

Focus on the Cap-and-Invest Program

Cap-and-Invest Program

In 2021, the Washington Legislature passed the Climate Commitment Act (CCA), which establishes the cap-and-invest program, a comprehensive, market-based program to reduce carbon pollution and achieve the greenhouse gas limits set in state law.

The Department of Ecology (Ecology) launched the program in January 2023. Washington’s cap-and-invest program is the second economy-wide, cap-and-invest or cap-and-trade program designed to reduce carbon pollution in the United States. The first U.S. program began in California in 2012.

How it works

Starting January 1, 2023, the cap-and-invest program set a limit, or cap, on carbon emissions in the state and requires businesses to obtain allowances equal to their [greenhouse gas emissions](#). These allowances can be obtained through quarterly auctions hosted by Ecology, or bought and sold on a secondary market.

The cap will be reduced over time to help Washington achieve its [2030, 2040, and 2050 required emissions-reduction limits](#), which means Ecology will issue fewer emissions allowances each year.

Auctions

Cap-and-invest auctions are sealed-bid auctions – meaning participants place bids anonymously. Participants can choose to submit a single bid for all of their desired allowances or a series of bids for groups of allowances at different prices.

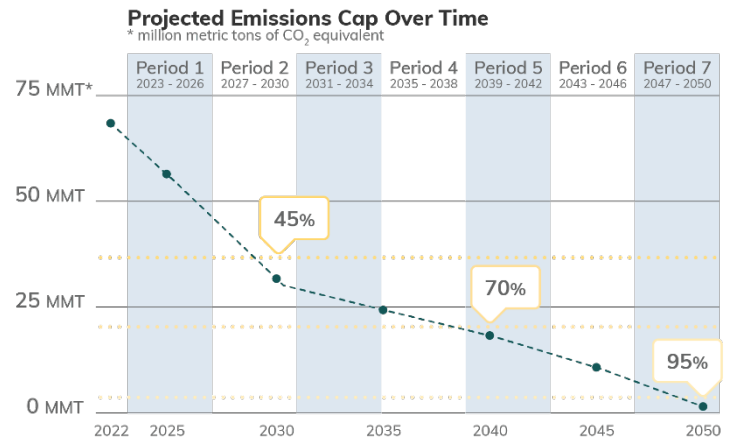
At the end of the auction, all participants’ bids are sorted in order from highest to lowest, and allowances are allocated to bidders starting with the highest bid. Once all the allowances have been allocated, the lowest bid that successfully won allowances is the price that all bidders pay.

Participants who are unable to obtain enough allowances to satisfy their compliance needs in the auctions will need to purchase their allowances from other businesses and individuals on the trading market.

The first emissions allowance auction was held on February 28, 2023. The amount of revenue generated by the auctions in 2023 was over \$1.8 billion.

Offsets

The cap-and-invest program allows participants to cover a portion of their emissions – up to a maximum of eight percent – with offset credits from qualified projects. These offset credits are “under the cap,” meaning that Ecology reduces the number of available allowances in the annual allowance budgets by the number of offset credits used for compliance in order to keep Washington on track to meet its emissions limits. Offset projects currently allowed in Washington’s program include forestry, urban forestry, livestock (methane capture), and ozone depleting substance destruction.



The graph shows the projected reduction of carbon dioxide (CO₂) equivalent emissions over the course of the cap-and-invest

How do businesses comply with the program?

Businesses are covered under the program if they are within a covered sector of the economy and generate emissions that exceed 25,000 metric tons of carbon dioxide equivalent per year. Covered sectors currently include electric utilities, natural gas and petroleum fuel suppliers, and industrial facilities. Waste-to-energy facilities will be added in 2027, and railroads in 2031.

Covered businesses must report their greenhouse gas emissions to Ecology annually. After purchasing allowances or offset credits, known as “compliance instruments”, businesses must submit them to Ecology. Starting in 2024, once a year in November, businesses must submit compliance instruments (allowances or offset credits) to cover 30% of their emissions for the prior year. At the end of each four-year compliance period, they must submit compliance instruments to cover their remaining emissions for the entire period. For example, for the first compliance period, emissions from 2023 through 2026 must be covered in full by November 2027.

Exemptions

Some emissions are exempted from the cap-and-invest program. Exempted emissions include those from fuels used for agricultural purposes, aviation fuels, marine fuels combusted outside of Washington, and fuels that are not combusted or oxidized. Emissions from fuels exported out of Washington are also excluded. Landfills were removed from the program in 2022, after the passage of House Bill 1663, which establishes a landfill-specific methane-reduction program. Specific guidance about exemptions is available on the [CCA Emissions Reporting webpage](#).

Where does the funding go?

The CCA that established the cap-and-invest program also set up three primary accounts to receive cap-and-invest auction proceeds. The accounts are set up to fund investments across the state designed to reduce greenhouse gas emissions, help communities prepare for and address the impacts of climate change, and protect vulnerable communities from pollution. The CCA requires that a minimum of 35% of the auction-generated revenue be used for projects that provide benefits to vulnerable populations within overburdened communities. In addition, 10% of auctions funds must be used for projects with Tribal support.

All proceeds from the auctions are subject to appropriation by the Legislature. Ecology administers the program but does not make decisions about how to invest the funds unless directed by the Legislature.

Auction revenue has already been used to provide free transit and ferries for youth 18 and under, electrify city buses and trucks, weatherize homes, and improve air quality monitoring technologies. Examples of CCA funded projects and programs can be found on the Office of the Governor’s [Washington Climate Action webpage](#).



The primary three accounts to receive auction proceeds, and the uses of the proceeds.

Related Information

- [Cap-and-Invest webpage](#)
- [Auction proceeds webpage](#)
- [Tracking greenhouse gases webpage](#)
- [Climate.wa.gov](#)



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To request an ADA accommodation, contact Ecology at 564-233-1572, emily.powers@ecy.wa.gov, or visit <https://ecology.wa.gov/accessibility>. For Relay Service or TTY call 711 or 877-833-6341.