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WA-18

Klickitat PUD Opportunities and Challenges

With another year behind us and our 2016 budgeting process recently concluded, I want to briefly reflect on the past year while looking forward to the year ahead and beyond.

We had a successful 2015 working within a relatively tight expense budget and reduced staffing levels. I am proud of our hardworking, dedicated employees who come to work every day striving to provide our customers with reliable, cost-effective electricity throughout the county, and water and wastewater services in communities lacking viable alternatives.



Looking ahead, we continue to face a number of pressures on revenues and expenses, which continue to put upward pressure on our local electric rates. Thankfully, general inflation continues to be relatively low, which helps keep a lid on many categories of operations and maintenance expenses. Our primary cost pressures continue to be higher and higher prices for power from the Bonneville Power Administration.

Beginning last October, we began paying 5 to 7 percent more for BPA power and transmission services to serve our local electric customers. We will experience the effects of a full year of higher BPA costs in 2016. BPA is facing many of the same pressures we are and, like us, they provide services at cost to KPUD and other customers.

Meanwhile, we continue to see declines in wholesale energy prices—prices at which we sell the surplus electricity generated primarily from our H.W. Hill Landfill Gas Project and our share of the White Creek Wind Project. When wholesale energy prices and surplus sales revenues are high, we need less revenue from our local electric customers to make ends meet. When wholesale prices and surplus revenues are lower, it puts upward pressure on the local electric rates to make up the difference.

In light of these pressures, we presented a number of alternatives designed to lessen the rate impacts on our customers while maintaining the critical infrastructure necessary to provide the reliable service our customers deserve and have come to expect. In the end, our PUD commissioners adopted a two-stage electric rate increase. The first is a 3 percent increase effective January 1, followed by another 3 percent increase July 1.

Changes in the electric industry and the regional markets in which we operate pose unprecedented challenges, but also exciting opportunities for KPUD. For example, with new federal and state climate change initiatives being discussed and implemented, we are exploring several potential higher-value alternatives for our landfill gas project. In addition, we could benefit from our abundant zero-carbon emitting resources.

These are exciting times to be in public power. I look forward to hearing your ideas about how we can better serve you in the weeks, months and years ahead.

John Janney

CFO/Risk Officer