

# Focus on: Facilitating Linkage of Washington's Carbon Market



## WHY THIS MATTERS

Our reliance on fossil fuels adds greater amounts of greenhouse gases to our atmosphere, increasing the effects of wildfire, flooding, poor air quality, drought, and other effects of climate change. These effects will only become worse if we take no action.

This bill will help Washington to link its Cap-and-Invest Program with California and Québec. Linkage will help the stability and effectiveness of the state's program over the long-term.

Linkage will decrease allowance prices, thereby lessening the compliance costs of Washington's covered entities and the costs they pass along to Washingtonians.

## Proposed Legislation

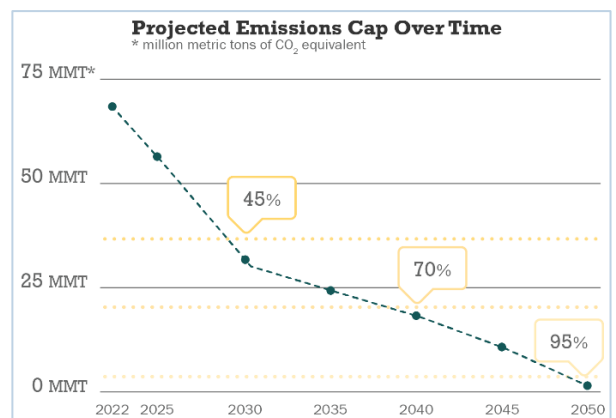
Ecology is proposing to amend provisions of the Cap-and-Invest Program through changes to RCW 70A.65 and RCW 70A.15.2200. These changes will provide consistency with California and Québec requirements, which is necessary for Washington to link with those markets. They would take effect Jan. 1, 2025, and only if the initiative does not pass.

## The Problem

The Climate Commitment Act (CCA) directs Ecology to consider linking Washington's Cap-and-Invest Program with other carbon markets. Ecology is pursuing to join the California-Québec market. However, there are currently differences between the programs that are barriers to link.

## Background

The [Cap-and-Invest Program](#) requires certain businesses to pay for the greenhouse gas emissions they produce by acquiring an "allowance." These allowances can be obtained through [auctions](#) hosted by the Washington State Department of Ecology or bought and sold on a secondary market. The number of allowances available will decrease over time, which will help move Washington towards its statutory-required goals.



Since starting in 2023, the auctions have generated over \$1.8 billion dollars of revenue. This helps fund projects to further reduce greenhouse gas emissions, mitigate the impacts of climate change, and reduce criteria pollutants in overburdened communities highly impacted by air pollution across the state.

## Proposed Legislation

Changes under the proposed legislation:

**Compliance periods** - The compliance period is the timeframe in which entities are responsible for buying allowances for their emissions. Ecology is seeking authority to revise Washington's compliance periods to synchronize with the other jurisdictions. Ecology would not modify the first compliance period (2023-2026).

**Allowance purchase limits** - Increasing the number of allowances an individual entity can purchase in each auction from 10% of the allowances available to 25%, matching the current requirements in California and Québec.

**Allowance holding limits** - The CCA provides that a participant in the cap-and-invest market may not own more than 10% of the total allowances issued in any calendar year. Ecology proposes amending the CCA to remove this restriction, but only if Washington links with the other jurisdictions.

**Electricity reporting** - Ecology is proposing that electric power entities report all emissions of greenhouse gases. Additionally, Ecology is proposing to amend the definition of an "electricity importer" to ensure it covers all possible scenarios. This change will help with linkage.

*Unspecified electricity* - Ecology is proposing that all importers of unspecified electricity be covered, regardless of the amount emissions associated with the power they import. ("Unspecified electricity" means power whose ultimate origin and associated greenhouse gas emissions is unknown.)

*Remove netting* - Removes provisions that allow electricity importers to reduce their compliance obligations by the amount of unspecified electricity they export. The proposed legislation deletes this "netting" provision from the statute.

**Enforcement** - Removes Ecology's discretion to reduce the penalty for an entity's failure to obtain sufficient allowances by a compliance deadline. Under the CCA, for the first compliance period, Ecology has discretion to reduce this penalty. Ecology is proposing to remove this provision in order to match what other jurisdictions do, again to help with linkage.

**Offset credits from linked jurisdictions** - The CCA currently requires offset credits to have been issued within a certain date range. This change will remove that restriction, enabling Washington to accept more offset credits from linked jurisdictions.

**Offset credits from projects on Tribal lands** - Increases the number of offset credits entities can use for compliance from projects on by federally recognized Tribal lands. Ecology believes increasing the number of credits from projects on Tribal lands will provide greater environmental benefits and reduce the effects of greenhouse gas emissions more in these communities.

**Greenhouse gas emissions reporting platform** - EPA has recently announced changes to the reporting methodology that Washington has relied on to calculate our greenhouse gas emissions. To maintain consistency with previous emissions calculations used for the Cap-and-Invest Program, Ecology may need to develop its own greenhouse gas reporting platform that incorporates current EPA reporting methodologies as California has done.

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## ADA Accessibility

To request an ADA accommodation, contact Ecology at 564-233-1572, email [Emily.Powers@ecy.wa.gov](mailto:Emily.Powers@ecy.wa.gov), or visit <https://ecology.wa.gov/accessibility>. For Relay Service or TTY call 711 or 877-833-6341.