



Potential linkage of Cap-and-Invest carbon market with the joint California-Québec carbon market (Draft)

An Environmental Justice Assessment (per RCW 70A.02.060)

For the

Climate Pollution Reduction Program

Washington State Department of Ecology
Olympia, Washington

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¹ www.ecology.wa.gov/contact

Language Access

Under the state Environmental Justice law (RCW 70A.02), Ecology is required to conduct Environmental Justice Assessments during development of certain significant actions. This Assessment provides information about the potential impacts to overburdened communities and vulnerable populations, and strategies to mitigate identified harms and fairly distribute known benefits. The Department of Ecology is committed to providing language services, including translation and interpretation, for people whose primary language is not English. To request these services, email CCAQuestions@ecy.wa.gov or call 360-407-6800.

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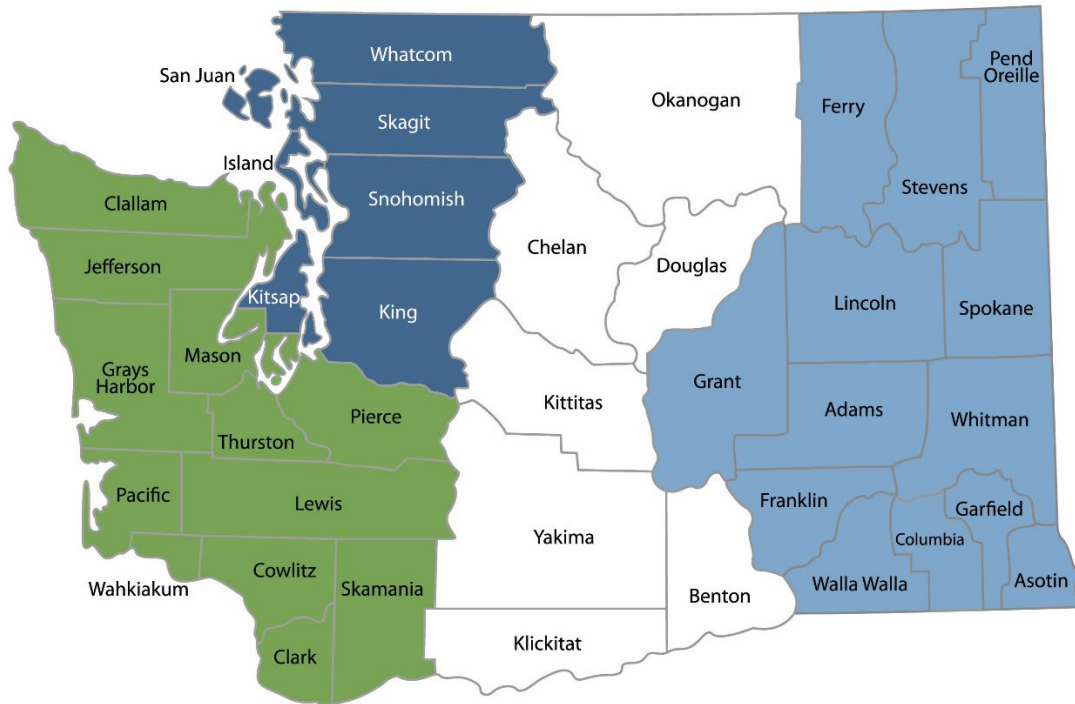
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Department of Ecology's Regional Offices

Map of Counties Served



Southwest Region 360-407-6300	Northwest Region 206-594-0000	Central Region 509-575-2490	Eastern Region 509-329-3400
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Region	Counties served	Mailing Address	Phone
Southwest	Clallam, Clark, Cowlitz, Grays Harbor, Jefferson, Mason, Lewis, Pacific, Pierce, Skamania, Thurston, Wahkiakum	P.O. Box 47775 Olympia, WA 98504	360-407-6300
Northwest	Island, King, Kitsap, San Juan, Skagit, Snohomish, Whatcom	P.O. Box 330316 Shoreline, WA 98133	206-594-0000
Central	Benton, Chelan, Douglas, Kittitas, Klickitat, Okanogan, Yakima	1250 West Alder Street Union Gap, WA 98903	509-575-2490
Eastern	Adams, Asotin, Columbia, Ferry, Franklin, Garfield, Grant, Lincoln, Pend Oreille, Spokane, Stevens, Walla Walla, Whitman	4601 North Monroe Spokane, WA 99205	509-329-3400
Headquarters	Statewide	P.O. Box 46700 Olympia, WA 98504	360-407-6000

Table of Contents

List of Figures and Tables	6
Figures.....	6
Executive Summary	7
Environmental Justice Assessment	9
<i>Purpose of the Environmental Justice Assessment</i>	9
Glossary	10
Cap-and-Invest Program background information	12
<i>Climate Commitment Act</i>	12
<i>Linking carbon markets</i>	13
Section 1: Background	15
Section 2: Notification that an Environmental Justice Assessment has been Initiated	16
Section 3: Identify Affected Tribes	17
<i>Preparing for Tribal Consultation</i>	17
Section 4: Offer Consultation:	19
Section 5: Summary of Tribal Consultation & Engagement	20
<i>Summary of Tribal Consultation</i>	20
Section 6: Identification of Overburdened Communities & Vulnerable Populations	25
<i>Identify Overburdened Communities and Vulnerable Populations</i>	25
Section 7: Summary of Community Engagement	30
<i>Summarizing Community Engagement</i>	30
Section 8: Potential Environmental Benefits & Harms from Action	38
<i>Identify Potential Environmental Benefits & Harms from Action</i>	38
Section 9: Options to Eliminate, Reduce, or Mitigate Harms and Equitably Distribute Benefits	45
<i>Identify Options to Eliminate, Reduce, or Mitigate Harms & Equitably Distribute Benefits</i>	45
References	58
Appendix A: Summary of comment letters included in this Environmental Justice Assessment	61
Appendix B: Memo on Treatment of California/Québec Allowances in a California/Québec/Washington Linked Market	70

List of Figures and Tables

Figures

Figure 1: Statewide map of facilities regulated by the Cap-and-Invest Program and overburdened communities highly impacted by criteria air pollutants, 2024..... 26

Figure 2: Map of census tracts with EHD overall rank 9 and 10 and within three miles of a facility regulated by the Cap-and-Invest Program. 27

Executive Summary

The Climate Commitment Act (CCA) directs the Washington Department of Ecology (Ecology) to create a Cap-and-Invest Program – a market-based program to reduce greenhouse gas emissions from Washington’s largest emitting sources and industries. The CCA also directs Ecology to seek to link the program with other jurisdictions and Washington is pursuing linkage with the California-Québec joint carbon market. If Washington links with California and Québec: allowances (an authorization to emit one ton of greenhouse gases) could be used to cover emissions in any of the three jurisdictions; the three jurisdictions would hold joint allowance auctions; and businesses that participate in the carbon market could trade allowances across the three jurisdictions.

In a linked market, Washington businesses would gain access to a larger pool of allowances and there would be the same allowance price across all the jurisdictions. Ecology expects this would make the carbon market more stable and lower the cost of compliance for businesses that participate in the program. This could also lower costs for consumers, if those businesses pass on their compliance costs. Ecology expects that linkage would result in continued greenhouse gas emission reductions, but at a lower total cost. Linkage will not change many aspects of the Cap-and-Invest Program including key provisions that address environmental justice and direct funding to overburdened communities and vulnerable populations.

In January 2023, shortly after the start of the Cap-and-Invest Program, Ecology offered consultation with Tribes and began engagement with the Environmental Justice Council, community organizations, environmental organizations, other interested parties, and the public. Since then, Ecology has held three comment periods on linkage (one is ongoing), online public meetings and community forums, and small group or individual meetings. Ecology has also held Tribal forums and presented at several Environmental Justice Council meetings. Over the past three years, we received many comments, concerns, and recommendations on linkage. For this Environmental Justice Assessment, we included comments from Tribes (3), comments from environmental organizations that mentioned impacts to overburdened communities (11), comments from community-based organizations (5), and comments from individuals (18).

Because Cap-and-Invest is a market-based program where businesses choose their most cost-effective compliance strategies, the type of impacts from linkage and location of those impacts is uncertain. Commenters expressed concern that linkage would lead to more air pollution from facilities, less funding from Cap-and-Invest auctions to invest in local projects, and that linkage would make it harder to meet Washington’s greenhouse gas emissions limits. Some commenters were concerned that linkage would reduce the financial and environmental benefits from offset projects for Tribes and communities.

Commenters also shared recommendations for actions for Ecology to take to address their concerns. Ecology evaluated each recommendation for feasibility and effectiveness and shared detailed analyses of several of the recommendations, including the proposal to limit greenhouse gas emissions from certain facilities (called facility specific emissions caps). To

address concerns, Ecology proposed changes to rules to increase benefits from offset projects to Tribes and communities in Washington, included language in the draft linkage agreement related to environmental justice and benefits to overburdened communities, and expanded our outreach and engagement.

The question of whether Washington will link with California and Québec is still undecided. The CCA includes specific process steps and requirements for linkage, including completing this Environmental Justice Assessment. Ecology is seeking comments on linkage until May 1, 2026. Ecology will incorporate feedback into the final Environmental Justice Assessment and consider all comments in the decision on whether to link. California and Québec each have their own processes to determine whether to link with Washington.

Environmental Justice Assessment

Purpose of the Environmental Justice Assessment

The Environmental Justice (EJ) Assessment process helps assess the environmental justice impacts of Significant Agency Actions (SAAs). The assessment informs and supports consideration of overburdened communities and vulnerable populations when making decisions. This information assists with the equitable distribution of environmental benefits, the reduction of environmental harms, and the identification and reduction of health disparities.

The EJ assessment process aligns with Washington’s Environmental Justice law called the Healthy Environment for All (HEAL) Act ([RCW 70A.02²](#)).

Environmental justice assessments are to be completed for the following actions:

- The development and adoption of significant legislative rules as defined in [RCW.05.328³](#)
- The development and adoption of any new grant or loan program that a covered agency is explicitly authorized or required by statute to carry out
- A capital project, grant, or loan award of at least \$12,000,000 or a transportation project, grant, or loan of at least \$15,000,000
- The submission of agency request legislation to the office of the governor or the office of financial management for approval
- This assessment is not required to be a comprehensive or an exhaustive examination of all potential impacts of a significant agency action and does not require novel quantitative or economic analysis of the proposed significant agency action.

The time and resource investment, and depth of assessment, will be influenced by the reasonable applicability of the questions to the agency action.

Ecology plans to update this document and incorporate what we learn through practice, community engagement, Tribal consultation, and any guidance we may receive from the Environmental Justice Council.

This Environmental Justice Assessment is adapted for publication and does not include internal agency process instructions.

² <https://app.leg.wa.gov/RCW/default.aspx?cite=70A.02&full=true>

³ <http://app.leg.wa.gov/RCW/default.aspx?cite=34.05.328>

Glossary

For consistency purposes, Ecology has chosen to use the following terms:

Climate Commitment Act (CCA): Law enacted by the Washington Legislature in 2021. The CCA established the Cap-and-Invest Program, which limits greenhouse gas emissions from Washington’s largest emitting sources and industries.

Allowance: Authorization to emit up to one metric ton of carbon dioxide equivalent.

Banked allowances: Allowances that market participants have in their accounts that have not been needed for compliance. Entities may be saving the allowances to use for future compliance obligations or to sell on the secondary market to generate revenue. Also referred to as “unused allowances.”

Criteria air pollutants: Six pollutants that can be harmful to human health and the environment with National Ambient Air Quality Standards designated by the Environmental Protection Agency. The pollutants are particulate matter, ground-level ozone, nitrogen dioxide, carbon monoxide, lead, and sulfur dioxide.

Compliance instrument: An allowance or offset credit. One compliance instrument is equal to one metric ton of carbon dioxide equivalent. Entities can use offset credits to meet a limited portion of their compliance obligation – less than 8%.

Compliance obligations: The requirement to submit compliance instruments (allowances and offset credits) equivalent to a covered entity’s covered emissions during each compliance period.

Covered emissions: Covered emissions are those greenhouse gas emissions that are regulated by the Cap-and-Invest Program. Certain sources of emissions are excluded, such as emissions from the combustion of biofuels or biomass, as specified in Chapter 70A.65.080 RCW.

Covered entity: An entity that is required to participate in the Cap-and-Invest Program. They must acquire compliance instruments (allowances or a limited amount of offset credits) equal to their covered emission. Generally, an entity is covered if it emits over 25,000 metric tons of carbon dioxide equivalent per year. Note: Covered entities may be referenced in this Assessment as “entities,” “businesses,” or “facilities” regulated by the Cap-and-Invest Program. Not all covered entities are businesses, but the term “business” is used throughout for simplicity.

Direct environmental benefits (DEBs): In the context of offsets in Washington, this means environmental benefits accomplished through the reduction or avoidance of emissions of any air pollutant in the state or the reduction or avoidance of the release of any pollutant that could have an adverse impact on land or waters of the state (WAC 173-446-020).

Environmental justice: The fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income with respect to the development, implementation, and enforcement of environmental laws, rules, and policies. Environmental justice includes addressing disproportionate environmental and health impacts in all laws, rules, and policies with environmental impacts by prioritizing vulnerable populations and overburdened

communities, the equitable distribution of resources and benefits, and eliminating harm (from RCW 70A.02.010(8)).

Emissions-intensive, trade-exposed industries (EITEs): Industrial facilities that include petroleum refineries and manufacturing facilities that produce chemicals, paper, food, airplanes, building materials, and other products. They use high levels of energy and release large amounts of greenhouse gas emissions, while also facing significant national or global competition for their products. They were given special consideration by the Legislature and receive most of the allowances they need at no cost until at least 2034.

Emissions trading system (ETS): A market-based greenhouse gas emissions reduction program that involves an emissions cap and tradeable allowances. The most common type is a cap-and-trade or cap-and-invest program.

Entities: See definition for “covered entities.”

Facilities: For the purpose of this Environmental Justice Assessment, facility is used to refer to industrial facilities, power plants, pipeline compressor stations, and other covered entities with a fixed location.

No-cost allowances: These are allowances distributed by Ecology directly to a covered entity at no cost to that covered entity. Under the CCA, electric utilities, natural gas utilities, and EITEs receive allowances at no cost. Each of these groups receives differing amounts of no-cost allowances and is subject to different requirements on how they use their no-cost allowances.

Market participant: an entity that is registered in the Cap-and-Invest Program registry and intends to purchase, hold, sell, or voluntarily retire compliance instruments.

Offset credit: A compliance instrument that can be purchased as an alternative to allowances. One offset credit is equal to one metric ton of carbon dioxide. Entities can use offset credits to meet a limited portion of their compliance obligation – less than 8%.

Offset project: Actions that reduce or remove greenhouse gas emissions not already covered by Cap-and-Invest or other regulatory programs. Offset projects must be implemented in alignment with one of the adopted protocols and provide direct environmental benefits to Washington to generate offset credits that are eligible for use in the Cap-and-Invest Program.

Overburdened communities: A geographic area where vulnerable populations face combined, multiple environmental harms and health impacts. Note: The public and organizations used a variety of terms in their comments, including highly impacted, frontline, and marginalized communities.

Revised Code of Washington (RCW): A law passed by the Legislature and signed by the Governor.

Standalone program: The current Washington Cap-and-Invest Program that is not linked.

Vulnerable populations: Population groups that are likely to be at a higher risk for poor health outcomes in response to environmental harms.

Washington Administrative Code (WAC): Also known as a “rule”; interprets and implements state laws (RCW) or federal laws.

Cap-and-Invest Program background information

Climate Commitment Act

Washington is required to reduce greenhouse gas emissions statewide to 45% below 1990 levels by 2030, 70% below 1990 levels by 2040, and 95% below 1990 levels and achieve net zero greenhouse gas emissions by 2050 and 95% below 1990 levels and achieve net zero emissions by 2050.⁴ To meet these limits, the Washington State Legislature passed the Climate Commitment Act (CCA) in 2021, along with a suite of complementary climate policies. The CCA created the Cap-and-Invest Program to reduce greenhouse gas emissions from Washington's largest emitting sources and industries by putting a price on emissions⁵ and creating a carbon market.

In general, entities covered by the Cap-and-Invest Program must obtain compliance instruments⁶ (primarily allowances) equivalent to their covered emissions. This is called their "compliance obligation." One allowance allows for one ton of greenhouse gas emissions.

Business types include (but are not limited to) industrial facilities, fuel suppliers, and natural gas and electric utilities that emit 25,000 or more metric tons of greenhouse gases annually.⁷ Overall, the Program⁸ covers about 70% of the state's greenhouse gas emissions.

The CCA directs Ecology to set a cap on emissions. The cap will be reduced over time to ensure Washington achieves its 2030, 2040, and 2050 greenhouse gas emissions limits. Ecology will issue fewer allowances each year, in accordance with the cap. While the CCA requires that some types of entities receive allowances for free, most need to purchase allowances, primarily during quarterly auctions administered by Ecology. Entities can also buy allowances from other market participants (in what is called the "secondary market"). A reduction in the number of allowances issued over time means entities have a financial incentive to reduce their greenhouse gas emissions.

Entities may cover up to 8% of their covered emissions with offset credits from qualified projects. To use the maximum 8%, a portion of the credits must be from projects on federally recognized Tribal lands.⁹ When an offset is used by a business for compliance, an allowance is removed from future supply, known as offsets are 'under the cap.' This ensures that use of offset credits does not take the place of emissions reductions by entities in Washington state.

⁴ RCW 70A.45.020.

⁵ In this document "emissions" refers to greenhouse gas emissions unless otherwise noted.

⁶ A compliance instrument is an allowance or offset credit. One compliance instrument is equal to one metric ton of carbon dioxide equivalent.

⁷ Generally, entities with emissions below the 25,000 metric ton threshold are not covered by the Cap-and-Invest Program. Some emissions sources are exempt, like fuels used for agricultural purposes, aviation fuels, and marine fuels combusted outside of Washington.

⁸ "Program" refers to the Washington Cap-and-Invest Program throughout this document.

⁹ From 2023-2026, covered entities can use offset credits for up to 8% of their compliance obligation through a combination of general offset credits (up to 5%) and credits from projects on federally recognized Tribal lands (up to 3%). This is reduced to a total of 6% from 2027 onward, with 4% from general offset credits and 2% from projects on Tribal lands.

Currently, all of the offset credits used for compliance in Washington must be from projects that provide direct environmental benefits to Washington. Offsets projects provide direct environmental benefits to Washington if they reduce or avoid emissions of air pollutants in the state or reduce or avoid the release of any pollutant that could have an adverse impact on land or waters of the state.¹⁰

The CCA prioritizes the improvement of air quality in Washington and includes a number of policies designed to ensure that the benefits of the Cap-and-Invest Program are felt across the state, with a particular focus on environmental justice concerns. Read more about these policies in our *CCA: Focus on Environmental Justice* resource.¹¹

The Improving Air Quality in Overburdened Communities Initiative¹² was created by the CCA to reduce criteria air pollution in overburdened communities highly impacted by air pollution. This ongoing initiative identified 16 areas of the state and seven Tribes highly impacted by criteria air pollutants. To date Ecology has signed Memoranda of Understanding with four of those Tribes. Efforts to implement this initiative include: expanding air quality monitoring in the identified overburdened communities and Tribes, establishing air quality targets, adopting strategies to reduce air pollution, providing a grants program for those communities and participating Tribes, and biannual reporting on the levels of criteria air pollution, greenhouse gas emissions, and health impacts.

State law requires that the proceeds from the allowance auctions fund critical climate projects focusing on clean transportation, increasing climate resiliency in our ecosystems and communities, and addressing issues of environmental justice and health inequity in our state. The CCA requires that a minimum of 35%, with a goal of 40%, of auction revenue be used for projects that directly benefit vulnerable populations within overburdened communities. Additionally, 10% of auction revenue must be used for projects supported by Tribes.

Linking carbon markets

The CCA directs Ecology to “consider opportunities to implement the [greenhouse gas emissions Cap-and-Invest Program] in a manner that allows linking the state’s program with those of other jurisdictions”¹³ and “seek to enter into linkage agreements with other jurisdictions with external greenhouse gas emissions trading programs.”¹⁴ In 2023, shortly after the program began, Ecology began exploring linkage with California and Québec, two jurisdictions that have an existing linked carbon market.

¹⁰ For projects located outside the state, the project must demonstrate benefits would still occur within Washington. For example, a project in northeastern Oregon could demonstrate a benefit in the air of Washington state by implementing a fuel risk reduction that reduces the risk of wildfire smoke in Washington state.

¹¹ Washington Department of Ecology. 2024. *CCA: Focus on Environmental Justice*.

<https://apps.ecology.wa.gov/publications/SummaryPages/2414031.html>.

¹² Washington Department of Ecology. "Improving air quality in overburdened communities."

<https://ecology.wa.gov/cleanair>.

¹³ RCW 70A.65.060(3)

¹⁴ RCW 70A.65.210(1)

In a linked market, Washington’s carbon market would combine with the joint California-Québec market to create a single shared market. Allowances could be used to cover emissions in any of the three jurisdictions, regardless of which jurisdiction originally added them to the market. Washington would have joint allowance auctions with California and Québec, and all three jurisdictions would share a common allowance price. Market participants could trade allowances across jurisdictions.

The programs from the three jurisdictions do not need to be identical; however, there are certain areas that need to be aligned. In January 2024, legislation was introduced in Washington, at Ecology’s request, to amend provisions of the Cap-and-Invest Program through changes to parts of Washington State law to remove certain barriers to linkage.¹⁵ ¹⁶ When an agency like Ecology proposes legislation, this is called “agency request legislation.”¹⁷ We reference the *Agency Request Legislation Environmental Justice Assessment* in this Assessment because aspects of the outreach along with public comments received overlapped with our general linkage outreach with the public and Tribes.

Ecology also determined that some Cap-and-Invest Program regulations needed further alignment through changes to rules. To make those changes to the rules, including incorporating changes from the agency request legislation, we began the rulemaking process in April 2024.¹⁸ As a part of the rulemaking, there will be a separate Environmental Justice Assessment that will be published when the rule is adopted.

Before determining whether to link, the CCA also requires Ecology to review specific criteria to ensure linking would benefit our state’s communities, economy, and climate goals.¹⁹ The assessment of these criteria and the potential impacts of linkage on overburdened communities is documented in the *Cap-and-Invest Linkage Criteria: Draft Findings (linkage criteria draft findings)* and is referenced throughout this Environmental Justice Assessment.²⁰

Considerations when reviewing this draft Environmental Justice Assessment

This Assessment is specific to assessing the impacts of linking Washington’s carbon market with the California-Québec market. Ecology does not evaluate the efficacy of a greenhouse gas emissions trading system (ETS) in reducing greenhouse gas emissions or criteria air pollutants.

¹⁵ RCW 70A.15.2200

¹⁶ RCW 70A.65

¹⁷ Washington Department of Ecology. January 2024. Cap-and-Invest Program Agency Request Legislation: An Environmental Justice Assessment. <https://apps.ecology.wa.gov/publications/documents/2414001.pdf>.

¹⁸ Washington Department of Ecology. "Cap-and-Invest Program Updates and Linkage rulemaking." <http://ecology.wa.gov/Cap-and-Invest-Program-Updates-and-Linkage-Rule>.

¹⁹ RCW 70A.65.210(3)

²⁰ Washington Department of Ecology. April 2026. Cap-and-Invest Linkage Criteria: Draft Findings. <https://apps.ecology.wa.gov/publications/SummaryPages/2614020.html>.

Section 1: Background

The information in this section is provided for the Office of Financial Management’s dashboard²¹ which includes all covered agency’s Environmental Justice Assessment notices.

Descriptive title of project/action: Potential linkage of Washington’s Cap-and-Invest carbon market with the joint California-Québec carbon market

Date Environmental Justice Assessment initiated: June 13, 2024

Ecology Program: Climate Pollution Reduction Program

Point of contact for Environmental Justice Assessment: Stephanie Potts, Senior Environmental Planner, 425-466-5358, CCAlinkage@ecy.wa.gov

Significant Agency Action type, select one or more:

- Rulemaking
- New grant or loan program
- New capital project, grant, or loan of \$12 million or more
- Agency Request Legislation
- Other, explain:

The Climate Commitment Act requires Ecology to conduct an Environmental Justice Assessment prior to entering into a linkage agreement with another jurisdiction (RCW 70A.65.060(3)).

Short summary of the action: As required by the Climate Commitment Act (CCA), Ecology is investigating the option of linking Washington’s Cap-and-Invest carbon market with the California-Québec carbon market. Through linkage, Washington’s carbon market would combine with the joint California-Québec market to create a single shared market with joint allowance auctions and a common allowance price across all jurisdictions. Allowances could be traded across jurisdictions and used to cover emissions in any of the three jurisdictions. The law also requires Ecology to evaluate specific criteria to ensure linkage would benefit Washington’s communities, economy, and climate goals.

Ecology is pursuing linkage with California and Québec based on a preliminary analysis that joining a larger carbon market will lead to lower and more consistent allowance prices, benefitting businesses and consumers in Washington.²²

This Environmental Justice Assessment is separate from the Environmental Justice Assessment being conducted on the Cap-and-Invest Linkage Rulemaking.²³ Additionally, Ecology previously

²¹ Office of Financial Management. “Environmental justice assessment notices.” <https://ofm.wa.gov/budget/budget-related-information/agency-activities/environmental-justice-assessment-notices>.

²² Washington Department of Ecology. October 2023. Linkage Criteria: Preliminary Analysis Report. <https://apps.ecology.wa.gov/publications/summarypages/2314005.html>.

²³ Washington Department of Ecology. “Cap-and-Invest Program Updates and Linkage rulemaking.” <http://ecology.wa.gov/Cap-and-Invest-Program-Updates-and-Linkage-Rule>.

conducted an Environmental Justice Assessment on the 2024 carbon market linkage agency request legislation (Senate Bill 6058). We will consider input received through those other linkage related Environmental Justice Assessments in this Assessment.

While the completion of each of these Environmental Justice Assessments is a separate legal obligation, Ecology intends to approach them as a comprehensive, iterative process of engagement and consultation that will continually inform our awareness and understanding of potential impacts as well as potential methods to minimize or eliminate harms and maximize benefits for vulnerable populations and overburdened communities. All of these processes must be complete before Ecology can sign a linkage agreement.

Identify the method(s) for the public to comment on this proposed action for this assessment:

Ecology started public engagement in the summer 2024, with outreach focused on people from overburdened communities, vulnerable populations, and Tribes, for the purpose of developing this Environmental Justice Assessment. Ecology provided a variety of ways for the public to provide input to inform this Environmental Justice Assessment, including: online public meetings, individual and small group meetings with interested parties, and online public comments. We reached out to groups with an environmental and environmental justice focus and community-based groups by email and phone to see if they would like to provide input for this assessment. We asked groups that were hosting meetings if Ecology could participate to share information, answer questions, and continue to gather input.

As we scheduled opportunities for feedback and participation, we shared them through our website and email distribution list. Visit the linkage webpage cca.wa.gov/linkage for updates or email us at CCALinkage@ecy.wa.gov with comments or questions.

Ecology webpage link about this proposed action: <https://ecology.wa.gov/Air-Climate/Climate-Commitment-Act/Cap-and-invest/Linkage>

Section 2: Notification that an Environmental Justice Assessment has been Initiated

This section instructs Ecology staff to notify Office of Financial Management about the initiation of the action.

Section 3: Identify Affected Tribes

This section summarizes preliminary planning for Tribal Consultation. Ecology must offer consultation with Tribes on significant agency actions that affect federally recognized Tribes' rights and interest in their tribal lands.

Preparing for Tribal Consultation

Tribal consultation is intended to inform the answers to all questions in this section.

1. Is the proposed action likely to have any local or regional impacts to federally reserved Tribal rights and resources, including but not limited to, those protected by treaty, executive order, or federal law? Choose one of the following:

- Yes
- No
- Unsure

2. List any federally recognized Tribes that are expected to be affected by the proposed action. If it is determined during consultation that Tribes do not wish to be included, then do not include them.

Since the impacts of linkage are statewide, federally recognized Tribes in Washington or Tribes with lands and territories in Washington could be affected by linking carbon markets. The Tribes include:

- Confederated Tribes and Bands of the Yakama Nation*
- Confederated Tribes of the Chehalis Reservation
- Confederated Tribes of the Colville Reservation*
- Confederated Tribes of the Umatilla Indian Reservation*
- Confederated Tribes of Warm Springs Reservation of Oregon
- Cowlitz Indian Tribe*
- Hoh Indian Tribe*
- Jamestown S'Klallam Tribe*
- Kalispel Tribe of Indians
- Lower Elwha Klallam Tribe
- Lummi Nation*
- Makah Tribe*
- Muckleshoot Indian Tribe
- Nez Perce Tribe*
- Nisqually Indian Tribe
- Nooksack Indian Tribe*
- Port Gamble S'Klallam Tribe
- Puyallup Tribe*
- Quileute Tribe*
- Quinault Indian Nation*
- Samish Indian Nation*
- Sauk-Suiattle Indian Tribe*
- Shoalwater Bay Indian Tribe*
- Skokomish Indian Tribe
- Snoqualmie Indian Tribe*
- Spokane Tribe of Indians*
- Squaxin Island Tribe*
- Stillaguamish Tribe of Indians*
- Suquamish Tribe*
- Swinomish Indian Tribal Community*
- Tulalip Tribes*
- Upper Skagit Indian Tribe

* Tribal leadership or staff attended at least one Tribal forum.

While any Tribe may be impacted by linkage, the following Tribes are more likely to be impacted by linkage:

- Tribes developing or planning to develop offset projects to generate Washington offset credits, or already participating in the California offset program may be impacted if linkage results in a change to offset credit prices.
- Tribes with lands, usual and accustomed areas, or sacred or ceremonial sites near a facility regulated by the Cap-and-Invest Program, given the potential impacts of linkage on decarbonization plans and air quality. Ecology identified that 21 facilities lie within a 3-mile radius of reservation extents and/or trust lands in the Bureau of Indian Affairs map layer.²⁴
- Tribes that receive grants from CCA auction revenue may be impacted if linkage results in a change in the amount of funding generated by allowance auctions.

3. If it is determined at any other point in the process of the assessment that Tribes have self-identified as being potentially impacted by the action, then include them in the assessment and offer consultation.

As of March 2026, there were no additional Tribes who self-identified as impacted by linkage. If any self-identify during the process, Ecology will offer consultation.

4. Describe plans to offer consultation to identified Tribes.

In January 2023, Ecology sent an initial letter to Tribal governments to invite Government-to-Government consultation on linkage. During the linkage engagement periods, Ecology has sent additional invitations for Government-to-Government consultation and invited Tribal government leadership and staff to online Tribal forums.

Ecology began hosting Tribal forums in early 2023 to share information with Tribal leaders and staff and provide an opportunity for Tribal leaders and staff to ask questions and share comments about Cap-and-Invest and/or linkage. In total, we hosted 11 Tribal forums that included the topic of linkage, although some were combined with other CCA topics or focused more on linkage-related agency request legislation or rule changes. Ecology sent a series of reminder emails leading up to the forums to Tribal Chairs, Natural Resource Directors, and our CCA Tribal email list, then a follow-up email to all registered participants. We called Tribal Natural Resource Directors prior to the forum on Feb. 9, 2023, and the forums in fall 2023. The Tribal forums specific to linkage included:

- February 9, 2023: Linkage exploratory process
- December 11, 2024: Early engagement for linkage agreement

In addition, Ecology shared updates and answered questions about linkage at the following forums, though linkage was not the primary focus:

- October 24, November 2, and December 11, 2023: Agency Request Legislation and linkage
- July 9, 2024: Linkage and other Cap-and-Invest topics

²⁴ Due to data availability, the mapped described here focused on reservation extents and trust lands.

- October 9, 2024: Linkage, rulemaking, and other CCA topics
- March 17, 2025: Overview of the CCA, Cap-and-Invest Program, and linkage
- April 29, July 17, and August 5, 2025: Cap-and-Invest Program Updates and Linkage Rulemaking

The forums were attended by Tribal leadership and staff representing 24 Tribes. The Tribes are indicated by an asterisk (*) on the list above. In addition, forums were attended by the following Tribal organizations: Affiliated Tribes of Northwest Indians, Northwest Indian Fisheries Commission, and Point No Point Treaty Council.

Ecology also sent notices by email with updates on the linkage process and to announce comment periods, and notices related to the rulemaking and agency request legislation. All notices included an invitation for Government-to-Government consultation and to meet with Ecology.

The linkage webpage included an invitation for Tribes for Government-to-Government consultation or to schedule a meeting.

The Governor's Office of Indian Affairs hosted monthly State-Tribal Roundtables for disseminating updates about climate policy issues to Tribes. The roundtables were attended by Tribal Chairs, Tribal staff and contracted lobbyists, and Washington State agency staff. Ecology presented at the Washington State-Tribal Roundtables multiple times from 2023 to 2025 to provide updates about linkage, answer questions, and offer consultation and/or to schedule a meeting. Ecology also shared updates on linkage during Centennial Accord meetings.

Section 4: Offer Consultation:

This section directs Ecology staff to offer consultation with Tribes on significant agency actions that affect federally recognized Tribes' rights and interest in their tribal lands.

Section 5: Summary of Tribal Consultation & Engagement

Tribal consultation is intended to inform the answers to all questions in this section.

Summary of Tribal Consultation

1. Describe potential impacts (including harms and benefits) to federally recognized Tribal rights and interests in their Tribal lands.

For the Environmental Justice Assessment, Ecology has offered consultation to Tribes, as described above in Section 3, Question 4.

Government-to-Government Consultation: We held one Government-to-Government Consultation with the Makah Tribe in 2023. The consultation included questions and comments related to linkage, as well as discussion of the agency request legislation.²⁵

Comment letters: Ecology received comment letters from the Hoh Indian Tribe, Swinomish Indian Tribal Community, and Makah Indian Tribe. All three Tribes shared concern about linkage and emphasized for Ecology to consult with Tribes, the Environmental Justice Council, and overburdened communities.

Tribal forums: Tribal leaders and staff asked many questions at Tribal forums and provided a few comments.

State-Tribal Climate Roundtables: While Ecology presented about linkage, there were minimal comments from Tribes specifically about linkage.

Summary of Comments from Tribes

Tribes shared the following comments through letters, during Tribal forums, or at State-Tribal Climate Roundtables:

- Linkage could reduce the value of offset projects in Washington and a reduction in the value of offset credits may impact a Tribe's ability to participate in the offset market and earn additional revenue.
- Support for proposed revision to program rules to require the additional portion of Tribal offsets used in the Cap-and-Invest Program to also provide direct environmental benefits to Washington
- Linkage could lower allowance prices, reducing incentives for industries to reduce greenhouse gas emissions.
- Linkage could reduce funding available to Tribes and to programs with Tribal support.
- There is not sufficient evidence that benefits of linkage outweigh the risks.
- Ecology has not yet rigorously assessed benefits to the environment or community.
- A linked market managed by multiple jurisdictions would reduce Washington's ability to modify the program, making it more difficult to protect treaty rights and resources.

²⁵ This meeting is also documented in the *Agency request legislation Environmental Justice Assessment*. <https://apps.ecology.wa.gov/publications/SummaryPages/2414001.html>.

- Linkage might not result in overall economic and health benefits for Tribes.
- Concerns that an outside developer could develop an offset project on federally recognized Tribal land without permission from the Tribal government.
- Concern regarding whether the Cap-and-Invest Program would be weakened from linkage.

Ecology’s analysis of potential impacts to Tribes

Impacts to Tribes from linkage are uncertain because Cap-and-Invest is a market-based program where businesses choose their most cost-effective compliance strategies. Ecology cannot predict with certainty which covered businesses will reduce their emissions, or by how much. We also cannot predict with certainty how demand for offset credits may change with linkage.

Ecology expects that Tribes may benefit from a more stable and durable²⁶ Cap-and-Invest Program that results from linkage, which will allow the program to continue to reduce greenhouse gas emissions, create demand for offset projects, and provide auction revenue to invest in projects that benefit Tribes and overburdened communities.

In a linked market, we expect Washington’s auction proceeds may be lower in the near-term, which may reduce CCA auction revenue available for Tribal projects or projects supported by a Tribal resolution. We do not expect linkage would impact two Tribal grant programs administered by Ecology – Tribal Climate Capacity Grants Program and Tribal Carbon Offset Assistance Grants.²⁷

We heard concerns from Tribes that linkage could reduce the financial and environmental benefits offset projects could provide to Tribes. Linkage will decrease the percentage of offset credits required to provide direct environmental benefits to Washington. This change may result in a lower price for offset credits which could reduce the value from or number of offset projects developed in Washington on Tribal lands.²⁸ In Washington’s standalone market, 100% of offset projects need to provide direct environmental benefits to Washington. In a linked market, that requirement would be reduced. During the first compliance period (through 2026), at least 50% of offset credits would need to come from projects that provide direct environmental benefits to Washington and up to 50% could come from offset projects located in a linked jurisdiction. In later compliance periods (2027-2050), at least 75% must provide direct environmental benefits to Washington with up to 25% from offset projects located in a linked jurisdiction.

Ecology expects that other potential impacts to Tribes would be similar to the potential impacts to overburdened communities and vulnerable populations described in Section 8. Please see that section for additional analysis.

²⁶ “Durable” is used in this Assessment to mean that the Cap-and-Invest Program would be better able to continue operating over the long term, to its current end date in 2050.

²⁷ Grant funding is appropriated by the Legislature every biennium from CCA accounts. Even as auction revenues have fluctuated, funding for these grants has remained consistent or increased biennium to biennium.

²⁸ RCW 70A.65.170(2)(a), (3)(a).

2. Describe potential impacts related to Tribal rights and interests that are not in Tribal lands?

It is possible that Tribal members and Tribal-owned businesses may experience indirect benefits or harms from linkage. However, we did not receive any comments from Tribes about potential benefits or harms regarding Tribal rights and interests not on Tribal land.

3. Summarize recommendations from Tribes to:

a. Mitigate or eliminate potential harms from the action

In comment letters and Tribal forum discussions, Ecology received the following recommendations:

- Consult and engage with Tribes throughout the linkage process.
- Work with the Environmental Justice Council.
- Follow the recommendations in the Environmental Justice Council letter to:²⁹
 - Implement facility-specific greenhouse gas emissions caps
 - Prohibit the use of unused allowances used prior to linkage
 - Limit the use of offsets
 - Establishment of expiry date for stored allowances.
- Consider the criteria for greenhouse gas emission reductions and impacts to vulnerable populations and overburdened communities as equally or more important than criteria focused on cost effectiveness for regulated Cap-and-Invest industries.
- Complete an Environmental Justice Assessment for linkage and seek input from Tribes for the Environmental Justice Assessment.
- Ensure that linkage does not reduce demand for Washington Tribal offsets projects.
- Include a provision in the CCA to require approval from the Tribal government for a non-Tribal project on that Tribe's land.

b. Equitably distribute benefits from the action

In comment letters and Tribal forum discussions, Ecology received the following recommendations:

- Have pathways for Tribes to participate in the Cap-and-Invest Program, such as:
 - Capacity building grants for Tribal governments
 - Funding to support the development of offset projects on Tribal lands
 - Revenue structured to support Tribal sovereignty and economic development and climate resilience efforts in Tribal communities.
- Provide funding to support habitat restoration efforts.

4. Describe how consultation, engagement, and analyses of impacts to Tribes has informed the development of the action. If it has not, explain why.

Through engagement and feedback with Tribes, Ecology made several changes to the offset program that could benefit Tribes who currently participate or may choose to either participate as an offset project operator or host offset projects on their Tribal lands. Those changes are

²⁹ Environmental Justice Council Letter to Ecology RE – Linkage Adopted on October 26, 2023.
<https://waportal.org/sites/default/files/2024-01/Environmental%20Justice%20Council%20Letter%20to%20Ecology%20RE%20-%20Linkage.pdf>.

summarized below. See Section 9, Question 1 for more details on actions Ecology is taking to address concerns related to potential impacts of linkage on offset projects.

Ecology added flexibility to the offset program by allowing a greater portion of Washington offset credits used for compliance to come from projects on Tribal land. To make this change, this was included in Ecology's 2024 request legislation (Senate Bill 6058³⁰), which resulted in a change to the law.

Ecology is now engaged in rulemaking to implement Senate Bill 6058 and make other updates to the Cap-and-Invest Program.³¹ In that rulemaking, Ecology is proposing a change to rules to require that Tribal offsets that a business uses to fulfill the additional allowed portion of their compliance obligation (3% through 2026; 2% 2027 and on) must also provide direct environmental benefits (DEBs) to Washington.³² These rule changes are expected to increase demand for offset projects on Tribal lands that provide DEBs to Washington, which may lead to a more equitable distribution of environmental and economic benefits that result from the generation and sale of offset credits. The rule changes benefit Tribes with federally recognized Tribal land in and near Washington by preserving demand in a linked market for Tribal carbon offsets from projects that provide DEBs to Washington. Without this rule change, Tribal projects that do not provide DEBs to Washington could be used to maximize a business's compliance use, which would dilute demand for Tribal offset projects that provide DEBs to Washington.

In addition, through the Cap-and-Invest Offsets rulemaking, Ecology proposed a protocol-alignment provision to limit the potential for "venue shopping," which is when project developers enroll their project with the jurisdiction that offers the most favorable terms for their specific project. This proposed provision would preserve the market for existing Tribal offset projects and continue to support Tribal participation as offset project operators or hosts. Since the proposed provision would apply only after the new rule is adopted, it also preserves flexibility for early adopter projects, including those developed by Tribes prior to linkage.³³

In response to concerns shared with Ecology during initial development Cap-and-Invest Program rules (before the start of this Environmental Justice Assessment), Ecology will not require a limited waiver of sovereign immunity as a mandatory precondition of offset project enrollment. Tribes are instead required to negotiate a dispute resolution agreement with

³⁰ Prior to the change, covered entities were allowed to use offset credits for up to 8% of their compliance obligation in the first compliance period (2023-2026). Only 3% of a business's compliance obligation could be met with offset credits from projects on Tribal lands. SB 6058 revised the statute so the full 8% may be met with offset projects on Tribal lands.

³¹ Updates to the rule are occurring through the Cap-and-Invest Program Updates and Linkage rulemaking (Chapters 173-441 and 173-446 WAC). <http://ecology.wa.gov/Cap-and-Invest-Program-Updates-and-Linkage-Rule>

³² From 2023-2026, covered entities can use offset credits for up to 8% of their compliance obligation through a combination of general offset credits (up to 5%) and credits from projects on federally recognized Tribal lands (up to 3%). This is reduced to a total of 6% from 2027 onward, with 4% from general offset credits and 2% from projects on Tribal lands.

³³ Washington Department of Ecology. "Chapter 173-446 WAC – Cap-and-Invest Offsets (U.S. Forest Protocol)" <https://ecy.wa.gov/regulations-permits/laws-rules-rulemaking/rulemaking/wac-173-446-offsets-us-forest-protocol>.

Ecology before receiving Ecology offset credits, to ensure enforceability of project requirements under RCW 70A.65.170(2)(b)(i). The individual negotiation process between a Tribe and Ecology that is required to establish this agreement also prevents an outside developer from developing an offset project on Tribal land without permission.

Related to the recommendations related to equitably distributing benefits from the action (Question 3.b. above), Ecology does not have authority to decide how auction revenue is spent or increase the proportion of the revenue benefiting overburdened communities and vulnerable populations. Funding decisions are made by the Legislature through the appropriations process.

There are several grant programs already in place to support Tribal capacity to consult on the CCA and develop offset projects. When the Legislature passed the CCA, they created two capacity building grants for Tribes administered by Ecology. The Tribal Climate Capacity Grant was established to provide funding for Tribes to pursue and engage on CCA spending decisions and a variety of other related work. The Tribal Carbon Offset Assistance Grant provides funding for Tribes to design, assess the feasibility of, and implement Tribal offset projects. These grant programs would not be impacted by program linkage.

The CCA currently requires that at least 35%, with a goal of 40%, of all auction revenue be spent on projects that provide “direct and meaningful benefits” to vulnerable populations within overburdened communities, and that an additional 10% be spent on projects supported by Tribes. Annually, based on each fiscal year, Ecology publishes the CCA Investment Report, which tracks and documents how Washington is meeting those spending requirements.

5. Describe any plans to continue consultation or engagement with Tribes related to this action.

Ecology will continue to offer consultation and meet with Tribes to gather input on linkage. Ecology will host a Tribal forum on April 23, 2026, during the Draft Washington, California, Québec linkage agreement engagement period (occurring March – May 2026). Comments received during that comment period will be incorporated into the final Environmental Justice Assessment.

Section 6: Identification of Overburdened Communities & Vulnerable Populations

This section identifies overburdened communities and vulnerable populations, as identified in the definitions of RCW 70A.02,³⁴ who will be affected by the action.

Identify Overburdened Communities and Vulnerable Populations

1. Identify the geographic area(s) anticipated to be affected by the action.

Cap-and-Invest is a statewide program and as a result, linking Washington’s carbon market with the California-Québec market may have impacts across the state. Since Cap-and-Invest is a market-based program where businesses choose their most cost-effective compliance strategies, potential impacts are uncertain.

Communities throughout the state where vulnerable populations face multiple environmental harms and health impacts may be impacted by linkage. Ecology identified communities that meet the following criteria as more likely to be impacted. See Section 8 for information on potential impacts that informed the identification of overburdened communities.

- Communities with CCA funded projects, because of the concern that linkage may reduce Cap-and-Invest auction revenue in the near-term (To see all funding locations, view the CCA Dashboard: How Climate Commitment Act funds are invested, a map managed by the Governor’s Office).³⁵
- Communities located near a facility regulated by the Cap-and-Invest Program, because of the concern that linkage would result in more air pollution from those facilities compared to an unlinked market (There are 75 facilities with fixed locations in Washington³⁶ – see figure 1 below).
- Communities located near forested lands because some of those areas could potentially be used to develop an offset project. At the time this assessment was written, Ecology issued offset credits to one forest offset project near Dayville, Oregon, that demonstrated benefits to Washington.³⁷

³⁴ <https://app.leg.wa.gov/RCW/default.aspx?cite=70A.02.010>

³⁵ Office of the Governor. “CCA Dashboard: How Climate Commitment Act funds are invested.” <https://climate.wa.gov/washington-climate-action-work/climate-commitment-act-polluters-pay-communities-benefit/cca-dashboard-how-climate-commitment-act-funds-are-invested>.

³⁶ Facilities with a fixed location means their greenhouse gas emissions have a specific source location. For example, fuel suppliers in Washington do not have a fixed location because they import fuel for transportation and the greenhouse gases from that fuel are emitted from cars across the state. This number is based on greenhouse gas emissions data for 2024. The facilities with fixed locations include manufacturing industries, refineries, power plant, pipeline compressor stations, and others.

³⁷ Each offset project developed outside of the state of Washington must demonstrate that the specific project actions and project location will result in benefits to the air or water of Washington state. Ecology does not have predetermined areas outside of the state where a project can qualify for this designation.

- Communities historically overburdened with health, social, and environmental inequities and identified in 2023 as highly impacted by criteria air pollution in 2023.³⁸ Sources of air pollutants in the communities include industrial facilities, dust from agriculture and construction, wildfire smoke, residential woodsmoke from home heating, outdoor burning, and on-road vehicles. For the purpose of linkage, we selected the communities that had industrial pollutant sources as a primary source. They include Spokane and Spokane Valley; Tri-Cities to Wallula; Lower Yakima Valley; Everett; South Seattle; South King County; South and East Tacoma; Vancouver. (See figure 1 below.)

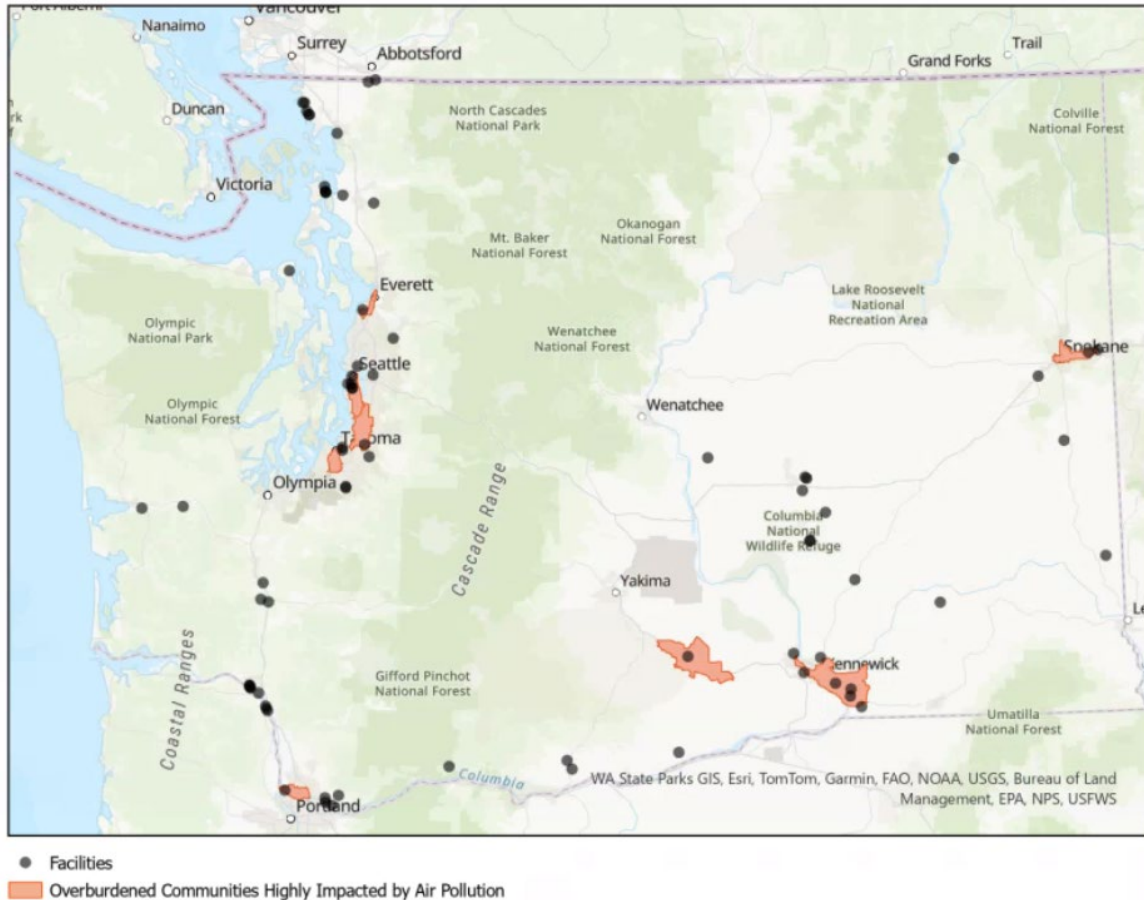


Figure 1: Statewide map of facilities regulated by the Cap-and-Invest Program and overburdened communities highly impacted by criteria air pollutants, 2024

2. When applicable, using the Washington State Department of Health’s Environmental Health Disparities Map (EHD Map), identify the EHD Map rankings for all census tracts likely to be impacted by the action.

Ecology identified that the geographic areas listed in Question 1 that intersect with the overall

³⁸ Washington State Department of Ecology. 2023. 2023 Report: Overburdened Communities Highly Impacted by Air Pollution. <https://apps.ecology.wa.gov/publications/SummaryPages/2302115.html>.

ranks 9 and 10 on the EHD map could potentially be impacted more by linkage given they already have the highest environmental and health disparities.

We analyzed this for census tracts located within three miles of covered facilities. Our assessment shows that of the 298 census tracts with an EHD overall rank of 9 or 10, 117 census tracts (approximately 40%) have a facility located in or within three miles. ³⁹ There are 32 facilities located within census tracts with an EHD overall rank of 9 or 10. See figure 2 below.

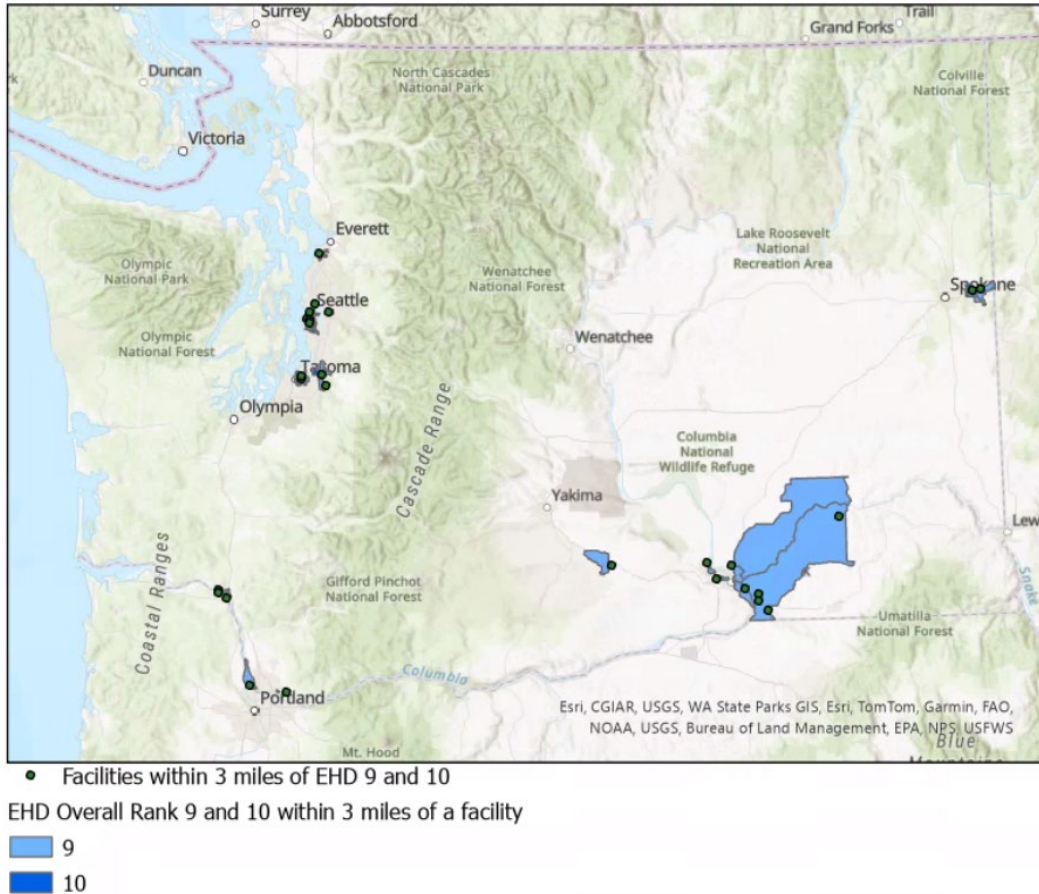


Figure 2: Map of census tracts with EHD overall rank 9 and 10 and within three miles of a facility regulated by the Cap-and-Invest Program.

From the rankings identified in question 2, are there any census tracts ranked 9 and 10?

- Yes – See description above.
- No

3. Please describe additional cumulative health considerations relevant to this action.

Improvements in the Cap-and-Invest Program’s effectiveness may make Washington better

³⁹ Three miles is based on a statistic that residents within 5 km of point source emissions experience elevated health risks. Source: Assessing health risks and socioeconomic disparities associated with ambient air pollution and point sources across the United States, <https://www.sciencedirect.com/science/article/pii/S0269749125006840>.

positioned to mitigate the impacts of climate change, including its cumulative health impacts, through direct greenhouse gas emissions reductions and investments in initiatives that support community climate resilience and adaptation.

Interested parties have expressed concerns that linking could increase air pollution, in particular in areas near facilities regulated by the Cap-and-Invest Program if lower allowance prices as a result of linkage causes those facilities to delay investments in decarbonization. Exposure to criteria air pollution can contribute to a wide range of diseases and public health outcomes, including impacts to individuals' respiratory and cardiovascular systems. These effects can be compounded when combined with other exposures to pollution and toxic materials, and among individuals with underlying sensitivities, chronic conditions, or co-morbidities. The range and complexity of factors that impact emissions of greenhouse gases and criteria air pollutants are present regardless of whether or not Washington enters into a linkage agreement with other jurisdictions.

4. Identify areas likely to be impacted by the action that are at or above the 80th percentile (in state) for the “People of Color” and “Low income” socioeconomic indicators. You can do this by looking at the Environmental Health Disparities map (EHD map) rankings for these individual indicators (rank 9 or higher roughly approximates those census tracts at or above the 80th percentile), and/or by downloading the appropriate data on these indicators from the Washington Tracking Network or the Census Bureau’s American Community Survey 5-year estimates and running additional analysis to determine percentiles.

The EHD map is an interactive tool that shows where people in Washington are likely to have been exposed to the greatest risk for environmental impacts on their health. The EHD map combines pollution data with information about community vulnerabilities to create a score for each area in Washington. Each area is ranked relative to or in comparison with the others, using a 1–10 ranking scale (10 are the most impacted). To come up with overall ranks, the EHD map groups individual variables into larger categories -- including a category labeled "Socioeconomic Factors." This includes a “People of Color” indicator, a “Population living in poverty” indicator, and others.

As of March 2026, there are 59 facilities in or within three miles of census tracts ranked 9 or 10 on the EHD map for the socioeconomic factor “Population living in poverty.” There are 29 facilities in or within three miles of census tracts ranked 9 or 10 on the EHD map for the socioeconomic factor “People of Color.” There are 62 facilities, or 83% of the facilities, within three miles of census tracts 9 and 10 for “low income” or “People of color” in the EHD map.

5. Using the EHD map and/or data from Washington Tracking Network, identify any other indicators pertaining to socioeconomic characteristics, health disparities, and/or climate and environmental impacts at or above the 80th percentile (in state) that are relevant to this action.

The additional socioeconomic and health disparities that could potentially be impacted by linkage are likely to be limited to certain areas, not across the entire state.

- People with chronic respiratory or cardiovascular conditions and located within a 3-mile radius of a facility regulated by the Cap-and-Invest Program.

- Populations under 5 years old given their increased sensitivity to air and climate impacts.
- Populations over 65 years old given their increased sensitivity to air and climate impacts.

6. Identify additional overburdened communities and vulnerable populations that are likely to be affected by the action.

Ecology did not identify additional overburdened communities and vulnerable populations likely to be affected by the action.

7. Through community engagement, were additional overburdened communities and vulnerable populations identified who are likely to be affected by the action? Describe additional communities or populations identified, and the reasons they would be considered overburdened and vulnerable.

At this time, no additional communities or populations have been identified.

8. Through Tribal Consultation, were additional overburdened communities and vulnerable populations identified who are likely to be affected by the action? Describe additional communities or populations identified, and the reasons they would be considered overburdened and vulnerable.

At this time, no additional communities or populations have been identified.

Section 7: Summary of Community Engagement

This section summarizes community engagement activities. Community engagement should be tailored to specifically reach overburdened communities and vulnerable populations. Community engagement is required for all significant agency actions, but the engagement methods will vary depending on the size, scope, and topic of the project. The level, type, and form of engagement is based on the likelihood that the actions may cause environmental harm or may affect the equitable distribution of environmental benefits to an overburdened community or a vulnerable population.

Summarizing Community Engagement

1. Describe the engagement activities with the identified overburdened communities and vulnerable populations.

Ecology began community engagement in January 2023 and is continuing engagement through May 1, 2026. Input received through the process has helped inform the preliminary decision to pursue linkage, the linkage criteria analysis, draft linkage agreement, and this draft Environmental Justice Assessment. Continued input will inform the final linkage agreement and Ecology Director's decision whether to link with California and Québec.

This draft Environmental Justice Assessment describes the engagement activities to date. Ecology will update this section in the final Environmental Justice Assessment. Because of the uncertainty of which communities could potentially be impacted by linkage and the complexity of the Cap-and-Invest Program and carbon market linkage, Ecology prioritized outreach to organizations rather than specific communities for this Assessment. The types of organizations included:

- **Community-based organizations:** Ecology prioritized organizations with a policy advocacy, environmental justice, and civic engagement focus that served communities statewide or served communities near facilities regulated by the Cap-and-Invest Program. We contacted over 33 organizations serving or specific Washington communities.
- **Environmental organizations:** Ecology prioritized organizations with a focus on climate change, policy advocacy, and environmental policy. We contacted over 30 organizations serving statewide or specific Washington regions.

Linkage exploratory process (January – May 2023)

Ecology conducted a public outreach and engagement process to gather input on whether linkage would be beneficial to Washington and considerations to include in our analysis of the linkage criteria set in law. Ecology contracted with Cascadia Consulting to assist with engagement activities during this phase and developed a list of organizations who may be interested in the topic. Ecology prioritized contacting organizations that previously engaged on or about the CCA, organizations recommended by the Environmental Justice Council, and organizations recommended by Cascadia Consulting based on their outreach work on similar topics.

Ecology used several strategies to engage with the public statewide, including:

- Creation and maintenance of a dedicated webpage – [CCA.wa.gov/linkage](https://cca.wa.gov/linkage).
- Public email announcements and blog updates.⁴⁰
- Three public online listening sessions to share information about linkage (attended by 2 community-based organizations and 7 environmental groups).
- Offering to meet or to have Ecology staff join a meeting already scheduled within their organization. We had four small group and individual meetings with organizations.
- Emails and phone calls to organizations.
- Comment period – option to submit comments via email or mail, phone, complete an online survey, or share verbally/in writing during public meetings.

During this phase, we met with or received comments from three community groups and 13 environmental organizations.

Agency request legislation (May 2023 – March 2024)

As directed by the CCA, Ecology developed proposed legislation (called agency request legislation) to address provisions in the statute that would prevent linking Washington’s Cap-and-Invest Program with California and Québec.⁴¹ Senator Nguyen and Representative Doglio sponsored the legislation (Senate Bill 6058⁴² [2024] and House Bill 2201⁴³ [2024], respectively). Senate Bill 6058 passed and was signed into law on March 28, 2024.

The Healthy Environment for All (HEAL) Act requires a covered agency to complete an Environmental Justice Assessment when submitting agency request legislation to the Office of the Governor or Office of Financial Management for approval.⁴⁴ The *Cap-and-Invest Program agency request legislation Environmental Justice Assessment* describes the community engagement activities Ecology conducted for that process, the comments we received, and the actions we took to mitigate harms and equitably distribute benefits.⁴⁵ During that engagement, we also received comments that were relevant to linkage more generally. Those comments are included in this Environmental Justice Assessment.

Cap-and-Invest Program Updates and Linkage rulemaking (April 2024 - present)

Ecology started the Cap-and-Invest Program Updates and Linkage rulemaking in April 2024. The rulemaking considers amendments to improve the implementation of the Cap-and-Invest Program, facilitate the linkage of Washington’s carbon market with the California-Québec carbon market, and make other necessary updates.

⁴⁰ The CCA Bulletin email list reaches a broad set of interested parties, including Cap-and-Invest market participants, environmental organizations, community-based organizations, Tribal government staff, and media.

⁴¹ RCW 70A.65.060(6)

⁴² Washington State Legislature. “SB 6058 - 2023-24.”

<https://app.leg.wa.gov/bills/summary/BillNumber=6058&Year=2023>.

⁴³ Washington State Legislature. “HB 2201 - 2023-24a.”

<https://app.leg.wa.gov/bills/summary/?BillNumber=2201&Year=2023&Initiative=false>.

⁴⁴ RCW 70A.02.010(12)(d)

⁴⁵ Washington Department of Ecology. January 2024. Cap-and-Invest Program Agency Request Legislation Environmental Justice Assessment. <https://apps.ecology.wa.gov/publications/SummaryPages/2414001.html>.

The engagement activities for this rulemaking will be described in the Environmental Justice Assessment specific to the rulemaking and can be viewed on the rulemaking webpage.⁴⁶ The rulemaking is expected to be completed in summer 2026. In this Assessment we have included public input we received during the rulemaking public engagement that is relevant to linkage.

Environmental Justice Assessment for linkage (June 2024 – present)

Ecology invited comments to inform the Environmental Justice Assessment at any time during the process, regardless of whether there was an open comment period. Organizations were invited to meet with Ecology or have Ecology join one of their meetings. We met with seven community-based organizations outside of the other engagement periods. We hosted two community forums (July 2024 and August 2025) to provide overview information on the Cap-and-Invest Program and linkage and gather feedback.

Early engagement for linkage agreement (November 2024 – March 2025)

The purpose of this engagement period was to gather input to inform development of the draft linkage agreement with California and Québec. We shared that a linkage agreement sets expectations for information sharing, cooperation, and accounting. It is non-binding and does not create new regulations or change existing ones—that can only be done through legislation or rulemaking. We sought feedback on the current linkage agreement between California and Québec, which was the starting place for developing an agreement that includes Washington. We contacted many of the same organizations as the linkage exploratory process and looked for, then contacted additional organizations that may be interested in the topic.

Engagement for this period included:

- Two online public meetings (attended by one community group and seven environmental organizations).
- Public email announcements sharing meeting and comment period information.
- Emails and phone calls to organizations – Included information about linkage, invitations to attend a public meeting or community forum, meet with Ecology individually, or have Ecology present at one of their already scheduled meetings.
- Comment period – options to submit comments via electronic comment platform, email, phone, or mail.

During this engagement period, we met with or received comments from one community group and five environmental organizations

Draft Washington, California, and Québec linkage agreement (March – May 2026)

Ecology shared the draft linkage agreement developed in consultation with California and Québec and is seeking feedback from the public. We will update this section to reflect the engagement and comments received during this period.

Environmental Justice Council consultation (January 2023 – present)

Ecology initiated communication about linkage with Environmental Justice Council (Council)

⁴⁶ Washington Department of Ecology. "Cap-and-Invest Program Updates and Linkage rulemaking." <http://ecology.wa.gov/Cap-and-Invest-Program-Updates-and-Linkage-Rule>.

staff in January 2023.⁴⁷ We first discussed the topic with the CCA Committee in April 2023 and the first consultation at a Council meeting was July 2023. Since early 2023, Ecology has shared updates on linkage with Councilmembers and staff, offered to present at Environmental Justice Council and CCA Committee meetings, and to meet individually with Councilmembers to answer questions and learn about their comments and concerns. Ecology has also shared draft public engagement plans and materials with the Council for review and input.

Until mid-2025, the Council had a CCA Committee comprised of a subset of Councilmembers to discuss and make recommendations to the full Council on CCA topics. From the start of the linkage public engagement in early 2023 through mid-2025, Ecology staff joined over ten of those CCA Committee meetings to discuss linkage.

At the Council's invitation, Ecology staff presented on linkage at the following full Council meetings: July 27, 2023, September 28, 2023, and January 29, 2026.

In response to requests from the Council, Ecology adjusted the schedule to publicly share the preliminary criteria analysis and make the preliminary decision on pursuing linkage to give the Council additional time to provide input on the decision. The Council sent Ecology a letter with their recommendation related to linkage.⁴⁸ Ecology has conducted legal and policy analysis on each recommendation and shared that analysis with the Council. See Section 9 and the linkage criteria analysis for more information.⁴⁹

Ecology will continue to engage with Councilmembers and staff and will include a description of any additional engagement in the final Environmental Justice Assessment.

Throughout the linkage process Ecology also engaged with a wide range of interested parties including entities regulated by the Cap-and-Invest Program; however, this engagement is not described in this Assessment. See linkage criteria draft findings for information on all of the linkage engagement activities.

2. What actions were taken to help address barriers to meaningful engagement?

Sharing analysis of impacts

One barrier to engagement is that linkage is complex and its impacts are uncertain. Throughout the linkage process, as we gathered information about the potential impacts of linkage, we publicly shared the information during public meetings and on the webpage. In October 2023 we published the preliminary linkage criteria report.⁵⁰ This was an effort to be responsive to

⁴⁷ The Environmental Justice Council consists of 16 members appointed by the Governor, with seats for community representatives, a youth community representative, environmental justice practitioners, Tribes, labor, and business. <https://waportal.org/partners/home/environmental-justice-council>.

⁴⁸ Environmental Justice Council Letter to Ecology RE – Linkage Adopted on October 26, 2023.

<https://waportal.org/sites/default/files/2024-01/Environmental%20Justice%20Council%20Letter%20to%20Ecology%20RE%20-%20Linkage.pdf>.

⁴⁹ Washington Department of Ecology. April 2026. Cap-and-Invest Linkage Criteria: Draft Findings – Section 2.2.

<https://apps.ecology.wa.gov/publications/SummaryPages/2614020.html>.

⁵⁰ Washington Department of Ecology. October 2023. Linkage Criteria: Preliminary Analysis Report.

<https://apps.ecology.wa.gov/publications/summarypages/2314005.html>.

feedback about providing more analysis on the potential impacts to overburdened communities and vulnerable populations before asking for comments.

We also tried to create materials that were short and easy to understand, such as 2-page focus sheets and 5-minute videos.

Varied opportunities to participate

Throughout the entire process, Ecology invited organizations and individuals to meet with us when convenient for them – whether by scheduling a time with Ecology, joining a scheduled small group meeting, or inviting Ecology to attend one of their existing meetings. Our public meetings and community forums were recorded, and we posted the recordings on the linkage webpage. During the exploratory process (January-March 2023) we offered both daytime and evening online meetings to accommodate schedules.

Ecology strived to have long comment periods of two months or more. The public could provide comments in a variety of ways - through public meetings, small group meetings, surveys, emails and letters, or by phone.

Language and accessibility

Presentations, handouts, and meetings met state accessibility standards. The exception to this was that some comment letters we received included images that were inaccessible to a screen reader. We still shared all of those comment letters on our webpage to be transparent and responsive to requests from the public to be able to read comments.⁵¹ We made a note on the summary of comments document that anyone may request ADA accommodations.

On the linkage webpage, there is an overview paragraph about linkage translated into Spanish, Chinese, Vietnamese, Korean, and French. It explains where we are in the process and how to request information in a preferred language. If requested, we will translate materials into the preferred language.

3. Identify overburdened communities or vulnerable populations potentially affected by the action who were not engaged and explain why not.

Because we prioritized engagement with organizations, community members were likely directly involved either through those organizations or by opting in via distribution lists or comment periods. We recognize that this is a limitation of the approach, which was necessary due to capacity and prioritization. Some communities may have not been engaged, including those in Cowlitz and Clark County, where we did not identify any organizations to connect with.

We had hoped to engage with more organizations. We however understand that organizations have many competing priorities, limited staffing, and limited time to engage with the complexities of the Cap-and Invest Program and linkage.

⁵¹ Washington Department of Ecology. 2026. Public comments informing the potential linkage of Cap-and-Invest carbon market with the joint California-Québec carbon market draft Environmental Justice Assessment. <https://ecology.wa.gov/20260413linkageEJAcomments>.

4. Summarize recommendations from members of overburdened communities and vulnerable populations to mitigate or eliminate potential harms from the action and/or equitably distribute benefits from the action.

In addition to the short summaries below, a more extensive summary of comments can be found in Appendix A. The comments are separated by the themes: general topics, greenhouse gas emissions, air quality, auction revenue, offset projects and credits, engagement and consultation, criteria analysis consideration, emissions-intensive, trade-exposed industries (EITEs),⁵² and comments related to the California and Québec programs.⁵³

The Environmental Justice Council submitted a letter⁵⁴ in October 2023 and we include their recommendations below.

All comment letters that informed this assessment are available in the compilation of public comments.⁵⁵

We will summarize comments received during the Draft Washington, California, Québec linkage agreement engagement period (March - May 2026) and add them to this Assessment.

Individuals

We received comments from 17 individuals, with some individuals providing multiple comment letters. We also received identical comment letters from 263 individuals as part of an email campaign.⁵⁶ There were no individuals who self-identified as a member of an overburdened community or vulnerable population. We do not ask if an individual is a part of an overburdened community or vulnerable population. We therefore opted to summarize all comments from individuals that referenced environmental justice or community impacts.

Some individual commentors were in favor of linkage and some had concerns. During the first comment period in spring 2023, a few commentors recommended that Ecology wait to link until the Cap-and-Invest Program has operated for longer and has data to show impacts to communities and greenhouse gas emission reductions. Commentors expressed the need to ensure the Program does not disproportionately burden communities already experiencing health and environmental harms. Many commentors recommended Ecology ensure that

⁵² Emissions-intensive trade exposed industries (EITEs) are manufacturing facilities that use high levels of energy and release large amounts of greenhouse gas emissions while also facing significant national or global competition for their products. EITEs are given no-cost allowances to cover most of their Cap-and-Invest Program compliance obligation through 2034.

⁵³ Ecology received comments about the ineffectiveness of market-based programs in reducing greenhouse gas emissions. We appreciate these public comments, though we do not summarize them here as the focus of this Assessment is the action of linking Washington's carbon market with the California-Québec carbon market, not to assess whether Washington should have a Cap-and-Invest Program.

⁵⁴ Environmental Justice Council Letter to Ecology RE – Linkage Adopted on October 26, 2023.
<https://waportal.org/sites/default/files/2024-01/Environmental%20Justice%20Council%20Letter%20to%20Ecology%20RE%20-%20Linkage.pdf>

⁵⁵ Comment letters that informed this Environmental Justice Assessment -
<https://ecology.wa.gov/20260413linkageEJComments>.

⁵⁶ We received these emails during the linkage exploratory process engagement. This email campaign was most likely coordinated by an organization.

linkage does not impact achievement of greenhouse gas limits, noting that all communities benefit from reduced emissions.

A common concern was the potential for linkage to reduce auction revenue allocated to investments in overburdened communities and for decarbonization.

Community-based organizations

Ecology received comments from five community-based organizations, with some organizations providing multiple comment letters.

One organization found linkage too complex to provide feedback on the impacts to communities. Another group provided specific policy recommendations. Multiple groups recommended that Ecology conduct an Environmental Justice Assessment, citing concerns about negative or unknown impacts of linkage on overburdened communities and recommended delaying linkage or not linking. Some were concerned that reduced allowance prices could decrease available auction revenue to benefit overburdened communities and that linkage could reduce the incentive for industries to reduce greenhouse gas emissions.

Environmental organizations

Ecology received comments from 11 environmental organizations that talked about potential impacts on overburdened communities and vulnerable populations.⁵⁷ This Assessment only includes organizations whose comment letters explicitly referenced overburdened communities and vulnerable populations.

Most environmental organizations supported linkage, sharing that it would create a more stable Cap-and-Invest Program and reduce the cost of compliance for businesses in the Program. As a result, they suggested linkage could lead to reduced consumer costs and greater greenhouse gas reductions.

A few organizations expressed concerns that the program should be better established and that lower allowances prices could reduce Washington's ability to meet greenhouse gas limits set in law. Organizations expressed a need for Ecology to assess impacts on overburdened communities, such as impacts related to air pollution, as well for Ecology to have meaningful community engagement.

Public meetings

During public meetings, the public shared comments related to potential impacts on communities, including concerns about the potential reduction in auction revenue for overburdened communities. Comments received at public meetings may include those shared by individuals or organizations, as we did not collect this information

Environmental Justice Council

In October 2023, the Environmental Justice Council sent Ecology a letter with their recommendation "that Ecology not link Washington's carbon market with California and

⁵⁷ This includes one letter from a law school.

Québec at this time based on these concerns to date.”⁵⁸ Their concerns related to the following themes:

- An overall negative effect on overburdened communities
- A negative impact on Washington’s ability to meet greenhouse gas emissions reduction commitments
- A decrease in allowance prices could prevent sufficiently funding investments in decarbonization and in overburdened communities
- A negative impact to the ability of Washington’s Air Quality Program to reduce criteria air pollutants in overburdened communities

To address those concerns, the Council recommended facility specific caps, prohibiting the use of unused allowances⁵⁹ issued prior to Washington linking to California and Québec, limiting the use of offsets, and the establishment of expiry dates for stored allowances.

5. Describe any plans for ongoing engagement with overburdened communities and vulnerable populations related to this action.

Ecology is seeking input on the draft linkage agreement between Washington, California, Québec. We will continue to contact organizations who may be interested in providing input on the draft agreement, inviting them to provide written comments and attend the public hearings. We will consider the input as we develop the final linkage agreement, criteria findings, and Environmental Justice Assessment and make a final decision whether to link.

⁵⁸ Environmental Justice Council Letter to Ecology RE – Linkage Adopted on October 26, 2023.

<https://waportal.org/sites/default/files/2024-01/Environmental%20Justice%20Council%20Letter%20to%20Ecology%20RE%20-%20Linkage.pdf>.

⁵⁹ In general, “unused” or “banked” allowances are allowances that market participants have in their accounts because they have not needed to use them for compliance. Entities may be saving the allowances to use for future compliance obligations or to sell on the secondary market to generate revenue.

Section 8: Potential Environmental Benefits & Harms from Action

Identify Potential Environmental Benefits & Harms from Action

1. Describe the anticipated benefits (direct and/or indirect) from this action.

Cap-and-Invest is a market-based program where businesses choose their most cost-effective compliance strategies – a combination of using allowances and reducing their greenhouse gas emissions. As a result, Ecology cannot predict exactly what will happen in the current standalone market or a linked market. Because of the uncertainties in markets, processes could have positive or negative impacts. For this reason, this section includes both potential benefits and harms from linkage.

Overall, linkage will create a larger carbon market, which we anticipate will reduce allowance price volatility, lower the cost of compliance for covered entities, and increase the stability of the market. Many of the potential impacts on communities in Washington would be the result of more stable allowance prices and lower compliance costs in Washington under a linked market compared to a standalone market.

Additional analysis is available in the *linkage criteria draft findings*.⁶⁰

Strengthening and protecting the Cap-and-Invest Program

Linkage will likely improve Cap-and-Invest Program effectiveness and durability.⁶¹ In doing so, linkage could directly and positively impact vulnerable populations and overburdened communities by supporting the continued generation of auction revenues that could go toward increased community resilience to climate change. Over the past several decades, climate change has increased the severity of wildfires, heatwaves, droughts, and floods across Washington.⁶² While every region of our state is affected, vulnerable populations and overburdened communities are especially being impacted and may not have the right resources to adapt to changing conditions.

See Sections 3 and 4 of the *linkage criteria draft findings* for additional analysis.

Air pollution

Air pollution impacts from linkage would be a result of decisions private businesses make about how to comply with the Cap-and-Invest Program, specifically how much to rely on buying allowances compared to reducing their greenhouse gas emissions. Carbon markets work by setting declining limits on total greenhouse gas emissions, but they do not require greenhouse

⁶⁰ Washington Department of Ecology. April 2026. Cap-and-Invest Linkage Criteria: Draft Findings. <https://apps.ecology.wa.gov/publications/SummaryPages/2614020.html>.

⁶¹ “Durability” is used in this Assessment to mean that the Cap-and-Invest Program would be better able to continue operating over the long term, to its current end date in 2050.

⁶² Washington Department of Ecology. 2024. Washington State Climate Resilience Strategy. <https://apps.ecology.wa.gov/publications/SummaryPages/2401006.html>.

gas emissions reductions to be even across all sources. Because of this, the potential positive or negative impacts of linkage on air pollution are uncertain.

Still, Ecology expects that linking with California and Québec could have positive long-term impacts on air quality for overburdened communities in Washington. This is because it will lead to a more stable and durable Cap-and-Invest Program. Reducing the combustion of fossil fuels reduces greenhouse gases and often reduces criteria air pollutants, too.⁶³ Linkage is expected to accelerate the development and deployment of technologies that reduce fossil fuel combustion and drive covered entities to increasingly electrify processes, leverage renewable energy sources, and employ more energy efficient technologies. In addition to supporting greenhouse gas emissions reductions, these technologies can be cleaner and may emit fewer co-pollutants than the current technologies they displace, improve, and/or replace. This potential for linkage to support accelerated low-carbon technology development and deployment is discussed further in the Section 3.3.3 Business investments and innovation of the *linkage criteria draft findings*. As noted in Section 6, over 80% of the facilities regulated by the Cap-and-Invest Program are located in or near low-income communities and/or communities of color.⁶⁴

Commenters have expressed concerns that lower allowance costs after linkage could lead facilities to choose to purchase allowances rather than reducing their greenhouse gas emissions. Commenters expressed that this could lead to increased air pollution and/or slow down the rate of air quality improvements in overburdened communities. It is possible that some individual sources will not reduce their greenhouse gas emissions or may even increase them. Lawmakers recognized this risk when they developed the CCA and included several provisions to address air quality disparities that are discussed in Section 9.

Ecology has examined the relationship between greenhouse gases and air pollutants as part of a separate analysis on facility-specific emissions caps, a policy proposed by the Environmental Justice Council.⁶⁵ Greenhouse gases and other air pollutants simultaneously form during processes such as the combustion of fuel. Ecology found that the relationship between these emissions is complex and dependent on a variety of different factors. For example, operating conditions, types of processes and equipment, installed air pollution control measures, fuels(s), and types of decarbonization measures implemented can all significantly impact the emissions of greenhouse gases and other air pollutants and what is ultimately released into the

⁶³ Saxena, P & Sonwanil. 2019. Criteria Air Pollutants: Chemistry, Sources, and Sinks. Chapter 2 in Criteria Air Pollutants and Their Impacts on Environmental Health. Springer Nature Singapore. https://doi.org/10.1007/978-981-13-9992-3_2.

⁶⁴ Based on the Environmental Health Disparities map census tracts ranked 9 or 10 for the socioeconomic factors “Population living in poverty” and “People of Color.” See Section 6, Question 4 for additional discussion.

⁶⁵ Washington Department of Ecology. March 2026. Facility-Specific Greenhouse Gas Emissions Caps: Evaluation of this Policy and its Potential Application to Washington’s Cap-and-Invest Program. <https://apps.ecology.wa.gov/publications/SummaryPages/2614022.html>.

atmosphere.^{66 67} These complex relationships were additionally observed in Ecology’s analysis of Washington-specific emissions data from 2012 to 2023, which showed instances where reported greenhouse gas and criteria air pollutant emissions at a given facility appeared to simultaneously increase or decrease, as well as instances where these emissions appeared to be unrelated.⁶⁸

Analysis done by Ecology and others, have also found that while greenhouse gas reduction measures can and do lead to reductions in criteria air pollution, this is not guaranteed for all decarbonization pathways and can be highly dependent on other factors, including those listed previously.^{69 70 71 72} The variability in relationship between greenhouse gas and criteria air pollutant emissions, as well as the range of approaches facilities can choose to decarbonize have led Ecology to conclude that policies specifically targeting criteria air pollutants are essential for addressing air pollution disparities and will be more effective than those targeting greenhouse gases.

Additionally, major sources of greenhouse gases, such as Cap-and-Invest Program covered entities, may not always be the biggest contributors to air pollution in a local community.^{73 74} Therefore, it is important to emphasize that linkage would not change or weaken the state’s laws and rules regulating local air pollutants. Linkage also does not change the provisions in the CCA aimed at reducing criteria air pollution and improving outcomes in overburdened communities highly impacted by air pollution.⁷⁵

⁶⁶ Von Schneidmesser, E. et. al. 2013. Air Quality and Climate: Synergies and Trade-Offs. Environmental Science Processes & Impacts. <https://doi.org/10.1039/C3EM00178D>.

⁶⁷ Jordan, A.B. et al. 2024. Quantifying Air Quality Co-benefits to Industrial Decarbonization: The Local Air Emissions Tracking Atlas. Frontiers Public Health. <https://doi.org/10.3389/fpubh.2024.1394678>.

⁶⁸ A variety of factors, such as changes in production, operating conditions, and/or installed equipment can lead to changes in emissions. Some of these changes may be directly tied to changes in the amount of fossil fuel combusted; however, further investigation is needed to better understand the factors that led to the changes observed in the historical emissions data.

⁶⁹ Washington Department of Ecology. March 2026. “Facility-Specific Greenhouse Gas Emissions Caps Evaluation of this Policy and its Potential Application to Washington’s Cap-and-Invest Program.” <https://apps.ecology.wa.gov/publications/SummaryPages/2614022.html>.

⁷⁰ Whether or not a greenhouse gas reduction measure leads to reductions in criteria air pollutant emissions is heavily dependent on the decarbonization approach selected, operating conditions, installed air pollution control measures and other facility-specific factors. See Tables 1 and 2 in the “Facility-Specific Greenhouse Gas Emissions Caps report” for examples of how greenhouse gas and criteria air pollutant emissions may be connected and may be impacted by different decarbonization pathways.

⁷¹ Waxman, A.R., et. al. 2024. What Are the Likely Air Pollution Impacts of Carbon Capture and Storage. SSRN. <https://dx.doi.org/10.2139/ssrn.4590320>.

⁷² Air Quality Expert Group. 2023. *Air Pollution Arising From Hydrogen Combustion*. https://uk-air.defra.gov.uk/assets/documents/reports/cat05/2411071337_H2_combustion_note_proof.pdf.

⁷³ Washington Department of Ecology. 2023. 2023 Report: Overburdened Communities Highly Impacted by Air Pollution. <https://apps.ecology.wa.gov/publications/SummaryPages/2302115.html>.

⁷⁴ Washington Department of Ecology. 2025. 2025 Report: Overburdened Communities Highly Impacted by Air Pollution. <https://apps.ecology.wa.gov/publications/SummaryPages/2502037.html>.

⁷⁵ Washington Department of Ecology. “Improving Air Quality in Overburdened Communities.” <https://ecology.wa.gov/cleanair>.

See Section 4.5.1 of the *linkage criteria draft findings* for additional analysis.

Investments of auction proceeds

Ecology expects Washington's auction proceeds would initially be lower in a linked market compared to a standalone Washington market.

Other factors in addition influence allowance prices and auction revenues, such as the greenhouse gas emission cap decline rate, complementary greenhouse gas reduction policies, no-cost allocation of allowances, and expectations of the program continuing into the future.

While Washington's auction revenue from a linked market might be lower in the short-term than it would be in a standalone market, this would be balanced by a more consistent and predictable source of revenue for carbon reduction and environmental justice projects over the long term.

A linked market would not change the proportions of CCA revenue that must benefit overburdened communities and Tribes. The CCA will still require that a minimum of 35%, with a goal of 40%, of auction revenues be used for projects that directly benefit vulnerable populations within overburdened communities. In addition, 10% of auction revenue would need to be for projects supported by Tribes.

Overburdened communities and vulnerable populations benefiting from projects funded by the CCA could be negatively impacted in the short-term by a reduction in overall auction revenue as there may be less funding for projects in those communities.

See Section 4.5.2 of the *linkage criteria draft findings* for additional analysis.

Household energy and fuel costs

There are a number of energy companies that operate in both Washington and California. Energy companies commented that they expect linkage will reduce compliance and administrative costs, which may result in savings to their customers.

Reduced energy costs could benefit low-income households because energy costs make up a higher proportion of their household spending compared to higher-income households.⁷⁶

See Section 4.5.3 of the *linkage criteria draft findings* for additional analysis.

2. Who will primarily benefit from this action?

Overall, Ecology expects that linking with California and Québec would reduce allowance price volatility, lower the cost of compliance for covered entities, and increase the stability of the market. A larger market that is more stable and durable would produce short-term and long-term benefits for all residents in Washington through more economically efficient greenhouse gas emissions reductions and a more consistent and predictable source of potential funding for clean transportation options, climate resilience in ecosystems and communities, and addressing issues of environmental justice and health inequity in Washington. Lower compliance costs will

⁷⁶ U.S. Department of Energy Office of Energy Efficiency and Renewable Energy. 2018. Low-Income Household Energy Burden Varies Among States Efficiency Can Help in All of Them. https://www.energy.gov/sites/prod/files/2019/01/f58/WIP-Energy-Burden_final.pdf.

benefit covered entities in Washington, which may mean reduced prices for consumers in cases where businesses decide to pass their compliance costs on to their customers.

3. How is the action expected to benefit specifically overburdened communities or vulnerable populations? If there is no benefit, identify potential barriers to benefitting from the action.

A stronger Cap-and-Invest Program, as result of linkage, could benefit overburdened communities and vulnerable populations by providing consistent funding for climate adaptation and resilience projects and other types of projects in overburdened communities, and by supporting continued greenhouse gas reductions which may also reduce air pollution. Lower compliance costs from linkage may also reduce energy and fuel costs for low-income households, if energy companies pass on those cost savings to their customers.

See Question 1, which has more information on potential benefits to overburdened communities and vulnerable populations.

4. Describe anticipated harms (direct and/or indirect) from this action.

Because Cap-and-Invest is a market-based program where businesses choose their most cost-effective compliance strategies, the potential impacts are uncertain. See Question 1 for a discussion of issues that could result in harms or benefits, or a combination thereof. In addition to those, the following harms are anticipated.

Air pollution and health

Commenters have expressed concerns that lower allowance costs after linkage could lead facilities to choose to purchase allowances, rather than reducing their greenhouse gas emissions and that this could lead to increased air pollution and/or slow down the rate of air quality improvements in overburdened communities. Cap-and-Invest is a market-based program. Reductions in greenhouse gas emissions can occur by many pathways and facilities can choose how they will achieve compliance (i.e., a combination of purchasing allowances and emissions reductions) and which emissions reductions measures to employ under the program.

Ecology did not find evidence that linkage would exacerbate air quality disparities. As discussed above, the relationship between the emissions of greenhouse gases and air pollutants at a facility will vary and depend on many factors.

Given the complex relationship between greenhouse gas and criteria air pollution emissions, it is difficult to predict how and whether certain concerns, such as potential shifts in where greenhouse emissions reductions occur, will impact air pollution in overburdened communities. Washington's required emissions reductions⁷⁷ would remain in place even after linkage. Therefore, any reductions in criteria air pollution that may occur as a result of greenhouse gas emissions reductions are not expected to be impacted by linkage. In a linked market, Washington would also continue to implement the provisions in the CCA that direct Ecology to reduce criteria air pollutants in overburdened communities that are already highly impacted by air pollution.

⁷⁷ RCW 70A.45.020

See Sections 3.3, 4.3 and 4.5.1 of the *linkage criteria draft findings* for additional analysis.

Decrease in Direct Environmental Benefits for offset projects in Washington

In a standalone market, all (100%) of the offset credits used for compliance in Washington must come from projects that provide direct environmental benefits to Washington state.⁷⁸ In a linked market, the statutory requirement for direct environmental benefits from offset projects for Washington is reduced. In the first compliance period (2023-2026), at least 50% of offset credits would need to come from projects that provide direct environmental benefits to Washington. The remaining may come from offset projects located in a linked jurisdiction. In later compliance periods (2027-2050), at least 75% must provide direct environmental benefits to Washington and the remaining 25% may come from offset projects located in a linked jurisdiction.

As of January 2026, offset credits under the Cap-and-Invest Program have been issued to 13 destruction of ozone-depleting substances projects and one forestry project.⁷⁹

In addition to their broader environmental health impacts, offset projects offer a number of benefits to local communities. For example, ozone-depleting substances projects can improve localized air quality and health outcomes by disposing of those substances, which can also be toxic. Meanwhile, forestry projects are intended to protect, restore, or better manage local forests, which can positively impact local air and water quality, and improve local biodiversity. Depending on the decisions of the landowner, they may even create or preserve natural space for recreational use.

Linkage allows Washington covered entities to use a portion of offset credits from projects located in a linked jurisdiction. There are currently many more offset credits available from projects located in California than there are in Washington. So that may reduce the incentive to develop new offset projects in Washington. This could impact vulnerable populations and overburdened communities near potential offset project locations.⁸⁰

In a linked market, Washington would still have the CCA provisions that ensure offsets do not negatively impact greenhouse gas reductions – Washington would have the same limit on offset credit use for compliance⁸¹ and Washington would still have the requirement to reduce allowances by the number of offset credits used for compliance, often referred to as “offsets under the cap.”

⁷⁸ In the context of offsets in Washington, this means environmental benefits accomplished through the reduction or avoidance of emissions of any air pollutant in the state or the reduction or avoidance of the release of any pollutant that could have an adverse impact on land or waters of the state (WAC 173-446-020).

⁷⁹ Ozone depleting substances projects extract and destroy chlorofluorocarbons and hydrochlorofluorocarbons, which are super potent greenhouse gases typically found in commercial and industrial air-conditioning units and refrigerators.

⁸⁰ The location of future offset projects in Washington is unknown because locations are chosen determined by the project developer or landowner.

⁸¹ In the first 4-year compliance period (2023-2026), the CCA allows for up to 8% of an entity’s compliance obligation to be met with offset credits. That is reduced to 6% in later compliance periods. Both limits include special consideration for the use of offset credits from projects on federally-recognized Tribal lands.

See Section 4.5.5 of the *linkage criteria draft findings* for additional analysis.

5. Who will primarily experience the harms?

The potential harms of reduced auction revenue or impacts to air pollution (described in questions 1 and 4) could impact communities. Because Cap-and-Invest is a market-based program where businesses choose their most cost-effective compliance strategies, the potential impacts to specific geographic locations are uncertain.

6. Describe how the action may harm overburdened communities or vulnerable populations?

See Questions 1 and 4 for a discussion of issues that could potentially result in harms to overburdened communities and vulnerable populations. The following are potential harms: lower auction revenue in the near-term for projects in overburdened communities, air pollution near some facilities, and lower demand for offset projects in Washington, which may reduce their financial value.

7. Describe how the action would address environmental and health disparities.

Linking is expected to create a more durable Cap-and-Invest Program, which generates revenue. The Cap-and-Invest auction revenue is invested across the state in projects addressing environmental and health disparities.

Section 9: Options to Eliminate, Reduce, or Mitigate Harms and Equitably Distribute Benefits

This section summarizes options identified for eliminating, reducing, or mitigating harms, as well as options for equitably distributing anticipated benefits. The answers in this section should be informed by engagement, answers from the previous subsections, and any legislative or regulatory boundaries that limit possible decision making.

Identify Options to Eliminate, Reduce, or Mitigate Harms & Equitably Distribute Benefits

1. Describe options to reduce, mitigate, or eliminate the identified probable harms to overburdened communities and vulnerable populations; and options to equitably distribute the benefits.

This section summarizes recommendations Ecology received related to mitigating harms and equitably distributing benefits of linkage. We combine the recommendations from Tribes, individuals, community-based organizations, environmental organizations, and the Environmental Justice Council into categories and describe if we have or have not implemented the recommendation. Additional analysis is available in the linkage criteria findings report, as noted below.⁸²

A. General topics

Broad recommendations and recommendations that relate to multiple categories, include:

Linkage decision, timeline, and process:

I. Decide not to link with California and Québec.

Ecology has not yet decided if Washington will link with California and Québec. However, Ecology is directed by law to actively consider linkage and must determine if we met the criteria set in Chapter 70A.65.210 RCW. In our updated analysis of the linkage criteria, we determined that linkage would have an overall benefit to communities in Washington. Ecology will consider all comments received when making a final decision whether to sign a linkage agreement.

II. Consider partial linkage if Ecology is unable to meet the criteria set in law.

Ecology is still considering this recommendation. Our response will depend on the findings of the linkage criteria.

III. Delay linkage to see how the Washington Cap-and-Invest Program operates as a standalone market.

As discussed above, Ecology is directed by law to actively consider linkage and has not yet decided if it will link with the California-Québec market. Ecology is prioritizing

⁸² Washington Department of Ecology. April 2026. Cap-and-Invest Linkage Criteria: Draft Findings. <https://apps.ecology.wa.gov/publications/SummaryPages/2614020.html>.

continued exploration of linkage, without further delay.⁸³ To date, the Washington standalone Cap-and-Invest Program has been operating for over three years.

The linkage exploratory process started shortly after the Cap-and-Invest Program launched in January 2023. Since then, we have completed additional analysis of potential impacts. This analysis, which is detailed in the *linkage criteria draft findings*, has demonstrated likely benefits to program stability, durability, and effectiveness, as well as communities in Washington.

IV. Maintain language in the linkage agreement that facilitates ongoing review of the programs.

Ecology has implemented this recommendation. The draft Washington, California, Québec linkage agreement includes language to facilitate ongoing review of the programs under Section 1 Objectives.⁸⁴

V. Complete an Environmental Justice Assessment and publish it in draft form and/or use it to guide linkage negotiations.

Ecology has implemented this recommendation and published this Draft Environmental Justice Assessment.

Other:

VI. Have ongoing reporting to ensure linkage does not have an adverse impact on overburdened communities and greenhouse gas reductions.

Ecology will not be able to report specifically on the direct impacts of linkage on overburdened communities. Under the market-based Cap-and-Invest Program, private businesses can choose from multiple pathways to be in compliance with the law. These different compliance pathways will not be different under a linked versus standalone market. Thus, attributing the impact of the decisions made by compliance entities to linkage is fundamentally challenging. However, Ecology is required by the law to monitor, evaluate, and report on the CCA and Cap-and-Invest Program broadly. We will consider impacts of the program on overburdened communities and greenhouse gas reductions. Specifically, Ecology will continue to report on greenhouse gas emission data, CCA investments, criteria air pollution levels in Washington's 16 overburdened

⁸³ See Section 1.2.2 of the linkage draft findings for more information on why Ecology is prioritizing linkage.

⁸⁴ Government of California and Government of Québec. 2017. Agreement on the harmonization and integration of cap-and-trade programs for reducing greenhouse gas emissions. https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/linkage/2017_linkage_agreement_ca-qc-on.pdf.

communities highly impacted by air quality, as well as the overall performance of the Cap-and-Invest Program.^{85 86 87 88}

VII. Recognize each jurisdiction’s commitments to investing and improving outcomes in overburdened communities, including air quality.

Ecology has implemented this recommendation. The draft linkage agreement developed by Washington, California, and Québec now incorporates additional information related to environmental justice and benefits to overburdened communities.

VIII. Activate an Emissions Containment Reserve in Washington, or in all three jurisdictions as a safeguard for consistent revenue and emissions reductions.

Ecology has not implemented this recommendation at this time. The CCA includes an Emissions Containment Reserve (ECR) and directs Ecology to set an ECR trigger price by rule. If an ECR trigger price were in effect for a given auction, it would function as a soft price floor by reducing the quantity of allowances available for sale at that auction. Bids submitted below the ECR trigger price are still allowed to be entered by bidders, but the auction system automatically withholds a number of allowances from the auction supply whenever the final clearing price would otherwise fall below the ECR trigger price. Withholding these allowances reduces supply until the effective clearing price rises to at least the ECR trigger price level.

The CCA states, “If a jurisdiction with which the department might enter into a linkage agreement has no emissions containment trigger price, the department may suspend the trigger price under this subsection.”⁸⁹ Ecology determined through discussions with California and Québec that an ECR trigger price is a policy that needs to be aligned across jurisdictions. California and Québec do not have an ECR. In order to have a program that could link, Ecology has not set an ECR trigger price for Washington and does not plan to do so.

Without a trigger price, the Cap-and-Invest Program still uses the ECR and other program components to stabilize prices. If there are allowances left unsold after a quarterly auction, and those same allowances remain unsold for 24 consecutive months,

⁸⁵ Annual greenhouse gas emissions of certain entities, including those covered under the Cap-and-Invest Program are reported as a part of Ecology’s greenhouse gas reporting program and additional emissions data is reported in a biannual greenhouse gas inventory. Information on these programs can be found at: <http://ecy.wa.gov/mandatory-ghg-reports> and <https://ecology.wa.gov/Air-Climate/Climate-change/Greenhouse-gas-reporting/Inventories>.

⁸⁶ Ecology is directed under RCW 70A.65.300 to prepare an annual report on CCA investments.

⁸⁷ As directed by RCW 70A.65.060(5) and RCW 70A.65.070(3), Ecology must complete periodic program evaluations and submits reports to the Legislature that includes a comprehensive review of the implementation of the program, including outcomes related to greenhouse gas emissions reductions and overburdened communities.

⁸⁸ The CCA directs Ecology in RCW 70A.65.020(2)(a) to conduct a review to determine levels of criteria air pollutants and greenhouse gas emissions in overburdened communities and evaluate health impacts related to criteria air pollution in these communities.

⁸⁹ RCW 70A.65.140(1)

they are automatically swept into the ECR. Other program features include a floor price,⁹⁰ an Allowance Price Containment Reserve,⁹¹ and a price ceiling.⁹²

B. Greenhouse gas emissions

Commenters made the following recommendations to mitigate concerns that linkage could disincentivize facilities from reducing greenhouse gas emissions and affect Washington’s ability to meet greenhouse gas limits set in law:

I. Limiting the use of unused or banked allowances from the current California-Québec market through the methods listed below. Commentors proposed that the use of unused and banked allowances could be limited by:

- Discounting compliance values of allowances based on year they were issued (their “vintage”),
- Restricting the number of allowances from the California-Québec market that could be allowed in Washington, and/or
- Establishing an expiration date for banked allowances.

Ecology decided not to implement this recommendation.

As part of our analysis of the linkage criteria, Ecology asked the firm Monitoring Analytics⁹³ to do an analysis of how that type of policy would impact Washington in a linked market and they determined that:

“none of these options will result in the desired effect under the linked market because the total number of allowances (the total linked budget) is not changed by any of the proposed measures to restrict the use of banked allowances. The proposals will, however, make the linked market less efficient than it could be due to increased transaction related costs for WA covered entities. The proposals to restrict the use of banked allowances will tend to increase the compliance cost of WA entities relative to CA/QC entities under a linked market.”⁹⁴

Ecology has explored this recommendation and evaluated “whether the aggregate number of unused allowances in a linked program would reduce the stringency of Washington’s Program or the state’s ability to achieve its greenhouse gas reduction limits”⁹⁵ as part of our analysis of the linkage criteria. We conclude that restrictions on

⁹⁰ Allowances are not sold below the floor price at auction.

⁹¹ The Allowance Price Containment Reserve (APCR) is a separate pool of allowances that are set aside from each annual allowance budget and released into the market when increased demand at a quarterly auction pushes prices above a pre-determined level.

⁹² Allowance prices at an auction can technically go above this price, but if that occurs covered entities would be allowed to participate in a special sale of allowances at the price ceiling (“price ceiling units”). Because market participants know that price ceiling units will be available to covered entities to purchase if regular auction prices go too high, the incentive for entities to bid above the ceiling is limited.

⁹³ Monitoring Analytics is the Independent Market Monitor for WCI. WCI is the nonprofit that provides the auction platform for the Cap-and-Invest Program.

⁹⁴ See Appendix B: Memo on Treatment of CA/QC Allowances in a CA/QC/WA Linked Market

⁹⁵ RCW 70A.65.210(3)

unused allowances would not achieve a meaningful benefit for greenhouse gas reductions. See Section 4.3.1 of the criteria draft findings for additional analysis of this recommendation.

Ecology has broad authority to adjust annual allowance budgets to ensure that emissions limits are met and that businesses achieve their proportionate share of meeting those limits in 2030, 2040, and 2050.⁹⁶ This authority means that if California's and Québec's unused allowances are having a negative impact on the ability of Washington to meet its emissions limits, Ecology can adjust Washington's allowance budgets as necessary to address the issue.

C. Air quality in overburdened communities

Commenters made the following recommendations to mitigate concerns that that linkage could lead to increased air pollution in or near overburdened communities or slow down the rate of air quality improvements:

- I. Effectively implement the air quality protections already in the CCA.**
- II. Establish more protective air quality standards**
- III. Require additional air quality monitoring.**

The first three recommendations in this category are related, so the following response applies to all three. Addressing local air quality disparities that impact vulnerable populations and overburdened communities, including Tribes, is a key part of the CCA's environmental justice provisions and these provisions will not change in a linked market. Since 2021, Ecology has been steadily implementing these provisions through the Improving Air Quality in Overburdened Communities Initiative and is on track to address these recommendations.⁹⁷

The Improving Air Quality in Overburdened Communities initiative was created to characterize and track air quality in overburdened communities over time, determine the sources of air pollution, establish air quality targets, and adopt and strategies to reduce air pollution in and with those communities and Tribes. Ecology is in the process to create a new rule to improve air quality in overburdened communities.⁹⁸

As for air quality monitoring, Ecology has leveraged CCA funding to expand its stationary air monitoring network, including the installation of 49 new air monitoring sites in overburdened communities. We will continue to expand this network in the coming years. In 2026, Ecology will begin a high-resolution mobile monitoring study for both criteria air pollutants and hazardous air pollutants along roadways in the identified overburdened communities and participating Tribes' land.

⁹⁶ RCW 70A.65.070(3)

⁹⁷ Washington Department of Ecology. "Improving air quality in overburdened communities." <https://ecology.wa.gov/cleanair>.

⁹⁸ Washington Department of Ecology. "Chapter 173-448 WAC – Air Quality in Overburdened Communities." <https://ecology.wa.gov/wac-173-448>.

Other activities that are part of the Improving Air Quality in Overburdened Communities Initiative include:

- Ecology launched a \$10 million grant program funded by the CCA for local projects that reduce criteria air pollutants.
- Ecology completed two biennial reports that provide information about criteria air pollutant concentrations and their health impacts, as well as greenhouse gas emissions, in Washington’s 16 overburdened communities highly impacted by air pollution. The reports provide foundational data to track air pollution levels, which informs Ecology’s work to improve air quality overburdened communities.^{99 100}

In addition, Ecology has the authority to reduce the number of offset credits a business can use for compliance; if we determine, with input from the Environmental Justice Council, that the company has or is likely to “contribute substantively to cumulative air pollution burden in an overburdened community” or has violated any air pollution permits.¹⁰¹ This provision will be maintained in a linked market and Ecology will be establishing criteria for its implementation.

IV. Prioritize the Air Quality in Overburdened Communities rulemaking and complete it before linkage.

As mentioned above, Ecology is in the process of creating a new rule to improve air quality in overburdened communities through the Air Quality in Overburdened Communities rulemaking (Chapter 173-448 WAC).¹⁰² Announced in October 2024, through this rulemaking Ecology has engaged with community and Tribal leaders and members in learning about and defining complex terms, processes and strategies needed to meet the letter and spirit of the law.¹⁰³

As mentioned above, Ecology is prioritizing continued exploration of linkage, without further delay. Ecology is not planning to make the decision whether to link with California and Québec dependent on completing the Air Quality in Overburdened Communities rulemaking. However, we do see opportunities for ongoing policy development related to overburdened communities under the authorities granted in the CCA, as enumerated above.

V. Establish a policy that places greenhouse gas emissions limits on high-polluting facilities in or near overburdened communities and/or restricts covered entities from trading allowances in these communities.

⁹⁹ Washington State Department of Ecology. 2023. 2023 Report: Overburdened Communities Highly Impacted by Air Pollution. <https://apps.ecology.wa.gov/publications/SummaryPages/2302115.html>.

¹⁰⁰ Washington State Department of Ecology. 2025 Report: Overburdened Communities Highly Impacted by Air Pollution. 2025. <https://apps.ecology.wa.gov/publications/SummaryPages/2502037.html>.

¹⁰¹ RCW WAC 173-446-600(7)(c)(i), RCW WAC 173-446-600(7)(c)(ii)

¹⁰² Washington Department of Ecology. "Chapter 173-448 WAC – Air Quality in Overburdened Communities." <https://ecology.wa.gov/wac-173-448>.

¹⁰³ Washington Department of Ecology. "Improving air quality in overburdened communities." <https://ecology.wa.gov/cleanair>.

Ecology has explored these recommendations, which involve establishing either a facility-specific emission cap or a “no-trade zone” policy to reduce greenhouse gas emissions from facilities regulated by the Cap-and-Invest Program, with the intended outcome of also reducing air pollution. These policies operate in a similar way, restricting the ability of facilities to buy and trade allowances. Ecology does not have the statutory authority to mandate facility-specific caps on greenhouse gas emissions or no-trade zones within the Cap-and-Invest market. Based on our analysis of the efficacy and feasibility of these policies, and lack of statutory authority to implement these policies, Ecology is not implementing these recommendations.

In 2026, Ecology published an analysis of facility-specific greenhouse gas emissions caps in the context of Washington’s Cap-and-Invest Program, which found that facility-specific emissions caps:¹⁰⁴

- Would not be effective at consistently reducing criteria and precursor air pollution emissions, and
- could affect the carbon market in ways that may weaken the Cap-and-Invest Program’s overall effectiveness.

Given the similarities between the facility-specific emission cap and “no-trade zone” policies, Ecology expects the “no-trade zone” policy to yield similar outcomes. Importantly, though the combustion of fuel can release both greenhouse gases and criteria air pollutants, these emissions are not always directly proportional, and can be influenced by a variety of factors, such as facility type, operating conditions, equipment technology and design, and installed air pollution control measures. This complexity is reflected in Washington-specific greenhouse gas and criteria air pollutant emissions data that Ecology examined as a part of its analysis of the facility-specific emissions caps policy.¹⁰³ Facilities may also have significant greenhouse gas emission sources, such as from chemical reactions and/or physical processes other than fuel combustion that occur during their operations, that may not be connected with criteria air pollutant emissions.

D. Auction revenue

Commenters made the following recommendations to address their concerns that linkage could reduce the Cap-and-Invest auction revenue available to invest in projects in overburdened communities and Tribal communities:

I. Guarantee at least 35%, with a goal of 40%, of the auction revenue to support community-driven projects that benefit overburdened communities.

This recommendation is already mandated by the CCA, which requires that at least 35%, with a goal of 40%, of all auction revenue be spent on projects that provide “direct and meaningful benefits” to vulnerable populations within overburdened communities, and

¹⁰⁴ Washington Department of Ecology. March 2026. Facility-Specific Greenhouse Gas Emissions Caps Evaluation of this Policy and its Potential Application to Washington’s Cap-and-Invest Program. <https://apps.ecology.wa.gov/publications/SummaryPages/2614022.html>.

that an additional 10% be spent on projects supported by Tribes.¹⁰⁵ These requirements will not change with linkage.

Ecology does not have authority to decide how auction revenue is spent or to change the proportion of the revenue benefiting overburdened communities and vulnerable populations. However, Ecology will continue to report on CCA investments, which includes the portion of spending providing direct and meaningful benefits to vulnerable populations within overburdened communities, the portion of spending supported by Tribes, and greenhouse gas emissions reduced as a result of the investments.

II. Have stricter criteria for what projects benefit overburdened communities. Ecology is currently carrying out this recommendation through a process that is occurring separate to linkage.

Ecology is developing guidance on how “direct and meaningful” benefits to overburdened communities and vulnerable populations are measured and reported. This includes determining which areas of the state should be considered overburdened communities as well as guidance for state agencies to use when determining whether the projects they fund should be counted as providing direct and meaningful benefits.

III. Distribute revenue to projects that prioritize climate and health mitigation.

Ecology does not have authority to decide how auction revenue is spent or increase the proportion of the revenue benefiting overburdened communities and vulnerable populations. Funding decisions are made by the Legislature through the state budget appropriations process. However, the CCA has existing provisions to direct auction revenue to climate mitigation and health projects.¹⁰⁶

E. Offset credits and projects

Commenters recommendations to address concerns related the use of offset credits from California and Québec are:

I. Maintain Washington’s requirement for offset projects to provide direct environmental benefits to Washington.

This recommendation will be met because the requirements related to direct environmental benefits for offset credits are set in statute and those requirements will be maintained in a linked market, unless changed by the Legislature.¹⁰⁷

II. Prohibit the use of offset credits issued by California and Québec for compliance in Washington, if those offset protocols do not have the same rigor as Washington.¹⁰⁸

¹⁰⁵ RCW 70A.65.230

¹⁰⁶ RCW 70A.65.240 through 70A.65.280

¹⁰⁷ RCW 70A.65.170

¹⁰⁸ Offset project standards are set through “protocols” developed by each jurisdiction.

The CCA in statute allows some offset credits issued by linked jurisdictions to be used for compliance in Washington, subject to limitations.¹⁰⁹

Through the U.S. Forest Protocol rulemaking,¹¹⁰ Ecology proposed rule language to partly address this concern by adding additional requirements for receiving a designation of providing direct environmental benefits to Washington. While Ecology's protocols are largely identical to California's currently, we anticipate differences to develop over time. The potential for "venue shopping" may impact either jurisdiction's decision to unilaterally strengthen or improve their protocols over time, as developers may simply opt to enroll with the more favorable jurisdiction for their particular project and attain the same value for their offsets. Even if Washington and California intend to closely align their offset protocols throughout the life of the programs, differences in rulemaking timelines and processes may result in periods in which it may be more advantageous to register a project in one jurisdiction over the other, creating opportunities for venue shopping behavior.

The protocol-alignment provision addresses venue shopping while preserving flexibility for early adopter projects, including those developed by Tribes prior to linkage.¹¹¹ This would preserve the market for existing Tribal offset projects and continue to support Tribal participation as offset project operators or hosts.

III. Maintain the policy in Washington to reduce the allowance budget by the number of offset credits used for compliance the previous year (referred to as offset credits being "under the cap").

This recommendation will be met because this provision is in statute. If we link, it will be maintained, unless changed by the Legislature.¹¹²

IV. Use the linkage negotiation to advocate for higher integrity standards for offsets that covered entities can use to meet their compliance obligations.

Ecology continues to share information with California and Québec on the Cap-and-Invest Program, including changes we are proposing to offset protocols through a rulemaking process.

¹⁰⁹ In the first compliance period (2023-2026), at least 50% of offset credits would need to come from projects that provide direct environmental benefits for Washington. The remaining would need to be from offset projects located in a linked jurisdiction. In later compliance periods (2027-2050), at least 75% must provide direct environmental benefits to Washington with the remaining 25% from offset projects located in a linked jurisdiction.

¹¹⁰ Washington Department of Ecology. "Chapter 173-446 WAC – Cap-and-Invest Offsets (U.S. Forest Protocol)" <https://ecy.wa.gov/regulations-permits/laws-rules-rulemaking/rulemaking/wac-173-446-offsets-us-forest-protocol>.

¹¹¹ Washington Department of Ecology. 2025. Proposed Revisions to Chapter 173-446 WAC: Draft for Public Comment. Cap-and-Invest Offsets U.S. Forest Protocol (Chapters 173-446) rulemaking. https://ecology.wa.gov/getattachment/839f27d0-ab63-4d4e-ad53-ee8533ddb44e/USForestryOffsets_RuleRevisions.pdf.

¹¹² RCW 70A.65.170(5)

In addition to the actions listed above, Ecology has taken further action to help address concerns related to offsets and linkage. These include:

- **Add flexibility to allow a greater portion of Washington offset credits to come from projects on Tribal land.** As previously mentioned, this was changed in 2024 by Senate Bill 6058. Ecology is now in the process of implementing this through the Cap-and-Invest Program Updates and Linkage rulemaking.¹¹³
- **Add a requirement that the additional percentage of offset credits that must be sourced from projects on Tribal lands must also provide direct environmental benefits to Washington.** We plan to propose this change in the Cap-and-Invest Program Updates and Linkage rulemaking.¹¹²

F. Engagement and consultation for the public and Tribes.

Commenters made the following recommendations related to prioritizing public engagement and consultation with Tribes:

I. Involve the Environmental Justice Council and give them ample time to evaluate impacts of linkage.

Ecology has been working to implement this recommendation. Ecology initially reached out to the Environmental Justice Council in January 2023, at the start of the linkage public engagement process, to ask for their input on linkage. We have regularly shared updates and joined discussions with the Council and its sub-committees over the past three years.

II. Be transparent about the linkage process and provide ample time for the public to evaluate Ecology's analysis.

Ecology has been working to implement this recommendation. Throughout the linkage process, Ecology strove to be responsive to comments about how to improve engagement and consultation with the public and Tribes. We maintained the linkage webpage with up-to-date information on the linkage process and timeline. We emailed updates via our CCA email list, Tribal email list, and personalized emails to organizations. Starting in 2025, we have published quarterly linkage updates.¹¹⁴ The quarterly updates include a description of each jurisdiction's linkage process and estimated timeframe for completing each step.

III. Develop more resources to make the complex topic of linkage more accessible for the general public.

Ecology is working toward meeting this recommendation through the development of informational documents and videos. These resources have been shared throughout the linkage process and are located on Ecology's linkage webpage.¹¹⁵

¹¹³ Washington Department of Ecology. "Cap-and-Invest Program Updates and Linkage rulemaking." <http://ecology.wa.gov/Cap-and-Invest-Program-Updates-and-Linkage-Rule>.

¹¹⁴ Washington Department of Ecology. 2025. Cap-and-Invest Carbon Market Linkage Updates. <https://apps.ecology.wa.gov/publications/SummaryPages/2514019.html>.

¹¹⁵ Washington Department of Ecology. "Cap-and-Invest Linkage". <http://cca.wa.gov/linkage>.

IV. Publicly track which outcomes and information could be incorporated into a linkage agreement.

Ecology has acted on this recommendation by sharing through this Environmental Justice Assessment the recommendations we have heard from relevant interested parties and whether Ecology has adopted that recommendation. We also have shared the draft linkage agreement for the public to review and provide comments.

V. Provide overburdened communities with a role in monitoring and guiding the program’s implementation, ensuring their concerns are actively addressed.

Ecology will continue to do outreach and engagement with overburdened communities and Tribes and implement the requirements in the CCA, which sets out specific duties for the Environmental Justice Council related to implementation of the CCA. The Environmental Justice Council’s duties under the CCA include “provide a forum to analyze policies adopted under this chapter to determine if the policies lead to improvements within overburdened communities.”¹¹⁶

G. Emissions-intensive, trade-exposed industries (EITEs)

Ecology received comments and recommendations related to no-cost allocation of allowances to EITEs. These concerns are not related to impacts from linkage, but about the Cap-and-Invest Program generally; therefore, this topic is outside the scope of this Environmental Justice Assessment. Specific recommendations related to this topic include:

- I. Use California’s approach to no-cost allocation.**
- II. Stop providing no-cost allowances to EITEs in overburdened communities.**
- III. Ensure the Cap-and-Invest Program creates incentive for EITEs to reduce greenhouse gas emissions.**

Under a separate process, Ecology submitted a report to the Legislature on policy options for no-cost allocation for EITEs from 2035-2050, which references what other emissions trading programs do, including California.¹¹⁷ Linking would not impact Washington’s ability to continue this work to evaluate options for no-cost allocation to EITEs. The Legislature, not Ecology, has the authority to change the no-cost allocation schedule, methods for allocation, or EITE incentives to reduce their greenhouse emissions.

H. Related to the California and Québec programs

Commenters identified options for changes to California’s and Québec’s programs that could address potential impacts to overburdened communities within Washington or in those jurisdictions. Recommendations from commenters include:

¹¹⁶ RCW 70A.65.040(2)(b)

¹¹⁷ Washington Department of Ecology. 2026. Report to the Legislature on EITE allowance allocation 2035 - 2050 Leakage mitigation policies for facilities classified as Emissions-Intensive, Trade Exposed Industries under the Cap-and-Invest Program. <https://apps.ecology.wa.gov/publications/documents/2514113.pdf>.

- I. **Use the linkage agreement or external pressure to strengthen California’s and Québec’s laws to improve local air quality in overburdened communities in those jurisdictions.**
- II. **Adopt similar direct environmental benefit requirements for offset projects as Washington, requiring that all offsets used for compliance be from projects that provide direct environmental benefits to their jurisdiction or are located in linked jurisdictions.**
- III. **Have offset credits be ‘under the cap’ like Washington.**
- IV. **Extend California’s program beyond 2030.**
- V. **Have California’s program align with Washington’s HEAL Act requirements and increase their environmental justice standards.**
- VI. **Encourage more aggressive greenhouse gas caps.**

A linkage agreement does not create new regulations, change existing regulations, or give any of the jurisdictions authority over program design or investment decisions of any of the other jurisdictions. A linkage agreement is a non-binding agreement that sets expectations for information sharing, cooperation, and accounting.

It should be noted that some of the proposed options have already been addressed by linking jurisdictions. For example, the California Legislature passed a bill in 2025 to rename the California program to “Cap-and-Invest” and formally extend it through 2045.¹¹⁸ That bill also put offsets “under the cap” in California.

2. Describe methods chosen for this action to reduce, mitigate, or eliminate the identified probable harms to overburdened communities and vulnerable populations; and methods chosen to equitably distribute the benefits.

We describe specific methods chosen to reduce, mitigate, or eliminate harms and equitably distribute benefits under each recommendation in Question 1 above.

The draft agreement developed by the three jurisdictions incorporates additional language related to environmental justice and benefits to overburdened communities.

Ecology will continue to monitor, evaluate, and report on:

- The performance of the Cap-and-Invest Program and its contribution toward meeting the state’s greenhouse gas emissions limits.
- Criteria air pollutant concentrations and their health impacts, as well as greenhouse gas emissions in 16 overburdened communities and participating Tribes highly impacted by criteria air pollution in Washington.
- Investments made with Cap-and-Invest auction revenue and how those reduce greenhouse gas emission and benefit overburdened communities and Tribes.

¹¹⁸ California Assembly Bill No. 1207: Climate change: market-based compliance mechanism: extension. (2025-2026). https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202520260AB1207.

The CCA explicitly states, “The department is authorized to withdraw from a linkage agreement and every linkage agreement must provide that the department reserves the right to withdraw from the agreement.”¹¹⁹

3. If the agency determines it does not have the ability or authority to eliminate, reduce, or mitigate environmental harms caused by the action, or address the equitable distribution of environmental benefits, explain why that determination was made.

A linkage agreement is a non-binding agreement that sets expectations for information sharing, cooperation, and accounting. It does not create new regulations or change existing regulations in any of the participating jurisdictions. That can be done only through each jurisdiction’s rulemaking process and changes to statutes made by legislative bodies. If Ecology decides to link, the CCA explicitly states that “The state retains all legal and policymaking authority over its program design and enforcement.”¹²⁰ The linkage process and linkage also do not give Washington any authority over program design or investment decisions made by California and Québec.

The Washington Legislature determined, through passage of the CCA, to use a market-based program to reduce greenhouse gas emissions in Washington. The CCA sets out the structure of the Cap-and-Invest Program and includes many of the provisions that determine how the program functions, including uses of auction revenues, no-cost allocation to certain types of entities, allowance banking, offsets, and environmental justice provisions. The Legislature determines how to spend auction revenue through the appropriations process. Ecology has limited authority to change the Cap-and-Invest Program through the rulemaking process. We’ve noted above in Question 1 when we determined we do not have statutory authority to adopt or implement a recommendation.

¹¹⁹ RCW 70A.65.060(3)

¹²⁰ RCW 70A.65.210(5)

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Appendix A: Summary of comment letters included in this Environmental Justice Assessment

Ecology summarized the comment letters from individuals, community organizations, and environmental organizations in the tables below. The tables are grouped by the following themes: general topics, greenhouse gas emissions, air quality, auction revenue, offset projects and credits, engagement and consultation, criteria report consideration, emissions-intensive, trade-exposed industries (EITEs), and comments related to California and Québec.

The tables are separated into the following three columns: individuals (indiv.), community organization (community org), and environmental organization (enviro org). An ‘x’ in the column indicates the comment was made by at least one or more individuals or organizations.

In comment letters, some use terms “marginalized communities”, “frontline communities”, and “highly impacted communities.” For consistency, we use the term “overburdened communities.” We use the term “no-cost allowances” instead of “free allowances.”

General topics	Indiv.	Community org	Enviro org
Linkage may create stable pricing and a more affordable program.	x		x
Do not link with the California-Québec market.	x	x	x
Delay linkage and allow Washington’s market to operate longer before linking. ¹²¹	x	x	x
Consider partial linkage if Ecology is unable to meet the criteria.	x		x
Ensure that linkage will not adversely affect already overburdened communities in Washington and the linked jurisdictions.		x	x
Linkage favors emitters and could make it easier for industries to harm Washington residents, overburdened communities, and vulnerable populations and continue the inequitable exposure to pollutants.	x	x	
For the linkage agreement, consider adding recognition of each jurisdiction’s commitment to improving outcomes in overburdened communities.	x		x
Maintain language in the linkage agreement that facilitates ongoing review of programs.			x

¹²¹ This comment was shared in 2023 when the Cap-and-Invest Program was new. The Program has now been operating over three years.

General topics	Indiv.	Community org	Enviro org
Have ongoing reporting to ensure linkage does not have adverse impacts on communities and greenhouse gas emissions reductions.	x		
Allowance prices should be set by Washington market because California's market price could dilute Washington's.			x
Businesses may not lower costs to benefit customers even if their compliance costs are lower.	x		
Ensure linkage does not result in higher energy costs for Washington residents, especially low-income and marginalized communities.	x		
Ensure any changes to program rules for linkage do not compromise the environmental integrity of the program or result in adverse effects to overburdened communities.			x
Have stricter holding limits on allowances to prevent large companies from purchasing a disproportionate share of allowances, reducing market competition.	x		
Regular evaluation of market behavior to help prevent monopolization and maintain the program's intentions.	x		
Activate an Emissions Containment Reserve in all three jurisdictions as a safeguard for consistent revenue and emission reductions.			x
Ecology needs to study the potential impacts of linkage on large factory farms.		x	
Concern linkage could benefit concentrated animal feeding operations (CAFOs) and agricultural monocropping, increase methane production.		x	

Greenhouse gas emissions	Indiv.	Community org	Enviro org
Linkage could lower allowance prices which may disincentivizes industries from reducing greenhouse gases and may negatively affect Washington's ability to achieve greenhouse gas reduction limits. Higher allowance prices incentivize businesses to reduce their emissions.	x	x	x
Prioritize greenhouse gas emissions reductions or ensure linkage does not weaken Washington's ability to achieve greenhouse gas limits.	x		x

Greenhouse gas emissions	Indiv.	Community org	Enviro org
A linked market may provide greater greenhouse gas emission reductions in California, Washington, and Québec compared to an unlinked market.		X	
If Washington were to link, banked/unused allowances available in the California-Québec market could lead to emitters buying allowances instead of reducing emissions.	X	X	X
Limit the use of banked/unused allowances. Recommendations for doing this include: <ul style="list-style-type: none"> • Discount compliance values of allowances based on the year they were used ‘vintage.’ • Restrict the number of allowances from California and Québec that could be allowed in Washington, • Establish an expiration date for banked allowances. 		X	X
Develop more tools so businesses convert to clean energy by 2030.		X	
Important for Washington to invest early in greenhouse gas reduction projects to achieve the 2030 reduction goals.	X		
Concern that Washington is already not meeting its greenhouse gas goals and does not have baseline greenhouse gas data.	X	X	
Concern about how linkage could make it more difficult to account for emissions from biofuels and could increase the production of biofuels.	X	X	

Air quality	Indiv.	Community org	Enviro org
Linkage could slow reduction in greenhouse gas emissions. If greenhouse gas emissions are co-emitted with local air pollutants, an increase in greenhouse gas emissions could coincide with an increase in local air pollution, amplifying health impacts experienced by overburdened communities near industrial facilities.		X	X
Use of unused allowances could increase local air pollution near overburdened communities.		X	X
Effective implementation of the air quality protections already in the CCA to ensure the Cap-and-Invest Program provides air quality benefits to communities that are overburdened by air pollution and environmental health harms.			X
Air quality rulemaking: Develop draft language as expediently as possible to ensure adequate time for public to analyze and provide feedback. Rulemaking is even more critical under a linked market to ensure localized pollution reductions in areas where vulnerable populations reside. Complete the rulemaking before linkage.			X
Stronger air quality regulations to actively improve air quality in overburdened communities.	X		X
Establish “no-trade zones” that restrict the allowance trading between covered entities in or near overburdened communities to address flaws in the cap-and-trade model that focus on economics rather than curtailing pollution.		X	
Implement a facility-specific emissions cap policy that places pollution limits on certain high-polluting facilities in overburdened communities to reduce pollution exposure.		X	X
Evaluate local air pollution and model how the emissions the facilities produce will travel in relation to downwind and overburdened communities.			X
Work with the other parties to evaluate how best to address the disproportionate burden of co-pollutants on overburdened communities.			X

Auction revenue	Indiv.	Community org	Enviro org
There were suggestions on how to use CCA revenue to benefit overburdened communities, including for climate and health mitigation.	x		x
Concern that if linkage causes allowance prices to go down, there will be reduced auction revenue for Tribes and overburdened communities and greenhouse gas reduction projects.	x	x	x
Auction revenue should not be used to cover up pollution caused by companies. Companies should invest auction revenue to reduce pollution.	x		
Banked allowances could reduce funds collected from auctions.		x	
40% of the proceeds are not being allocated to projects benefitting overburdened communities and linkage would make this even harder.	x		
Guarantee at least 35%, with a goal of 40%, of the auction revenue to support community-driven projects that benefit overburdened communities.	x	x	x
Stronger oversight, transparency, and tracking requirements for auction revenue, including providing a spending report.	x		x
Stricter criteria for what projects benefit overburdened communities.	x		

Offset credits and projects	Indiv.	Community org	Enviro org
Linkage may impact the viability of offset projects and have both revenue and environmental impacts – particularly in rural areas.			x
The CCA requirement for offset projects to provide direct environmental benefits to Washington is an important characteristic to mitigate environmental injustice.			x
Concern that since California’s offset protocols may not be updated until after 2030 and it could incentivize Washington-based offset projects to pursue offset credits using California’s less rigorous protocol.	x		x
California’s offset program has harmed communities by allowing emitters to purchase offset credits rather than Reduce greenhouse gas emissions. How will Ecology		x	

Offset credits and projects	Indiv.	Community org	Enviro org
ensure there are meaningful impacts to Washington communities as a result of offset programs?			
Eliminate or limit the use of offset credits for industries operating near overburdened communities that are found to be contributing to air pollution.	X	X	X
Keep offsets ‘under the cap’ and maintain the integrity of the emissions cap.	X		X
Maintain Washington’s requirement for offset projects to provide direct environmental benefits to Washington. Prohibit the use of offset credits issued by California and Québec for compliance in Washington, if those offset protocols do not have the same rigor as Washington. ¹²²	X		X
Analyze how potential price changes of offset credits from linkage could impact supply, demand, and location of projects and how that may impact overburdened communities.	X		X
Consider not allowing certain forest offset credits from California and Québec that lack rigor.			X
Use the linkage negotiations to advocate for higher integrity standards for the offsets that covered entities can use to meet their compliance obligations.			X
Have consistent offset protocols, when possible, across linked jurisdictions.			X

Engagement and consultations for the public and Tribes	Indiv.	Community org	Enviro org
Complete an Environmental Justice Assessment. Publish the assessment in draft form to guide linkage negotiations.	X	X	X
During the first engagement period (in 2023), Ecology solicited feedback on how Ecology should analyze the criteria rather than provide an analysis that the public could respond to. This prevents community voices in the decision to link.		X	
Many individuals and small organizations do not have time to understand the complexities of linkage and provide comments.	X	X	

¹²² Offset project standards are set through “protocols” developed by each jurisdiction.

Engagement and consultations for the public and Tribes	Indiv.	Community org	Enviro org
Involve the Environmental Justice Council and give them ample time to evaluate impacts of linkage.	X		X
Robust engagement that is transparent about the process, involves members of overburdened communities, and provides ample time for the public to evaluate Ecology's analysis on linkage.	X	X	X
Proactive consultation with federally recognized Tribes, First Nations, and Inuit.	X		X
Include recognition of the sovereignty of Tribal nations participating in the program and impacted by the agreement in any linkage agreement Washington negotiates.			X
Develop more resources to make the complex topic of linkage more accessible for the general public.		X	X
Publicly track which outcomes and information could potentially be incorporated into a linkage agreement and which could not.			X
Provide overburdened communities with a role in monitoring and guiding the program's implementation, ensuring their concerns are actively addressed.	X	X	

Criteria analysis considerations	Indiv.	Community org	Enviro org
Ecology does not appropriately analyze the potential impacts on overburdened communities in the preliminary criteria report.		X	
Analyze the potential impacts and adverse effects of linkage on overburdened communities and vulnerable populations in Washington, California, and Québec for the following: air quality near facilities, investments in highly impacted communities, economic impacts on energy prices and health, health benefits, and others.	X		X
Weigh the criteria so that the cost of compliance for industry does not receive the same level of gravity as the effects of linkage on overburdened communities and vulnerable populations.		X	
Consider whether California and Québec have a similar program designed to support Tribes in developing offset programs.			X

Criteria analysis considerations	Indiv.	Community org	Enviro org
Evaluate whether the number of unused allowances in a linked program would reduce the stringency of Washington's program and our state's ability to meet its emissions limits.			X
Review the definition of vulnerable populations and overburdened communities in the three jurisdictions.	X		X

Emissions-intensive, trade-exposed industries (EITEs)	Indiv.	Community org	Enviro org
Concern about how no-cost allowances are given to certain industries and the total allocation eventually exceeds the overall program greenhouse gas reduction cap.		X	X
Align Washington's treatment of EITE's to California's more rigorous approach where there is a greater incentive to decrease emissions each year. Promote more effective decarbonization of industrial sector emissions.			X
Address the issue that Washington's carbon market has little to no incentive for EITEs to reduce greenhouse gas emissions.		X	
Utilize current authority to remove no-cost allowances from EITEs in overburdened communities.			X

Related to California and/or Québec	Indiv.	Community org	Enviro org
Review public comments submitted in California and Québec			X
California's program needs structural reform to better address the state's environmental justice issues, including responding to recommendations from the California's Environmental Justice Advisory Committee that recommends prohibiting some facilities from using allowances.			X
Encourage linked jurisdictions to adopt similar direct environmental benefit approaches as Washington – requiring that all offsets used for compliance be from projects that provide direct environmental benefits to their jurisdiction or are located in linked jurisdictions.	X		X

Related to California and/or Québec	Indiv.	Community org	Enviro org
California and Québec offset credits are currently not “under the cap” and should be. They should also adopt the more stringent Washington standards.		x	x
Use linkage agreement or external pressure from Washington to strengthen California and Québec's laws to improve local air quality in overburdened communities.			x
Linkage should be contingent on California’s Cap-and-Trade program extended beyond 2030.	x	x	x
Have California’s program align with Washington’s HEAL Act requirements and increase their environmental justice standards.	x		x
Encourage California and Québec to have more aggressive caps.	x		x

Appendix B: Memo on Treatment of California/Québec Allowances in a California/Québec/Washington Linked Market



DATE: March 10, 2026
TO: WA
FROM: Monitoring Analytics
SUBJECT: Treatment of CA/QC allowances in a CA/QC/WA Linked Market

Monitoring Analytics (MA), in its role as the Independent Market Monitor (IMM) for WCI, was asked to comment on proposals to restrict the use of CA/QC linked market allowances of vintages that predate a planned linkage of Washington (WA) with the CA/QC linked market (called banked allowances in the proposals). Concerns have been raised that allowing the use of CA/QC linked allowances from vintages that predate WA joining the CA/QC/WA linked market (banked allowances) would reduce the ability of WA to meet greenhouse gas emission reductions goals within its borders. For purposes of this memo, CA/QC vintages that would be allowed to be used to meet WA obligation requirements under the WA's vintage restriction proposals will be referred to as non-banked allowances.

To address the concerns about the use of banked allowances, three options for modifying the use of banked allowances in a linked market have been brought forward: (1) discounting compliance values of banked allowances, based on their vintage; (2) restricting the use of allowances banked prior to linkage; and (3) establishing an expiration date for banked allowances.¹

It is the IMM's opinion that none of these options will result in the desired effect under the linked market because the total number of allowances (the total linked budget) is not changed by any of the proposed measures to restrict the use of banked allowances. Each of these proposals will make the linked market less efficient than it could be due to increased transaction related costs for WA covered entities. All three proposals are designed to restrict the use of banked allowances will tend to increase the compliance cost of WA entities relative to CA/QC entities under a linked market.

If WA discounts banked allowances, WA entities will have to use more banked allowances to meet their obligations than if they used nonbanked allowances. This will increase the cost of compliance of WA entities relative to CA and QC entities in the linked market. If the discounting of banked allowances makes it cheaper to replace the banked allowances with nonbanked allowances in the secondary market than to use them for compliance purposes, WA entities will have an incentive to sell banked allowances to CA and QC entities and buy non banked vintage allowances. If WA entities sell their banked allowances to CA and QC

¹ https://media.rff.org/documents/Report_25-05_K1qtc92.pdf

entities, the total number of allowances and the total amount of emissions allowed within the linked market will remain the same with or without the restriction and with or without linkage. Whether the WA entities use the discounted banked allowances for compliance or replace them through market trades, the costs of compliance for WA entities will be higher than the costs of compliance for CA and QC entities.

If WA places an expiration date on banked allowances, banked allowances will be used prior to expiration by WA entities or they will be sold to CA and QC entities. In the event that WA entities are better off selling the banked allowances and buying non banked allowances to replace them, this will make the costs of compliance for WA entities higher than the costs of compliance for CA and QC entities. The total number of allowances and the total amount of emissions allowed within the linked market will remain the same with or without the restriction and with or without linkage.

If WA simply restricts the use of banked allowances by WA entities, this will cause non banked vintage allowances of any origin (CA/QC/WA) from the linked market to be used to meet WA obligations. Meanwhile, allowances of all vintages and any origin (CA/QC/WA) will be used to meet CA/QC obligations. WA entities will have to sell banked allowances to CA/QC entities and buy non banked allowances from CA/QC entities. These transactions will increase the cost of compliance for WA entities relative to the costs of compliance for CA/QC entities. The total number of allowances and the total amount of emissions allowed within the linked market will remain the same with or without the restriction and with or without linkage.

In a linked market, allowances are fungible between the linked jurisdictions and allowances will move to their highest value use among entities. Traded volume in WA market is only a small fraction of traded volume in CA/QC secondary markets. The volume weighted average secondary market price (on ICE) for WA allowances was 249.2 percent higher (December contract) than the linked CA/QC volume weighted secondary market price (December contract) for 2026 vintage allowances in the January 2, 2026 through February 26, 2026 period. Upon linkage it is expected that there will be a net flow of allowances from the currently lower priced CA/QC market to the currently higher priced WA. This movement of allowances will occur with or without vintage restrictions on the use of banked allowances by WA.

While total allowances across the jurisdictions will remain the same with or without the proposed banked allowance restrictions on WA entities, the proposed banked allowance restrictions on WA entities will negatively affect the efficiency gains of WA entities from WA joining the CA/QC/WA linked market relative to a market without these restrictions.

In the CA/QC linked allowance market banked allowances are bundled with current vintage (the current year's vintage) allowances in Current Vintage Auctions awards and in almost all

market transactions on ICE. In the linked February 2026 Auction, for instance, 2024 (13,217), 2025 (7,204,285) and 2026 (47,758,255) vintage allowances were sold in the current vintage auction. The standard current vintage ICE futures contract (CCA) can result in the transfer of allowances from any current year or prior year vintage from the seller to the buyer.² For instance, the California Carbon Allowance Vintage 2026 Future contract (the current reference contract for all futures trades) states:

“California Carbon Allowances acceptable for delivery are those issued as a limited authorization to emit up to one metric ton of CO₂ or CO₂ equivalent in the California Cap and Trade Program having a vintage corresponding to the calendar year of the expiring contract and allowances having a vintage of any year prior to the calendar year of the expiring contract. If the specified vintage year allowances do not exist in the California MTS at contract expiry, allowances of any prior vintage year or allowances of the earliest vintage year available in the California MTS shall be delivered.”³

By allowing current and prior vintage allowances to be used interchangeably, the linked CA/QC market has increased market liquidity (in terms of daily volume and open interest) relative to a market that does not allow the interchangeability among current and prior year vintages. Higher volume markets are associated with markets with higher market liquidity. Liquid markets are considered to be efficient markets because transactions costs (the cost of finding a trading partner at a mutual acceptable price) are lower in liquid markets than illiquid markets. A liquid market allows contracts to be traded between buyers and sellers without significantly changing the price of contract. The more liquid the market, the greater the volume of trade can occur without a significant change in the prices of the contract. ICE contracts that allow current and prior year vintage allowances to be delivered (CCA) have far more volume and open interest than single (specific) vintage contracts (CCAS).

² Futures are financial contracts requiring parties to trade an asset at a specified future date and price. The buyer must buy, and the seller must sell the underlying asset at the agreed price, regardless of its market price at expiration. ICE lists the linked (CA and QC) market future contract for allowances as California Carbon Allowance (CCA). While called a CCA, the jurisdictional origin of the allowances delivered upon contract expiration (CA or QC) is irrelevant to the contract completion so long as the allowance is from a linked jurisdiction. In the case of the 2026 ICE futures market for CA and QC linked allowances, the standard contract is CCA V26 DEC 2026 Strip. CCA V26 DEC26 strip is a futures contract for one thousand (1,000) 2026 vintage year (2026) allowances (or older vintage, such as 2023 vintage) from QC or CA with a December delivery date (called the December Strip contract).

³ <https://www.ice.com/products/82612870/California-Carbon-Allowance-Vintage-2026-Future>

Comparing the volume of the current vintage (multi vintage year contracts) December strip contracts (CCA V26 and CCA V27) to vintage specific (single vintage year contracts) December strip contracts (CCAS V27 and CCAS V28) from January 2, 2026 through February 26, 2026, shows that the multi vintage year contracts have significantly higher daily volume (number of daily trades) than vintage year specific contracts.⁴ The daily average volume for CCA V26 (multi vintage year contract) was 3,532.77 versus the daily average volume for CCAS V27 of 32.31 (single vintage year contract).

There is a lot more market liquidity associated with “current vintage” (current plus prior vintage bundles) linked market contracts than linked vintage specific contracts. Further, the CA and QC linked market for CCA v26 has 7,881 percent more daily volume, on average, than the WA only WA v26 market, from January 1, 2026 through the February 6, 2026 period. There is a lot more liquidity in the CA/QC linked market than in the WA market. Considered together, this means that WA entities would be expected to have a relatively easy (but not costless) time selling any banked allowances they acquire from linked auctions or standard futures contract transactions (but this is a transaction that CA and QC entities would not need to make), but a more difficult (costly) time acquiring allowances that qualify as unbanked (a transaction that CA and QC entities do not need to make).

Conclusion

Under the proposed banked allowance restrictions, if a WA entity buys current vintage allowances from the CA/QC/WA auction or from ICE, that WA entity will have to sell off any banked allowance vintages they receive (banked allowances are of no use to WA entities under the proposed rules). The WA entity will then have to acquire, through bilateral transactions or less liquid vintage (and/or jurisdiction) specific ICE contracts, the vintage specific allowances the WA entities can use to meet their obligations. If banked allowance restrictions require WA entities to conduct trades to filter their allowances awards from auctions and ICE contracts to exclude banked allowances, this is a cost on WA entities that will be caused by the proposed banked allowance restrictions that will not be realized by CA/QC entities in the linked market. If banked allowance restrictions require WA entities to conduct trades to filter their allowances awards from auctions and ICE contracts to exclude banked allowances, the cost savings to WA entities from joining the linked market will be lower than would occur if the proposed banked allowance restrictions were not in place.

⁴ CCA V26 DEC26 strip is a futures contract for one thousand (1,000) 2026 vintage year (2026) allowances (or older vintage, such as 2023 vintage) from QC or CA with a December delivery date (called the December Strip contract).