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www.klickitatpud.com

Goldendale Office

1313 S. Columbus Ave.
Goldendale, WA 98620
(509) 773-5891
(800) 548-8357

White Salmon Office

110 NE Estes Ave.
P.O. Box 187
White Salmon, WA 98672
(509) 493-2255
(800) 548-8358

WA-18

Electric Rate Increase

In late 2014, given forward electric sales markets and external factors, we budgeted for a 5 percent electric rate increase, planned to be effective April 2015.

Recently, I attended several community meetings and discussed the budgeted 5 percent increase, but also said there are no guarantees as to what the future holds for rates. Unfortunately, that is proving to be the case.

Four months can make an incredible difference—good or bad—in a commodities market such as electricity. At our April 14 board meeting, the commissioners directed staff to set a public electric rate hearing to consider a 9 percent electric rate increase.

During the same meeting, the board considered two reports by staff: a cost-of-service analysis study and a financial forecast.

The COSA indicates that for our traditional business service of providing power to our ratepayers and keeping the lights on—which includes our McNary Hydro project—a 3.6 percent electric rate increase is warranted. This considers a 6.7 percent Bonneville Power Administration cost increase expected October 1, 2015, as well as increases in our materials and services costs.

That study also states our rates are fair and equitable among the rate classes. PUD staff and the board concurred. That means electric rate increases likely will be equally applied to each rate class. The board also concluded that any rate increase be applied to all components of our rates consistently; i.e., the base fee, demand, power factor and other components.

The financial forecast includes everything in our electric business at the

PUD, including our retail business, White Creek Wind project, HW Hill landfill gas project and our 230-kilovolt business lines.

Future electric markets have declined significantly. As a result, our surplus power sales and the resulting revenues are forecast to be significantly reduced. Prices could get better, or they could get worse. The forecast suggests we should increase retail rates by 9 percent to ensure we remain financially healthy today. There is potential for future rate increases if market prices do not recover, if we do not take other actions to increase our revenues from other sources or reduce costs.

This means 3.6 percent of the proposed rate increase relates to our transmission and distribution systems, and 5.4 percent relates to the performance of our projects.

We have had many years when these projects have contributed to help reduce our retail rates. Between 2003 and 2011, we did not raise electric rates at all. When we did raise rates between 2011 and 2013, the net effect was an average of a 1.9 percent rate increase per year during the years 2003 through 2013.

With the proposed 9 percent increase, the net annual increase from 2003 until 2015 would be 2.3 percent during those 12 years. An average \$140 per month residential bill would go to \$153.

PUD staff continues to work actively on staying within our approved budgets and evaluating alternative sources of revenue to help with financials in coming years.

The public rate hearing is Tuesday, May 12, at 6 p.m. at the PUD's public meeting room, 1313 S. Columbus Ave., Goldendale.

Jim Smith, General Manager