

Preparing for the Nov. 1, 2024 Annual Compliance Obligation

Ву

Cap-and-Invest Auctions and Market Unit

For the

Climate Pollution Reduction Program

Washington State Department of Ecology Olympia, Washington

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¹ www.ecology.wa.gov/contact

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2023 Annual Compliance Obligation Overview

The first compliance period of the Washington cap-and-invest program began on January 1, 2023, and ends December 31, 2026. This compliance period includes three annual compliance obligation deadlines, and one full compliance period compliance obligation deadline, or quadrennial:

- First Annual: November 1, 2024 (30% of 2023 emissions)
- Second Annual: November 3, 2025 (30% of 2024 emissions)
- Third Annual: November 2, 2026 (30% of 2025 emissions)
- Quadrennial: November 1, 2027 (remaining balance of 2023, 2024, and 2025 emissions plus full 2026 emissions).

THE 2023 ANNUAL COMPLIANCE OBLIGATION IS DUE NO LATER THAN NOVEMBER 1, 2024, AT 5:00PM PACIFIC TIME.

This document outlines actions that must be taken by Primary Account Representative (PAR) and/or Alternate Account Representatives (AAR) to ensure entities have sufficient compliance instruments (eligible instruments) in the compliance account by the deadline to fulfill the 2023 Annual Compliance Obligation.

Ecology Staff are available to assist with compliance related questions:

• Email: RegistrarCCA@ecy.wa.gov

1.1 Summary of the 2023 Annual Compliance Obligation (Due November 1, 2024)

Key Points

- November 1, 2024 at 5:00pm Pacific Time is the due date for the 2023 Annual Compliance Obligation is due no later than November 1, 2024, by 5:00pm Pacific Time.
- The 2023 Annual Compliance Obligation is 30% of an entity's 2023 covered emissions². Entity representatives must transfer eligible instruments to the entity's compliance account in the Compliance Instrument Tracking System Service (CITSS) before the 2023 Annual Compliance Obligation deadline on November 1, 2024, by 5:00pm Pacific Time.
- Eligible Instruments for the 2023 Annual Compliance Obligation are:
 - Allowances with vintage 2023
 - Allowance Price Containment Reserve (APCR) allowances
 - Offsets of any vintage (oldest retired first) subject to usage limits:

² Covered Emissions are typically based upon reported emissions. However, an entity may be given an Assigned Emissions Level (AEL) of which the obligation will be based upon, if the entity meets any scenario under <u>WAC 173-441-086(1)</u>.

- Offsets Credits providing Direct Environmental Benefits to the State and on Tribal Lands, limited to 3% of emissions with a compliance obligation
- Offsets Credits providing Direct Environmental Benefits to the State and not on Tribal Lands, limited to 5% of emissions with a compliance obligation
- Entities assigned a true-up quantity in CITSS can use vintage 2025 allowances up to the specified "Remaining True-up Quantity"
- Failure to fulfill a compliance obligation results in both a Shortfall Obligation and Untimely Surrender Obligation, which total to 4 times the entity's outstanding emissions.

More information

The annual compliance obligation period for 2023 emissions ended on December 31, 2023. Entities were required to report 2023 emissions to Ecology and obtain 3rd Party Verification (3PV) no later than August 12, 2024. Account Representatives in CITSS must transfer enough instruments to the compliance account by November 1, 2024, at 5:00pm Pacific Time to meet the compliance obligation.

A portion of an entity's 2023 Annual Compliance Obligation can be met with offsets. Ecology issues two types of offset credits: those which provide Direct Environmental Benefits (DEBs) to the State on Tribal Lands, and those that provide DEBs to the State **not** on Tribal Lands. Each type can be used to meet 3% and 5% of the 2023 Annual Compliance Obligation, respectively. Offset credits can be any vintage, but oldest vintages are retired first.

The CITSS Compliance Obligation Detail Report shows past and current compliance obligations. For current compliance obligations CITSS will show a pending compliance status to allow account representative to determine if sufficient eligible compliance instruments are in the compliance account to meet the compliance obligation.

The Compliance Obligation Detail Report will not show current compliance obligations until Ecology uploads covered emissions and approves the compliance obligation in CITSS. The 2023 Annual Compliance Obligation will be available in CITSS by early October 2024. CITSS will send account representatives an email once the annual compliance obligation has been approved.

2.1 Review Facility Information

Key Points

In CITSS, each covered entity has at least one facility with a Greenhouse Gas Reporting ID assigned by the Greenhouse Gas Reporting and Verification Program (see 'More Information' below). Compliance obligations are based upon covered emissions with a positive, or qualified-positive, verification statement or an Assigned Emissions Level (AEL) for each facility. If you have not been notified by the Department of Ecology's Greenhouse Gas Emissions and Reporting Program that your facility(s) have an AEL, your compliance obligation is based on verified covered emissions with a positive/qualified-positive verification statement. CITSS sums up the individual facility emissions to the entity level, which determines the entity's overall compliance obligation.

Ecology will communicate with Account Representatives to ensure the proper facilities are associated and identified in CITSS ahead of the 2023 Annual Compliance Obligation. Account Representatives may also confirm in CITSS the following:

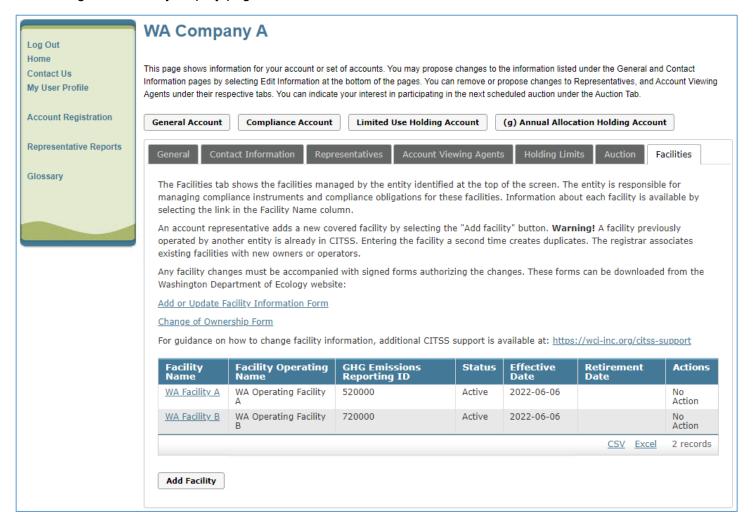
- The correct facilities are associated with the entity's CITSS account,
- Each facility has a valid Washington Greenhouse Gas Reporting ID,
- Each facility is in a status of active or retired, and
- The GHG ID in CITSS is the same as the Washington Electronic Database for Greenhouse Gas Emissions (WEDGE) GHG Reporting ID for that facility. Washington GHG IDs begin with either a 5, 7, or 9.

More information

Entities may have one or more facilities associated to their account in CITSS. Facilities under one entity may be from multiple covered emissions sources. Ecology verifies the appropriate facility to assign emissions to in CITSS by the Washington Greenhouse Gas Reporting ID. The Washington Greenhouse Gas Reporting ID is the same as the WEDGE GHG Reporting ID.

Figure 1 is a screenshot of the CITSS Facilities Tab. CITSS lists all facilities that have ever been associated with the entity account. Only facilities that are in **ACTIVE** status contribute to a compliance obligation. Ecology will continue to work with Account Representatives to confirm that appropriate facilities and GHG Reporting IDs are entered into CITSS.

Figure 1: Facility display page in CITSS



3.1 Review Facility Verified Covered Emissions

Key Points

CITSS calculates the annual compliance obligation based upon the covered emissions or AEL for each facility for applicable years. CITSS displays the emissions by facility by year. Ecology will communicate with Account Representatives to ensure the proper emissions are associated to the correct facilities in CITSS ahead of the 2023 Annual Compliance Obligation. While not required, Account Representatives may also check the following in CITSS:

- The 2023 Annual Emissions are correct, and
- 2023 Annual Emissions are associated to the correct facilities.

More Information

CITSS calculates the 2023 Annual Compliance Obligation based upon the covered emissions or AEL for applicable years. Covered emissions and AELs will be entered into CITSS in early October 2024.

Figure 2 shows a screenshot of a CITSS Emissions Report, which displays all emissions entered into CITSS by budget year and facility.

Emissions Log Out Home This page allows a user to produce an Emissions Report. The search function allows searching by Budget Year, CITSS Entity ID, Entity Legal Name, Facility Name, and GHG Emissions Reporting ID. Selecting the "Search" button generates the Emissions Report for the selected criteria. The search results are My User Profile presented in tabular form in the bottom half of the screen and may be more than one page in length. The table is sortable (ascending or descending) by clicking on the column titles. Additional pages are accessed using the page numbers below the table on the left. This table can be exported in its entirety to Account Registration CSV or Excel format by selecting the appropriate link below the table on the right. Selecting the "Clear" button clears the search fields Representative Reports **Budget Year** 2014 0 2013 Glossary 2015 CITSS Entity ID **Entity Legal Name Facility Name** GHG Emissions Reporting ID 10 🕶 Results per page Search Clear GHG Emissions Reporting ID Emissions (metric tons CO₂e) Budget Year CITSS Entity Legal Facility Updated Date/Time **Entity ID** Name 2023 WA1000 WA Facility A 6.803.469 2024-08-29 17:41:01 EDT WA Company A 2023 WA1000 2024-08-29 WA Company A WA Facility B 2222 405.038 17:41:01 EDT 2023 WA1001 WA Company B 5,566,951 2024-08-29 WA Facility 1 4444

Figure 2: Emissions Report for covered or opt-in entities

4.1 Estimate the 2023 Annual Compliance Obligation Due November 1, 2024

WA Facility 2

4444

WA Company B

Key Points

2023

WA1001

The 2023 Annual Compliance Obligation is 30% of 2023 covered emissions or an AEL. Account representatives can preview the 2023 Annual Compliance Obligation on the CITSS Compliance Obligation Detail Report by early October 2024. Covered entities will receive an email from CITSS once the Annual Compliance obligation has been approved.

17:41:01 EDT

4 records

2024-08-29 17:41:01 EDT

CSV Excel

6.013.049

More Information

Using preliminary reports, entities can estimate their Annual Compliance Obligation before the information is displayed in CITSS. Covered emissions and AEL values are entered into CITSS as whole numbers.

CITSS calculates the annual compliance obligation as 30% of the entered emissions values **rounded up** to the nearest whole number regardless of the value after the decimal.

Table 1 displays an example calculation of the 2023 Annual Compliance Obligation for WA Company A due November 1, 2024.

Table 1: Rounding rules for annual compliance obligation calculations.

Description	Value (MTCO₂-e)	
2023 emissions/AEL in WEDGE	7,208,508	
2023 emissions in CITSS	7,208,508	
Calculated 30% of 2023 emissions	2,162,552.4	
2023 Annual Compliance Obligation (30% of covered emissions/AEL, rounded up to the nearest whole number)	2,162,553	

5.1 Offset Usage Limit

Key Points

Offsets can be used to fulfil a portion of the 2023 Annual Compliance Obligation. There are two limits related to the two types of offsets eligible in Washington's program:

- Offset Credits providing Direct Environmental Benefits to the State and on Tribal Lands, limited to 3% of emissions with a compliance obligation
- Offset Credits providing Direct Environmental Benefits to the State and not on Tribal Lands, limited to 5% of emissions with a compliance obligation

More Information

In CITSS, emissions are uploaded as a whole number. When multiplying the applicable offset credit usage limit by the annual emissions results in a decimal value, Ecology will round the value **down to the nearest whole number** to avoid exceeding the offset limit.

Table 2 shows an example of the maximum number of offset credits an entity may use for the 2023 Annual Compliance Obligation. The two types of offset credits and their respective usages limits are assessed on the annual emissions or AEL, not on the 30% annual compliance obligation.

Table 2: Rounding rules for offset limit calculations.

DEBs to the State and on Tribal L	ands	DEBs to the State and <u>not</u> on Tribal Lands		
Description	Value	Description	Value	
2023 emissions in CITSS	7,208,508	2023 emissions in CITSS	7,208,508	
Usage limit	3%	Usage limit	5%	
3% of annual 2023 emissions	216,255.24	5% of 2023 emissions	360,425.4	
Maximum number of offsets that can be used (rounded down to the nearest whole number)	216,255	Maximum number of offsets that can be used (rounded down to the nearest whole number)	360,425	

6.1 Eligible Compliance Instruments

Key Points

To meet a compliance obligation, an entity must use Eligible Instruments. Eligible Instruments for the 2023 Annual Compliance Obligation are:

- Allowances with vintage 2023
- Allowance Price Containment Reserve (APCR) allowances
- Offsets of any vintage (oldest retired first) subject to usage limits:
 - Offsets Credits providing Direct Environmental Benefits to the State and on Tribal Lands, limited to 3% of emissions with a compliance obligation
 - Offsets Credits providing Direct Environmental Benefits to the State and not on Tribal Lands, limited to 5% of emissions with a compliance obligation
- Entities assigned a true-up quantity in CITSS can use vintage 2025 allowances up to the specified "Remaining True-up Quantity"

More Information

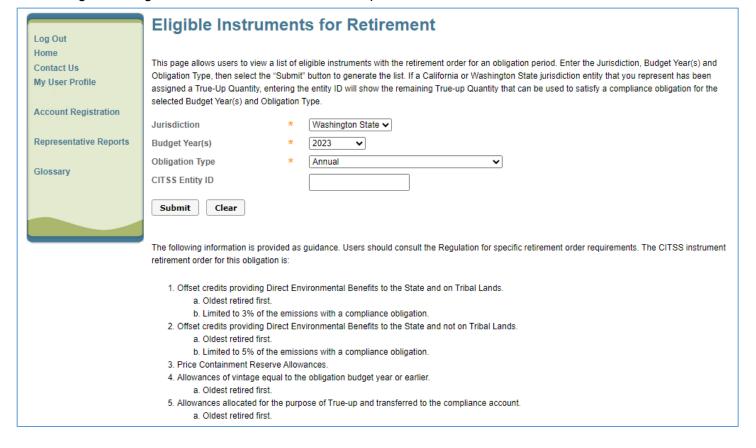
CITSS will only retire the number of eligible instruments from the compliance account necessary to fulfill the Compliance Obligation. CITSS will <u>not</u> retire more than the Annual Compliance Obligation from the compliance account, even if more than the required 30% is held in the account.

Figure 3 shows the CITSS Eligible Instruments for Retirement page, which lists the eligible instruments in the order they will be retired during compliance. The eligible instruments for retirement order for the 2023 Annual Compliance Obligation is:

- 1. Offset Credits providing Direct Environmental Benefits to the State and on Tribal Lands
 - a. Oldest retired first
 - b. Limited to 3% of the emissions with a compliance obligation
- 2. Offset Credits providing Direct Environmental Benefits to the State and not on Tribal Lands

- a. Oldest retired first
- b. Limited to 5% of the emissions with a compliance obligation
- 3. Allowance Price Containment Reserve Allowances
- 4. Allowances of vintage equal to the obligation budget year or earlier
 - a. Oldest retired first
- 5. Allowances allocated for the purposes of True-up and transferred to the compliance account.
 - a. Oldest retired first

Figure 3: Eligible Instruments for Retirement report



7.1 Review Compliance Obligation Detail in CITSS

Key Points

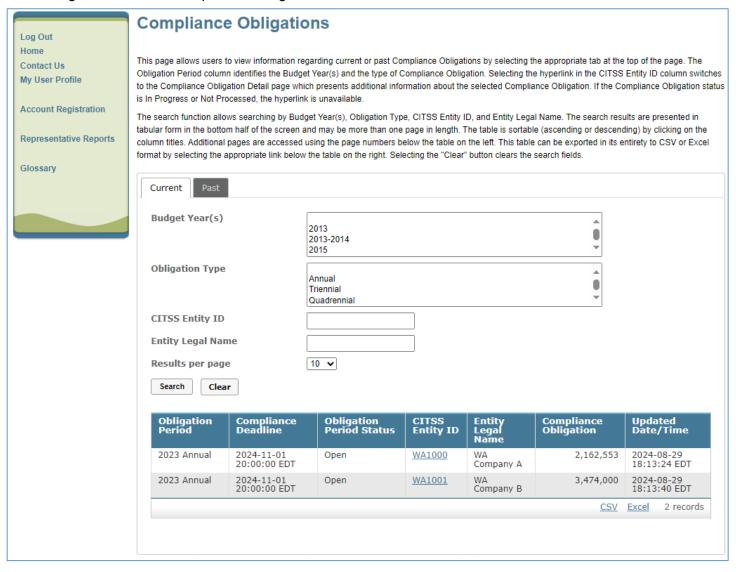
The Compliance Detail Report shows all relevant information for a selected compliance obligation. This report will not display current compliance obligations until emissions are uploaded and obligations are approved, which typically occurs in early October. CITSS will evaluate the compliance account to determine if enough eligible instruments are in the account to fulfill an obligation. This evaluation informs the Compliance Status.

Discussion

The CITSS Compliance Obligations Detail Report provides detailed information about a compliance obligation. To access the Compliance Obligations Detail Report, an account representative must choose the desired obligation from the CITSS Compliance Obligation Report.

Figure 4 shows the Compliance Obligation filtered for the 2023 Annual Compliance Obligation, and the resulting 2023 Annual Compliance Obligation for WA Company A.

Figure 4: Current Compliance Obligations



The Compliance Obligations Report page, the Current Tab is the default page with filters, to view current or future obligations. The Past Tab must be selected to review information from past compliance obligations. To review the information for a specific obligation, select the hyperlinked CITSS Entity ID to open the Compliance Obligation Detail Report.

Figure 5 shows the CITSS Compliance Obligation Detail Report. The following section provides more in-depth detail about the report. Not all components will be available to every entity or obligation.

Figure 5: Compliance Obligation Information page

Compliance Obligation Information				
Obligation Period	2023 Annual			
CITSS Entity ID	WA1000			
Entity Legal Name	WA Company A			
Entity Operating Name	WA Operating Company A			
Compliance Account Number	WA1000-998			
Compliance Status	Pending Unfulfilled?			
Compliance Deadline	2024-11-01 20:00:00 EDT?			
Updated Date/Time	2024-09-26 14:33:57 EDT?			
Compliance Obligation	2,162,553			
Instruments Retired	0			
Balance to Fulfill Obligation	2,162,553 ?			
Direct Environmental Benefits to the State on Tribal Lands Offset	216,255 ?			
Limit				
Direct Environmental Benefits to	360,425 ?			
the State Not on Tribal Lands Offset Limit				
Instruments in Compliance	1.125 ?			
Account to be Retired	1,123			
Additional Instruments Needed in	2,161,428 ?			
Compliance Account				

8.1 Description of the CITSS Compliance Obligation Detail Report

The CITSS Compliance Obligation Detail Report provides all necessary information to review an entity's compliance obligation information. Some sections of the report contain a purple question mark "?". Hover the mouse over the question mark to view an explanation of the section.

Compliance Obligation Information

The "Compliance Obligation Information" section includes the most important information of the report. It is formatted like a math equation, for example

- "Balance to Fulfill Obligation" minus "Instruments in Compliance Account to be Retired" equals "Additional Instruments Needed in Compliance Account."

CITSS evaluates the compliance obligation information and determines a compliance status:

- "Pending <u>Unfulfilled</u>" indicates there are not sufficient instruments in the compliance account to meet the compliance obligation.
- "Pending <u>Fulfilled</u>" indicates there are sufficient instruments in the compliance account to meet the compliance obligation.

Instruments in the Compliance Account to be Retired

The "Instruments in the Compliance Account to be Retired" sections list the type and number of instruments that CITSS will retire at the compliance deadline.

Figure 6: Instruments to be Retired Table



Remaining True-up Quantity

"Remaining True-up Quantity" is the balance of unused true-up quantity for an appliable compliance obligation. "Remaining True-up Quantity" is the maximum number of the Assigned Vintage that an entity can use as eligible instruments toward a compliance obligation.

"Remaining True-up Quantity" is two years future to the emissions year.

Figure 7: Remaining True-up Quantity Table

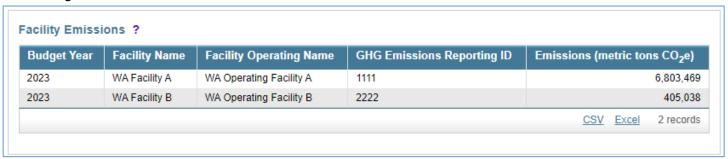


The "Remaining True-up Quantity" is 500, the same as the "Assigned True-up Quantity," (Figure 8) because the entity has not used any 2025 allowances for compliance. Please review the following section on True-up Quantity for more information.

Facility Emissions

"Facility Emissions" section provides a table of the approved covered emissions or AEL for each facility, which contributes to the compliance obligation.

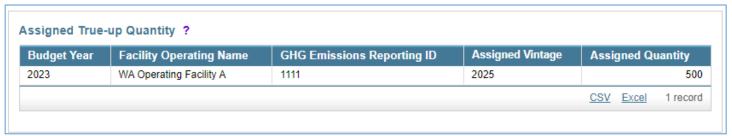
Figure 8



Assigned True-up Quantity

"Assigned True-up Quantity" is the true-up value assigned to a facility to account for a change in production or required allocation.

Figure 9: Assigned True-up Quantity Table



9.1 True-Up Allocation and True-up Quantity

Key Points

Ecology allocates allowances to adjust for production data and changes in required allocation that were not reflected in prior allocations for a given year. This is reflected in CITSS as the "True-Up Quantity." This is a value in CITSS, not a type of allowance.

The True-Up Quantity vintage is emissions year plus 2. Therefore, an entity with a 2023 obligation may receive a True-Up Quantity of Assigned Vintage 2025, which is eligible for the 2023 Annual Compliance Obligation. This will only be applicable to some Emissions Intensive, Trade Exposed (EITE) entities.

More Information - Only Relevant for EITE entities

Understanding True-up requires understanding relevant terminology and timing of reporting activities. For purposes of compliance, only applicable Emissions Intensive, Trade Exposed (EITE) entities receive a True-up.

Budget Year is the year emissions occurred. Ecology provided initial no cost allocation to EITE entities for budget year 2023 in October 2023. This allocation was informed by 2022 reporting and production data. If covered emissions and production data require a greater number of no cost allocation than the initial allocation, then after the budget year 2023, Ecology provides

additional allowances of vintage later than the budget year to adjust the allowance allocation. Ecology refers to this as "true-up."

Upon receiving covered emissions for a budget year, allowances of vintage equal to the budget year can no longer be allocated. As such, allowances allocated for the purpose of True-up are of the vintage year two years later than the budget year. Allowances allocated for true-up are included in the annual allocation each October.

The true-up process allows for EITEs which received initial allocation to use a specified number (the "Assigned True-up Quantity") of vintage 2025 allowances to meet the 2023 Annual Compliance Obligation.

True-up Quantity Terminology

- "Assigned True-up Quantity" refers to the eligible vintage and number of allowances allocated for true-up.
- "Remaining True-up Quantity" is the balance of unused True-up Quantity. This is also the maximum number of the assigned vintage that an entity can use to meet a current compliance obligation.
 - The "Remaining True-up Quantity" remains eligible for use until the assigned vintage becomes current.

The 2023 Annual Compliance Obligation is the first of Washington's program, and so only future vintage 2025 are eligible for use. Figure 10 shows the CITSS page for True-up Quantity.

An entity can sell allowances allocated for purposes of True-up; the True-up Quantity remains with the entity that was initially allocated the allowances. An entity does not need to use the allowances allocated for True-up for compliance and may use instruments purchased elsewhere of the same assigned vintage toward the compliance obligation.

Figure 10: True-up Quantity Report

7 194.5	N .	Quantit					
Log Out	irue-op	J Quantin	.y				
Home Contact Us My User Profile Account Registration	This page allows a user to produce a True-Up Quantity Report. The search function allows searching by Budget Year, CITSS Entity ID, Entity Legal Name, Facility Name, and GHG Emissions Reporting ID. Selecting the "Search" button generates the True-Up Quantity Report for the selected criteria. The search results are presented in tabular form. The table is sortable (ascending or descending) by clicking on the column titles. Additional pages are accessed using the page numbers below the table on the left. This table can be exported in its entirety to CSV or Excel format by selecting the appropriate link below the table on the right. Selecting the "Clear" button clears the search fields.						
Representative Reports Glossary	Budget Year		2013 2014 2015				
	CITSS Entity ID						
	Entity Legal Na	ame					
	Facility Name						
	GHG Emissions Reporting ID						
	Results per pa	ge	10 🗸				
	Search Clear						
	Budget Year	CITSS Entity ID	Entity Legal Name	Facility Name	GHG Emissions Reporting ID	Assigned True-Up Quantity	Updated Date/Time
	2023	WA1000	WA Company A	WA Facility A	1111	500	2024-08-29 17:52:59 EDT
	2023	WA1001	WA Company B	WA Facility 2	4444	800	2024-08-29 17:52:59 EDT
	CSV Excel 2 recon						SV Excel 2 records