



Office of the Washington State Auditor
Pat McCarthy

Report on Compliance with the Clean Energy Transformation Act

Public Utility District No. 3 of Mason County

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

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

May 6, 2024

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, 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. Public Utility District No. 3 of Mason County is one of those utilities.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT ACCOUNTANT'S REPORT

Public Utility District No. 3 of Mason County January 1, 2019 through December 31, 2021

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

We have examined Public Utility District No. 3 of Mason County's 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 District:

- 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 District is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on the District'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 District complied, in all material respects, with the specified requirements referenced above.

An examination involves performing procedures to obtain evidence about whether the District 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 District 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 District's compliance with specified requirements.

Our examination procedures were not designed to determine whether the District 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 District 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 target based on the amount it determined was cost-effective, reliable, and feasible. While the District identified an amount of reliable and feasible demand response resource from its assessment, it determined the amount was not cost-effective during the 4-year plan period.

Our examination disclosed the following material noncompliance with the Clean Energy Transformation Act's low-income energy assistance program offering requirements applicable to the District during the three-year period ended December 31, 2021. Specifically, the District only made programs and funding available to a portion of those households identified as low-income under CETA by July 31, 2021.

In our opinion, except for the material noncompliance described in the preceding paragraph, the District 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.

District's Response to Findings

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

April 26, 2024

SCHEDULE OF FINDINGS AND RESPONSES

Public Utility District No. 3 of Mason County January 1, 2019 through December 31, 2021

2021-001 The District did not fully comply with the Clean Energy Transformation Act by making programs and funding for energy assistance available to low-income households in a timely manner.

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 (CETA). In part, the legislative intent of CETA is to demonstrate electric utilities' progress toward making energy assistance funds available to low-income households.

The Clean Energy Transformation Act (CETA) required all electric utilities to make programs and funding for energy assistance available to low-income households by July 31, 2021. CETA defines "low-income" households as those with annual incomes that do not exceed the higher of 80 percent of area median income or 200 percent of the federal poverty level, adjusted for household size.

Based on information provided by the Washington State Department of Commerce, our Office understands that CETA requires utilities to offer more than one energy assistance program just for low-income households. Specifically, utilities must offer low-income households the opportunity to receive some form of energy assistance from their suite of low-income programs. Energy assistance may take several forms, and the prioritization of customers with high energy burden might be more effectively achieved by utilities providing different services to different customers based on their circumstances.

In applying CETA's definition of low-income, utilities are required to identify the income level that represents the higher of 80 percent area median income or 200 percent of the federal poverty level, adjusted for household size. Utilities then must ensure all households who meet that income level have the opportunity to receive energy assistance from at least one of the low-income energy assistance programs they offer.

Description of Condition

While the District made three low-income energy assistance programs and funding available to its customers, not all households considered low-income by CETA's definition were eligible to participate.

Cause of Condition

District management did not identify and respond to this requirement in a timely manner. Specifically, management did not identify and apply CETA's definition of low-income as the larger of 80 percent of area median income or 200 percent of the federal poverty level, adjusted for household size, and adjust its portfolio of energy assistance programs by July 31, 2021.

Effect of Condition

The District did not fully comply with the requirements of CETA. Specifically, the District did not ensure it made low-income energy assistance programs available to those customers meeting CETA's definition of low-income. All the low-income programs the District offered collectively served only a portion of those households meeting CETA's definition of low-income. Specifically, the District's low-income programs that were available as of July 31, 2021, collectively made energy assistance available to only those households with income levels of up to 185 percent of the federal poverty level, adjusted for household size.

Recommendation

The District implemented processes to evaluate income levels, and it revised a low-income energy assistance program to be available to all eligible households in compliance with CETA. These changes became effective in October 2022.

We recommend District management continue to monitor the income levels and program eligibility requirements to comply with CETA. We further recommend the District ensure its programs collectively provide households that meet CETA's low-income definition the ability to obtain assistance from at least one of its low-income energy assistance programs.

District's Response

Mason PUD 3 had every intent to fully comply with CETA. Unfortunately, the three low-income energy assistance programs provided to its customers as of July 31, 2021, did not quite meet the low-income definition threshold. Upon learning Mason PUD 3 was not in compliance with RCW 19.405.120, staff started exploring alternatives. After thoughtful consideration, a new grant program and changes to

an existing program were presented to and approved by the board of commissioners. These changes came into effect as of October 1, 2022, and brought Mason PUD 3 into full compliance.

Auditor's Remarks

We thank the District for its cooperation throughout the examination and the steps it is taking to address this issue. We will review the status of the District's corrective action during our next examination.

Applicable Laws and Regulations

RCW 19.405.120, Energy assistance for low-income households.

RCW 19.405.020, Definitions.

WAC 194-40-030, Definitions.

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.

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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.

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