



Office of the Washington State Auditor
Pat McCarthy

Report on Compliance with the Clean Energy Transformation Act

City of Richland, Richland Energy Services

For the period January 1, 2019 through December 31, 2021

Published September 28, 2023

Report No. 1033250



Scan to see another great way
we're helping advance
#GoodGovernment



**Office of the Washington State Auditor
Pat McCarthy**

September 28, 2023

Council
City of Richland
Richland, Washington

Report on Compliance with the Clean Energy Transformation Act

In May 2019, the State of Washington enacted the Clean Energy Transformation Act into law. The Act requires all utilities engaged in the business of distributing electricity to more than one retail electric customer in the State to comply with its requirements.

Our Office is required to examine those consumer owned electric utilities under our jurisdiction for compliance with the Act's requirements. As of this reporting period, our Office was required to examine 39 such electric utilities with more than one customer operating in Washington State. Richland Energy Services, a department of the City of Richland, is one of those utilities.

Please find attached our report on the Utility's compliance with the Act.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

INDEPENDENT ACCOUNTANT'S REPORT

City of Richland, Richland Energy Services January 1, 2019 through December 31, 2021

Council
City of Richland
Richland, Washington

We have examined Richland Energy Services', a department of the City of Richland (the Utility), compliance with the following requirements of the Clean Energy Transformation Act codified in the Revised Code of Washington (RCW) 19.405 (the specified requirements). Specifically, we examined whether the Utility:

- Made energy assistance programs and funding available to low-income households by July 31, 2021 and developed its assessment and plans for reducing the energy burden of those households in accordance with the Act for the reporting period January 1, 2019 through December 31, 2020.
- Calculated its greenhouse gas content based on the fuel sources it reported annually in conformity with the Act. The annual compliance periods were January 1, 2020 through December 31, 2020 and January 1, 2021 through December 31, 2021.
- Developed and adopted its clean energy implementation plan for the compliance period January 1, 2022 through December 31, 2025 in accordance with the Act's requirements.

Management of the City is responsible for the Utility's compliance with the specified requirements. Our responsibility is to express an opinion on the Utility's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Utility complied, in all material respects, with the specified requirements referenced above.

An examination involves performing procedures to obtain evidence about whether the Utility complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. In making an assessment of the risks of material noncompliance, we considered and obtained an understanding of internal control relevant to compliance in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the City and its Utility and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our engagement.

Our examination does not provide a legal determination on the Utility's compliance with specified requirements.

Our examination procedures were not designed to determine whether the Utility complied with the fuel mix reporting requirements of chapter 19.29A RCW and the resource reporting requirements of chapter 19.280 RCW. Accordingly, we express no such opinion.

The Utility reported a zero ("0") megawatt demand response target in its Clean Energy Implementation Plan adopted by its governing body. The Act requires utilities to adopt a demand response resource target based on the amount it determined was cost-effective, reliable, and feasible. The Utility determined the demand response potential it identified was not forecast to be cost-effective during the 4-year plan period.

In our opinion, the Utility complied, in all material respects, with the aforementioned requirements applicable during the three-year period ended December 31, 2021.

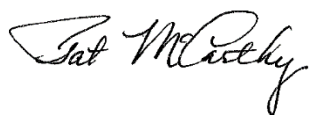
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; and fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on compliance with the specified requirements. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on compliance with the specified requirements and not for the purpose of expressing an opinion on the internal control over compliance and other matters; accordingly, we express no such opinions.

Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the accompanying Schedule of Findings and Responses as Finding 2021-001.

Utility's Response to Findings

The Utility's response to the findings identified in our examination are described in the accompanying Schedule of Findings and Responses. The Utility's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.



Pat McCarthy, State Auditor

Olympia, WA

September 12, 2023

SCHEDULE OF FINDINGS AND RESPONSES

City of Richland, Richland Energy Services January 1, 2019 through December 31, 2021

2021-001 The Utility did not have processes in place to ensure its 2020 greenhouse gas content calculation was performed accurately in accordance with the Clean Energy Transformation Act.

Background

As of May 2019, all utilities in Washington that sell electricity to more than one retail customer in the state are required to comply with the Clean Energy Transformation Act (the Act). In part, the Act requires each electric utility in the state to report its calculation of the greenhouse gas content of the electricity it discloses in the annual fuel mix source and distribution report. The Act requires utilities to include all the sources it uses to provide electricity to its retail customers, even if those sources are outside Washington state.

Part of the greenhouse gas calculation includes the amount of “unspecified source” electricity if the electricity seller doesn’t know what fuel was used to generate the electricity. The Act considers unspecified source electricity as having been generated from an emitting resource, so utilities must calculate the emissions using a standard rate adopted by the Washington Department of Ecology.

Calendar year 2020 was the first year utilities were required to provide greenhouse gas content calculations to the Washington Department of Commerce (Commerce) in accordance with the Act.

In June 2021, Commerce told the Utility it did not need to report its 2020 emissions because Commerce performed the calculation on behalf of the Utility, so the Utility did not need to provide its report this time.

Description of Condition

The Utility did not review the greenhouse gas emissions calculation that Commerce performed to ensure it was accurate.

We consider this control deficiency to be a significant deficiency.

Cause of Condition

Commerce performed the calculation as part of its own statewide greenhouse gas emissions report, but Commerce's number was not accurate.

The Utility then relied on Commerce's calculation to comply with this requirement. The Utility did not review the calculation for accuracy, so it did not detect 70,271 MWh market purchases of unspecified source electricity had been omitted from the calculation.

Effect of Condition

The Utility's greenhouse gas emissions were not calculated in conformity with the Act. Specifically, the Utility's reported greenhouse gas emissions of 16,462 metric tons carbon dioxide equivalent (CO₂e) were underreported by 30,709 metric tons CO₂e.

While this omission did not significantly affect Commerce's statewide greenhouse gas content reporting, it was significant to the Utility's content reporting.

Recommendation

We recommend the Utility enhance their internal controls to include a review of work performed by others on its behalf to ensure the work is performed accurately and in accordance with the Act's requirements.

Utility's Response

This was a first-year expectation that was assisted by the State Dept. of Commerce. While we appreciate Commerce's assistance in the first year, the Utility looks forward to future years of reporting when the Utility is in control of the reporting process and will provide accurate data to the Dept. of Ecology.

The Utility recognizes the importance of accurate reporting and has added regulatory reporting responsibility to the Business Services Manager job description requirements. To ensure accurate reporting in the future, the Utility's internal controls process will include data reporting from a Power Analyst position with regulatory reporting oversight responsibility from the Utility's senior management.

While the 70,271 MWh represents 65% of total unspecified market purchases that was underreported, the Utility's 89% fuel mix of clean carbon free specified resources positions the Utility to meet the State's near and long-term carbon emission free requirements.

Auditor's Remarks

We thank the Utility for its cooperation throughout the engagement and the steps it is taking to address these concerns. We will review the status of the Utility's corrective action during our next examination.

Applicable Laws and Regulations

RCW 19.405.070, Greenhouse gas content calculation.

WAC 194-40-060, Reporting fuel mix and greenhouse gas emissions.

Government Auditing Standards, 2018 Revision, Technical Update April 2021, paragraph 7.42 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov