



Office of the Washington State Auditor  
Pat McCarthy

# Report on Compliance with the Clean Energy Transformation Act

## Town of Steilacoom

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

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

May 2, 2024

Mayor and Town Council  
Town of Steilacoom  
Steilacoom, 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. The Town of Steilacoom is one of those utilities.

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

Sincerely,

Pat McCarthy, State Auditor

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# INDEPENDENT ACCOUNTANT'S REPORT

## **Town of Steilacoom January 1, 2019 through December 31, 2021**

Mayor and Town Council  
Town of Steilacoom  
Steilacoom, Washington

We have examined the Town of Steilacoom'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 Town:

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

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

Our examination procedures were not designed to determine whether the Town 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.

Our examination disclosed the following material noncompliance with the specified requirements associated with clean energy implementation plan reporting for the four-year period ending December 31, 2025, and the low-income energy assistance program assessment reporting for the two-year period ended December 31, 2020. The Town did not develop the energy efficiency and demand response targets it reported in its clean energy implementation plan in accordance with the specified requirements. In addition, the Town did not comply with the specified requirements by making programs and funding for energy assistance available to low-income households in a timely manner.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Town 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 Findings 2021-001 and 2021-002.

We also noted certain additional matters that we have reported to the management of the Town in a separate letter dated April 23, 2024.

### **Town's Response to Findings**

The Town's response to the findings identified in our examination are described in the accompanying Schedule of Findings and Responses. The Town'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 23, 2024

## SCHEDULE OF FINDINGS AND RESPONSES

### **Town of Steilacoom January 1, 2019 through December 31, 2021**

#### **2021-001 The Town did not develop the energy efficiency and demand response targets it reported in its clean energy implementation plan, as required by 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 (CETA).

CETA requires each electric utility to develop and adopt a clean energy implementation plan (CEIP) every four years. As part of that plan, each utility must propose four targets, including specific targets for the amounts of energy efficiency resources and demand response resources the utility will pursue during the plan period.

The four-year energy efficiency target must equal or exceed a pro-rata share of the potential the utility identified from its assessment of the cost-effective, reliable, and feasible conservation it expects to acquire over the next 10 years, consistent with the approach specified by the Energy Independence Act.

Similarly, each utility must adopt a four-year demand response target from its assessment of the amount of cost-effective, reliable, and feasible demand response resources it expects its customers will acquire over the next 10 years.

CETA also requires each utility to incorporate the social cost of greenhouse gas emissions in assessing the cost effectiveness of its conservation, efficiency and demand response potential. To achieve this, utilities must use the values and methodologies the Washington State Department of Commerce provided under CETA's administrative rules.

##### ***Description of Condition***

Our examination found the Town did not assess its energy conservation, efficiency, and demand response resource potential to support the targets it reported in its CEIP. For its energy efficiency target, the Town relied on a historical average energy efficiency target value that the Bonneville Power Administration (BPA) provided in a report it completed to assist the Town with completing its CEIP.

### *Cause of Condition*

Town officials were not aware of the assessment methods they needed to use to determine the targets required by CETA. Further, Town officials relied on the energy efficiency target that BPA provided and were not aware the target was not based on an assessment of energy conservation and efficiency potential. Instead, the value BPA provided was a historical average of the energy conservation achievements the Town acquired between 2017 and 2020.

### *Effect of Condition*

The Town did not comply with CETA's requirements in developing its energy efficiency target of 365 megawatt-hours as a four-year, pro-rata share of the cost-effective, reliable, and feasible conservation and efficiency potential it expects over the next 10 years. The target the Town reported and adopted was an average of past conservation achievements and did not incorporate the social cost of greenhouse gas emissions, as required by CETA's administrative rules.

In addition, the Town did not comply with CETA's requirements in developing its demand response target of 0 (zero) megawatts. Specifically, it did not assess its demand response potential to ensure it quantified its target as the amount of cost-effective, reliable, and feasible future demand response resource to be acquired over the four-year plan period.

### *Recommendation*

We recommend the Town consider working with other peer utilities for help with assessing its energy conservation and demand response potential.

We also recommend the Town develop its conservation potential assessment and resulting target using one of the following options available under CETA:

- Use the conservation methodology established under the Energy Independence Act and its administrative rules.
- Establish the reasonable utility-level proportion of a conservation potential assessment prepared at a regional or multi-utility level using a methodology that evaluates resource alternatives on a total resource cost basis and incorporates the social cost of greenhouse gas emissions.

We further recommend the Town develop its demand response potential assessment and four-year target as the demand response resource that is cost effective, reliable and feasible. To do this, we recommend the Town consider contracting with a subject matter expert and refer to the Northwest Power and Conservation Council

for guidance on available demand resource products to be considered in the assessment.

### ***Town's Response***

*Town officials concur with the State Auditor's finding.*

### ***Auditor's Remarks***

We thank the Town for its response and will follow up during our examination of its 2026 – 2029 Clean Energy Implementation Plan.

### ***Applicable Laws and Regulations***

RCW 19.405.020 – Definitions.

RCW 19.405.060(2), Clean energy implementation plan – Compliance criteria – Incremental cost of compliance.

RCW 19.405.040, Greenhouse gas neutrality – Responsibilities for electric utilities – Energy transformation project criteria – Penalties.

WAC 194-40-200, Clean energy implementation plan.

WAC 194-40-330, Methodologies for energy efficiency and demand response resources.

WAC 194-40-100, Social cost of greenhouse gas emissions.

WAC 194-40-110, Methodologies to incorporate social cost of 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.



## SCHEDULE OF FINDINGS AND RESPONSES

### **Town of Steilacoom January 1, 2019 through December 31, 2021**

**2021-002 The Town 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***

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 of 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***

The Town offered only one energy assistance program, which it made available to customers on a case-by-case basis. The Town did not apply an income eligibility threshold to ensure all households considered low-income by CETA’s definition were able to obtain energy assistance from its program.

### ***Cause of Condition***

Town management did not correctly interpret, identify and respond to CETA's requirements 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 to include more than one low-income-specific program by July 31, 2021.

### ***Effect of Condition***

The Town did not fully comply with the requirements of CETA. Specifically, the Town did not ensure it made more than one low-income energy assistance program available and did not ensure households meeting CETA's definition of low-income had the ability to obtain some form of energy assistance. The only program the Town offered did not define a household income level threshold to participate.

### ***Recommendation***

We recommend Town management offer at least two low-income-specific energy assistance programs that collectively make energy assistance available to low-income households.

To ensure all households meeting CETA's definition of "low-income" are able to obtain some form of energy assistance from the electric utility's programs, we recommend the Town use area median income tables available from the U.S. Department of Housing and Urban Development. Using these tables will allow the Town to annually review its household income threshold for program eligibility.

### ***Town's Response***

*Town officials concur that during the audit period we offered only the Utility Assistance/HELP program and did not formally incorporate the CETA definition of low-income into the criteria of those assisted, however, anyone who met the criteria who applied would have been provided assistance under the program.*

*Given the updated guidance recently provided by the Department of Commerce that at least two programs are required, Town officials will develop a second program.*

### ***Auditor's Remarks***

We thank the Town for its cooperation throughout the examination and the steps it is taking to address these concerns. We will review the status of the Town'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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