discussing at community meetings around the county.

As you know, 2012 was a challenging year at your PUD. We implemented budget changes in the fall that involved reductions in expenditures over the original 2012 budget. We also reduced our work force, froze wages and salaries for 2013, put off some capital construction projects and increased electric rates. Your PUD employees worked hard to make adjustments and get the work done. As a result, we finished 2012 slightly better than the targets we set when we completed our rate analysis in September.

As of the end of April 2013, financial performance was slightly better than our budgets. While our budgets are extremely tight, I remain optimistic we will exceed 2013 targets. I still think the economy will be slow to recover, and, as a result, the surplus electric markets will follow slowly. We are only about a year into a three-year financial plan, so there is a long way to go, but preliminary indications are good.

To minimize against markets declining in the coming years, we have presold—or more accurately, financially hedged—about 95 percent of our 2013 excess power sales risks. We also have hedged about 75 percent of our 2014 power sales risks and some 20 percent in 2015. We are working on several other longer-term power sales contracts that will support our financial outlooks.

Our HW Hill landfill gas output is above budget. Our working relationship with the Roosevelt Regional Landfill has allowed us to optimize methane flows from the landfill through additional capital investments in the gas-collection

system and in more coordinated operations of the gas field. We are grateful for the landfill's continued support. Unfortunately, we still have an issue with a contractor who has not performed on its contract and we are completing some of this work ourselves. We then will proceed with resolving the outstanding dispute.



We have continued to focus on our traditional transmission and distribution business. By that I mean keeping the lights on, the water and wastewater services running, and providing the services you expect from us.

We formed an operating division starting January 1 that has customer service, engineering, field operations and operational support services under one position. Ron Ihrig leads this division as our chief operating officer. Ron has all the expertise and resources available to him to deploy where it benefits the entire utility the most.

Bonneville Power Administration is also in the middle of its rate reviews for the October 2013 through September 2015 rate period. It appears as though BPA will raise rates less than 10 percent this October 1. We planned for rate increases from BPA in that range, so there will be no impacts to our rates as a result.

As always, if I can answer any questions, please feel free to contact me.

Jim Smith
General Manager