



Office of the Washington State Auditor
Pat McCarthy

Report on Compliance with the Clean Energy Transformation Act

Public Utility District No. 1 of Okanogan County

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

Published June 17, 2024

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

June 17, 2024

Board of Commissioners
Public Utility District No. 1 of Okanogan County
Okanogan, 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. 1 of Okanogan 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. 1 of Okanogan County January 1, 2019 through December 31, 2021

Board of Commissioners
Public Utility District No. 1 of Okanogan County
Okanogan, Washington

We have examined Public Utility District No. 1 of Okanogan 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 modified 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.

Our examination disclosed the following material noncompliance with the specified requirements for low-income energy assistance program offering, program assessment reporting for the two-year period ended December 31, 2020, and clean energy implementation plan reporting for the four-year period ending December 31, 2025. The District did not make energy assistance programs available to low-income households and did not report its energy assistance program assessment in accordance with the specified requirements. The District also did not develop the specific energy efficiency and demand response targets reported in its clean energy implementation plan in accordance with the specified requirements.

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 Findings 2021-001, 2021-002, 2021-003 and 2021-004.

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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

June 3, 2024

SCHEDULE OF FINDINGS AND RESPONSES

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

2021-001 The District did not comply with the low-income energy assistance program offering requirements of 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). In part, 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 (AMI) or 200 percent of the federal poverty level (FPL), adjusted for household size. CETA defines “energy assistance” as a program undertaken by a utility to reduce the energy burden of its customers.

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 the utilities’ suite of low-income programs. Energy assistance may take several forms, and to prioritize customers with high energy burden effectively, utilities might provide 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 AMI or 200 percent of the FPL, adjusted for household size. Each utility then must ensure all households who meet that income level are able to obtain energy assistance from at least one of the low-income energy assistance programs the utility offers.

Description of Condition

The District did not review the eligibility thresholds it applied to its low-income energy assistance programs to ensure all households considered low income by CETA’s definition were able to obtain energy assistance as of July 31, 2021 as required. As of that date, the District offered two low-income-specific energy

assistance programs: its Project Help program and its Low-Income Weatherization program.

The District incorrectly reported to Commerce these programs were collectively available during 2019 and 2020 to households with income levels of 200 percent FPL or 80 percent AMI, whichever was greater.

Based on a resolution adopted by the District's Commissioners in 2013, the District made its Project Help program available to low-income customers on a case-by-case basis with no assessment of the applicant's household income. Based on a 2019 Agreement for Services with a third-party administrator, the District made its Low-Income Weatherization program available to households with income levels of no more than 200 percent of the FPL, adjusted for household size, consistent with Bonneville Power Administration program guidelines.

We independently compared the AMI and FPL income levels, adjusted for household size, using 2021 FPL data from the U.S. Department of Health and Human Services and 2021 AMI data for Okanogan County, which is available from the U.S. Department of Housing and Urban Development. Our independent comparison showed income levels at 80 percent AMI are greater than those at 200 percent FPL for household sizes of one to four. Income levels at 200 percent FPL are greater than those at 80 percent AMI for household sizes of five or more.

Cause of Condition

Management did not identify and apply CETA's definition of low income as the higher of 80 percent of AMI or 200 percent of the FPL, adjusted for household size, and adjust its portfolio of energy assistance by July 31, 2021. CETA does not specify a method for utilities to use to determine those income levels.

District management did not review its biennial assessment to Commerce to ensure it accurately reported the eligibility requirements of its energy assistance programs. The eligibility requirements the District reported incorrectly asserted it complied with the program offering requirement.

The District stated that Commerce advised the District not to report its federally funded Low Income Household Energy Assistance Program (LIHEAP) and not to list five other energy assistance programs that were managed and administered by other charity organizations, not undertaken by the District.

Effect of Condition

The District did not fully comply with the requirements of CETA. Specifically, the District did not ensure households meeting CETA's definition of low income were able to obtain some form of energy assistance. Only one program the District

reported offering defined a household income level threshold necessary to participate. The District did not make energy assistance available to household sizes of one to four with income levels between 200 percent of the FPL and 80 percent of AMI as required.

The District misrepresented the eligibility requirements of the low-income energy assistance programs in its biennial assessment reported to Commerce.

The District offered energy assistance from federally funded LIHEAP to households with income levels up to 150 percent of the FPL, consistent with federal requirements.

Recommendation

We recommend District management annually review its low-income-specific programs to ensure it offers at least two programs that collectively make energy assistance available to households meeting CETA's definition of low income.

We recommend the District use area median income tables available from the U.S. Department of Housing and Urban Development. Using these tables will allow District management to annually review its household income threshold for program eligibility.

We also recommend District management review its assessment reports for accuracy prior to submitting them to Commerce.

District's Response

The methodology used by the District was different from the one developed by the SAO and Commerce. The District spent a considerable amount of time assessing its low-income specific programs without the benefit of any specific methodology provided in state law or administrative rule. Despite that, District staff managed to complete the task within the given time frame.

Auditor's Remarks

We thank the District for its comments and the assistance it provided during the examination. We appreciate the District's commitment toward compliance and will review the status of this finding 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.

SCHEDULE OF FINDINGS AND RESPONSES

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

2021-002 The District did not fully comply with all the energy assistance assessment reporting requirements of the Clean Energy Transformation Act.

Background

The Clean Energy Transformation Act (CETA) requires electric utilities to demonstrate progress toward making energy assistance funds available to low-income households. Every two years, electric utilities must report to the Washington State Department of Commerce an assessment of the effectiveness of the energy assistance programs and funding they provided to low-income households to reduce their energy burden. As part of the report, each utility must include a cumulative assessment of the energy assistance funding it provided compared to the funding levels needed to meet:

- Whichever is greater: 60 percent of its current energy assistance need, or increasing energy assistance by 15 percent over the amount it provided in 2018, by 2030; and
- Ninety percent of its current energy assistance need by 2050

For the biennial assessment period we examined, Commerce required utilities to provide data for calendar years 2019 and 2020.

Commerce defines “energy assistance need” as the amount of assistance necessary to achieve an energy burden equal to six percent for utility customers. Commerce has instructed utilities to estimate its customers’ energy burden as the share of annual household income used to pay home energy bills from of all fuel types, including electricity.

Description of Condition

Our examination found the District did not report to Commerce its previous energy assistance funding levels compared to those needed to meet its 2030 and 2050 energy assistance funding goals as required by CETA.

We examined the District’s estimate of current energy assistance need it presented during the examination and observed it did not consider annual household energy bills across all fuel types. The District had incorrectly based its estimate solely on

annual household electric energy bills. Specifically, the District estimated its current energy assistance need as \$349,173 across 386 households, exclusively for customer electricity bills. Using the same 2018 U.S. Department of Energy census tract data we obtained from Commerce, we independently estimated a current energy assistance need of \$5.17 million across 5,401 households for customer bills of all heating fuel types.

We could not determine how much of the variance we identified was attributed to the District's omission of energy bills from heating fuel types other than electricity. Without a specific method and source data to use for criteria, we were unable to evaluate whether the District performed its estimate in accordance with CETA and whether the District's calculation method was appropriate and suitable for estimating its energy assistance need.

Cause of Condition

This was the first year the District had to perform this assessment and report the results to Commerce because this was its first compliance period under CETA. District staff relied on Commerce's reporting template for information about the requirements, rather than referring to the written requirements found in CETA. The template did not include a section for utilities to report the cumulative assessment of energy assistance funding.

Further, District management did not include customer energy bills for fuel types other than electricity to estimate its energy assistance need because it only distributes electricity to its customers.

State law and the related administrative rules do not require utilities apply a particular methodology or specify the source data for quantifying its energy assistance need.

Commerce provided 2018 energy cost data from the U.S. Department of Energy for utilities to use to estimate current energy assistance need. However, the District expressed concerns with the data in its biennial assessment. The District revised the method Commerce recommended utilities follow to reduce the energy assistance need to a value it deemed reasonable.

Effect of Condition

The District did not fully comply with CETA's energy assistance funding assessment reporting requirements. Specifically, the District did not correctly estimate and report its current energy assistance need and related 2030 and 2050 funding goals for comparison to the energy assistance program funding it reported for 2019 and 2020 and did not submit its assessment to Commerce.

Without a method and data source specified in state law or administrative rule, utilities are at risk of reporting estimates of current energy need that are not auditable for compliance and are not reliable for program decision-making purposes.

Submitting incomplete reports prevents Commerce from collecting timely and accurate data on energy burden, energy assistance need, and each utility's reported energy assistance. This data is necessary to inform Commerce's biennial reporting to the Legislature and improve utilities' efforts to serve low-income households with energy assistance.

Recommendation

We recommend the District review all CETA's written requirements and establish a process to ensure CETA compliance before submitting the biennial report.

We recommend the District consider annual household energy bills across all fuel types when quantifying its current energy assistance need, consistent with CETA's definition. We also recommend the District work with Commerce to review the District's process for estimating its current energy assistance need to ensure its process is suitable for CETA reporting.

District's Response

Without a clear methodology specified in state law or administrative rule for calculating energy assistance need, the District takes exception to a finding of noncompliance in meeting this reporting requirement. Further, since RCW 19.405.120 only applies to utilities providing energy in the form of electricity, and the definition of "energy burden" contained in RCW 19.405.020(17) refers to annual home energy bills, the District did not interpret that it had an obligation to investigate its customers' use of firewood, heating oil, propane, etc., nor is it reasonable to think that it could accurately or lawfully do so. If the legislature had intended for electric utilities to require collection of non-electric cost data and demonstrate progress in offsetting non-electric costs, it could have clearly said so.

In addition, the data provided by Commerce is grossly exaggerated and cannot be relied upon to calculate energy assistance need. Please see the example below showing the WA AMI Census Tract data provided by the Department of Commerce for three of the identified burdened families within the District's service territory. The income of the households are highlighted in green and the number of household units are highlighted in orange. The column ELEP is the estimated electric energy bill. For these three households, the total excess energy burden amount (in yellow) ranges from \$48,414 to \$85,016. It is not reasonable to believe that a mobile trailer with approximately 53 household units, \$11,950 in income, and an electricity bill

of \$2,265 annually has an energy burden of \$85,016. Estimating energy assistance need based on this information would result in erroneous baseline data and funding goals.

TEN	YBL6	BLD	HFL	AMI68	UNITS	HINCP	ELEP	GASP	FULP	Burden	Excess	BurdenedUnits	Total Excess Burden
RENTER	1980-99	MOBILE_TRAILER	ELECTRICITY	0-30%	52.923	\$ 11,950.29	\$ 2,264.97	0.000	58.461	19.44%	1606.411	52.923	\$ 85,016.25
RENTER	1940-59	1 DETACHED	ELECTRICITY	0-30%	64.338	\$ 15,746.72	\$ 1,950.31	0.000	79.669	12.89%	1085.172	64.338	\$ 69,818.32
OWNER	1940-59	1 DETACHED	ELECTRICITY	30-60%	71.453	\$ 23,893.59	\$ 2,046.59	3.127	61.469	8.84%	677.572	71.453	\$ 48,414.32

Auditor's Remarks

We thank the District for its comments and insights and appreciate its assistance throughout the examination. We re-affirm our finding as CETA's definition and Commerce's instruction that "energy burden" represents "annual home energy bills", not annual home electricity energy bills.

We recommend the District consult Commerce to identify the appropriate method and instruction on how to properly use the data source Commerce provided for estimating current energy assistance need.

Applicable Laws and Regulations

RCW 19.405.120, Energy assistance for low-income households.

WAC 194-40-020, 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.

SCHEDULE OF FINDINGS AND RESPONSES

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

2021-003 The District did not fully comply with all the Clean Energy Implementation Plan reporting requirements of the Clean Energy Transformation Act.

Background

The Clean Energy Transformation Act (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 renewable energy, energy efficiency 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 an assessment of the cost-effective, reliable and feasible conservation it expects to acquire in the future. Utilities that are not required to comply with the Energy Independence Act may choose either of the following methods to establish its energy efficiency target:

- Apply the conservation methodology specified by the Energy Independence Act, or
- 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

In addition, each utility must report a demand response target to pursue all cost-effective, reliable and feasible demand response resources during the plan period consistent with its resource plan.

CETA requires each utility to incorporate the social cost of greenhouse gas emissions as a cost adder when assessing its cost effective conservation 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.

CETA also requires each utility:

- Submit to Commerce as part of its CEIP a summary of its process for providing reasonable opportunities for public input during plan

development and prior to its adoption, and how public comments were reflected in the specific actions it reported in its CEIP

- Identify the resource adequacy standard it relied on in preparing its resource plan and CEIP

Description of Condition

Our examination found District management did not accurately report the required renewable energy target and did not develop its energy efficiency and demand response targets in accordance with CETA.

In addition, the District was unable to demonstrate it fully complied with the resource adequacy reporting requirements and the public input requirements.

Specifically:

- District Commissioners adopted a four-year CEIP that included a zero (“0”) megawatt (MW) demand response target and 8,000 megawatt-hour (MWh) energy efficiency target. District management was unable to demonstrate these targets represented a pro rata share of cost-effective, reliable and feasible potential identified from assessments incorporating the social cost of greenhouse gas and performed in accordance with CETA’s administrative rules.
- The District reported a zero (“0”) MWh renewable energy target in its Commission-approved CEIP, which was inconsistent with the 47 percent renewable energy portion of the interim target it reported.
- While the District reported it performed outreach to local agencies and received no responses, the District did not summarize the outreach it performed, the agencies it contacted, or the public’s opportunity for input during development of the CEIP or demonstrate it considered public participation barriers as required.
- District management did not adequately respond with the resource adequacy standard and the methods of measurement it relied on in preparing its resource plan and CEIP as required.

Cause of Condition

This is the first CEIP the District has adopted and reported. District management did not have an adequate understanding of CETA’s new and complex reporting development requirements. Management incorrectly assumed it was not required to perform energy efficiency and demand response assessments required by CETA because the District was not a qualifying utility under the Energy Independence Act.

As a customer of the Bonneville Power Administration (BPA), the District relies on the resources BPA uses for the District's resource planning and for obtaining a significant amount of the electricity it distributes to its customers. District management was not aware that BPA provided its utility customers with information that addresses CETA's resource adequacy standard reporting requirements.

Effect of Condition

The District did not fully comply with CETA in developing and reporting its CEIP. Without the assessments of energy conservation and demand response potential, the District is unable to demonstrate it complied by pursuing all cost effective, reliable, and feasible energy efficiency and demand response as required. Because the energy efficiency target it adopted was based on historical energy efficiency that is no longer available, there is an increased likelihood its Commissioners adopted targets that are unrealistic and unattainable.

Failure to report an accurate renewable energy target could hinder the District's ability to show progress toward meeting CETA's greenhouse gas neutrality standard as required. It also misinforms report users such as Commerce and the Legislature who rely on the District reporting for decision-making purposes.

Because the District did not include BPA's detailed resource adequacy assessment in its CEIP, report users such as Commerce and the Legislature did not receive information needed for decision-making and understanding how the District ensures the capability and reliability of the resources it relies on to meet customer need.

While the District provided an opportunity for public input during the Commissioner meeting prior to the Commissioners' adoption of the CEIP, the opportunity came after the District had developed its CEIP. Vulnerable populations and highly impacted communities were not given the opportunity to influence the specific actions the District reported as the plan was being developed.

Recommendation

We recommend the District 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 methodology

that evaluates resource alternatives on a total resource cost basis and incorporates the social cost of greenhouse gas emissions

We further recommend the District 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 District consider contracting with a subject matter expert and refer to the Northwest Power and Conservation Council for guidance on available demand resource products for consideration in the assessment.

We recommend the District review its renewable energy target for consistency with its clean energy target and consider consulting with Bonneville Power Administration for information on reporting the resource adequacy standard and methods of measurement followed in resource planning.

We also recommend the District develop processes to ensure it is able to demonstrate and summarize its outreach efforts for public input during the CEIP development process, focusing on what public input process barriers it identified and how it considered those barriers in performing its outreach to highly impacted communities and vulnerable populations.

District's Response

With clearer guidance and improved evaluation tools provided by Commerce, the District will be in a better position to engage the public in a timely and robust process to inform the District's 2026 clean energy implementation plan.

Auditor's Remarks

We appreciate the District's commitment to resolving these issues and will review the status of this finding during our next compliance examination.

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 194-40-030, Definitions.

WAC 194-40-050, Submission of clean energy implementation plan.

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

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

2021-004 The District's controls were ineffective for ensuring its greenhouse gas content calculation was performed correctly in accordance with the Clean Energy Transformation Act.

Background

The Clean Energy Transformation Act (CETA) requires in part all electric utilities to calculate their greenhouse gas content of the electricity they deliver to their retail customers in Washington. Utilities must calculate their greenhouse gas content based on the fuel sources they disclose in the annual fuel mix source and distribution report they are required to submit to the Washington State Department of Commerce. CETA requires utilities to include in their calculation all the sources they use to provide electricity to retail customers, including sources that are outside Washington.

Further, CETA requires utilities to classify electricity delivered to retail customers as "unspecified source" electricity if the fuel attribute is unknown or has been separated from the electricity. Utilities are also required to apply the emissions rate adopted by the Washington State Department of Ecology to determine the emissions from the unspecified source electricity delivered to retail customers.

Calendar year 2020 was the first year that utilities were required by CETA to provide greenhouse gas content calculations to Commerce. During the examination, the state legislature passed a bill repealing the greenhouse gas content calculation. Commerce informed the electric utilities 2022 will be the final year the calculation will be required by CETA.

Description of Condition

District officials did not identify in a timely manner that the District had incorrectly classified electricity it delivered to retail customers in its 2020 greenhouse gas content report. The District incorrectly reported wind-generated electricity it delivered to retail customers as specified source electricity without emissions after having sold the associated renewable energy credits (RECs), or fuel attributes, to a third-party purchaser.

Additionally, the District incorrectly reported electricity it purchased from a third-party vendor as specified source electricity with emissions without identification of

the specific plants from which the electricity was generated. Because the source facilities that produced the electricity were unknown, the District was required to classify the amounts as unspecified source electricity in its calculation.

Commerce recalculated the District's 2020 and 2021 greenhouse gas content calculations in March 2024, adjusting the 2020 calculation to correct the errors we observed during the examination and recognize the wind energy without RECs as unspecified source electricity for 2021. The District confirmed the revised calculation was accurate.

We consider this control deficiency to be a material weakness.

Cause of Condition

This requirement was new in 2020. The District was uncertain how to calculate the greenhouse gas content of its electricity and was unable to obtain assistance and clarification to ensure compliance with CETA. District management and staff had not developed a process for identifying sales of RECs from renewable energy it purchased to ensure the energy was appropriately classified as unspecified source electricity for greenhouse gas content calculation purposes. Because District staff sell RECs and acquire electricity, Commerce is not aware of those transactions and relies on the District to provide the information when submitting its fuel mix reports and its greenhouse gas content reports.

In addition, the District obtained emission rates from another utility without independently verifying the rates with the vendor, the Department of Commerce or the Department of Ecology. The District reported electricity provided by the third-party vendor as specified source electricity based on fuel type but did not have sufficient information regarding the particular generating facilities to support the emissions rates reported.

Effect of Condition

The District did not calculate its greenhouse gas emissions for 2020 in compliance with CETA. Based on its fuel mix report, we determined the District should have reported emissions of 36,691 metric tons carbon dioxide equivalent (CO_{2e}) for 2020. The District originally reported 18,615 metric tons CO_{2e} to Commerce, an understatement of 18,076 metric tons CO_{2e}, or 49 percent.

The District should have reported emissions of 121,710 metric tons CO_{2e} for 2021. The District submitted its calculation as final for auditor examination reporting emissions of 109,407 metric tons CO_{2e}, an understatement of 12,303 metric tons CO_{2e}, or 10 percent.

While these understatements did not significantly affect Commerce’s statewide greenhouse gas content reporting, they were material to the District’s reporting.

The District subsequently worked with Commerce in March 2024 to correct its 2020 and 2021 calculations.

Recommendation

We recommend the District improve existing controls to include a process to ensure it properly classifies the electricity used to calculate its greenhouse gas content.

District’s Response

The District takes exception to the Auditor’s finding of a material weakness in the District’s controls for calculating its greenhouse gas emissions. Guidance from Commerce was originally incorrect. With the adjustment tool subsequently created by Commerce, the District’s 2020 and 2021 calculations were corrected as recognized by the Auditor.

Auditor’s Remarks

The error was identified in the calculation the District presented auditors for examination as final in December 2023. The errors were not the result of the corrections Commerce made to its calculation tool in March 2024. The District is responsible for compliance, including tracking sales of renewable energy credits (RECs) and ensuring the renewable energy it reports to Commerce that no longer is accompanied by the associated RECs is reported as unspecified source electricity, consistent with CETA’s definition. We re-affirm our finding.

We appreciate the District working with Commerce to resolve this issue and will review the status of this finding during our next compliance 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.

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