



November 6, 2023

Washington Department of Ecology

300 Desmond Drive SE

Lacey, WA 98503

RE: Environmental Defense Fund comments relating to Climate Commitment Act Update and Agency Request Legislation

Environmental Defense Fund (EDF) appreciates the opportunity to provide input as the Department of Ecology (ECY) considers agency request legislation to amend provisions of the Climate Commitment Act (CCA) to facilitate linkage with the joint California-Quebec market. EDF is a non-profit, non-governmental, and non-partisan organization that links science, economics, and law to create innovative, equitable, and cost-effective solutions to urgent environmental problems. EDF has over three million members and activists across the country, including over 100,000 in Washington state. EDF brings deep expertise to climate policy design, particularly the design of enforceable, declining, economy-wide limits on climate pollution. EDF has long pursued initiatives at the state, national, and international levels designed to reduce emissions of climate-altering and health-harming air pollutants. EDF has been deeply involved in the design and implementation of California's cap-and-trade program since the program's launch in 2012. We continue to provide technical and policy expertise to make the program as strong as possible going forward and provide analysis of quarterly auction results—as we also now do in Washington.

EDF engages with both the California-Quebec emissions market and the Washington emissions market to advocate for the deep emissions reductions needed to address the urgent challenge of climate change while creating a more sustainable and equitable future for all. Washington's Climate Commitment Act makes the state the country's frontrunner on climate action, with the most ambitious enforceable limits on climate pollution of [any state in the nation](#). By taking bold action to reduce greenhouse gas emissions, Washington is demonstrating that it is possible to address the urgent challenge of climate change while creating a more sustainable and prosperous future. Now, Washington has taken the next step forward by deciding to pursue linkage with the joint California-Quebec emissions market. As we have written in previous comments, EDF strongly supports this decision, and sees a broader linked market as essential for enabling increased program ambition (facilitating greater emission reductions), building long-term market stability and predictability, and creating an even more cost-effective program.

At the October 26th public workshop held by ECY staff, we learned about some of the proposed changes to the CCA that ECY is considering requesting the legislature take up in January. As ECY

weighs changes to the program, EDF recommends that ECY prioritize any suggested operational changes from the potential linked jurisdictions in the WCI as long as those changes would meet the standard of maintaining or strengthening Washington's existing program. Our comments below are initial recommendations based on available information, and we will be submitting more detailed comments as this process moves forward.

Proposed changes to purchase limits

EDF supports the changes outlined by ECY staff at the October 26th meeting, including the alignment of purchase limits in Washington with those in the linked WCI market. Purchase limits in Washington are 10% for covered entities and 4% for general market participants, whereas in California those limits are 25% for covered entities and 4% for general market participants. We support ECY pursuing alignment of these prices, so that Washington increases its purchase limits for covered entities to align with California's. This would have a negligible impact on Washington's independent market, and would ensure an even playing field for market participants across jurisdictions in a linked market.

Proposed changes to the APCR

EDF also supports ECY's interest in altering the APCR auction schedule to facilitate earlier and more streamlined APCR auctions; we would further encourage ECY to consider other aspects of APCR alignment, such as alignment of trigger prices. While the Tier prices in Washington's and California's APCR are aligned, the point at which an APCR is triggered is not. In Washington, an APCR auction is triggered if prices at a quarterly auction reach above the set Tier 1 price - as we have seen twice this year. In California, an APCR auction is triggered when prices reach at or above 60% of that Tier 1 price.

We recommend that Washington adopt the same 60% trigger threshold for their APCR auctions. Pledging to hold a reserve auction when prices reach a point lower than the actual Tier 1 price will give buyers more confidence in their ability to buy enough allowances to cover their emissions, because they are assured access to the additional APCR allowances without added price pressure and competition from non-covered entities. Given that demand in Washington has been consistently high and has already triggered two subsequent APCR auctions, it would benefit the Washington system to give buyers more certainty earlier in the process that they will be able to obtain sufficient allowances to cover their emissions. Knowing that the reserve allowances will be available at an established price gives bidders an alternative to purchasing allowances in the market at prices higher than the established APCR tier price, which will help cool demand and limit price pressure. By offering to sell allowances in the Reserve when prices hit a 60% threshold, compliance entities know that they will have the *option* to get more allowances if they aren't able to obtain enough in the quarterly auction.

This adjustment would also be important in the event of a linked market, to ensure that entities in Washington and California have the same opportunities for buying and banking allowances at a common price point. If Washington were to maintain its trigger point at the Tier 1 APCR price, while entities in California have the opportunity to access APCR allowances at a lower threshold, California entities would have the ability to accumulate APCR allowances at the Tier 1 price - potentially giving them an advantage over Washington entities who would need to reach a higher price point before having the same access. Adopting California's approach would allow

Washington entities to purchase allowances at \$51.90 in the preceding month, while Washington's approach would only offer those reserve tiers once an auction exceeds \$51.90 or higher.

This adjustment has the added benefit of aligning with California's approach to their APCR, which will further smooth the process of program linkage. While this alignment is an added benefit, it is not operationally critical to linkage; Quebec and California maintain separate APCR, with the reserve auctions only available to the entities operating in each jurisdiction.

Other technical considerations

In addition to the suggestions outlined above, we encourage ECY to examine the benefits of aligning Washington's compliance periods with those in the California- Quebec system to facilitate linking. This is another area where further alignment between the programs will smooth the linkage process and create a more unified market.

Proposed changes to ECY's authority to modify through rulemaking

EDF understands the necessity of ECY's potential request for specific agency authority to modify aspects of the program through rulemaking. Given the ongoing rulemaking in California and the potential for changes to be made in the linked California-Quebec program that would need to be addressed by ECY outside of a legislative session, ECY will need the ability to make some modifications to better facilitate linkage. However, EDF recommends that this authority be clearly delineated and limited in scope to whatever changes are strictly necessary for linkage to occur. A broad extent of agency discretion to make changes to a program in a future linked market may present challenges to potential partner jurisdictions, and ECY should aim to provide as much clarity as possible over when, how, and why the agency will be able to make changes through rulemaking.

Need for meaningful community engagement in Environmental Justice Assessment

As ECY takes its next steps with the Environmental Justice Assessment, it is critical that ECY prioritizes meaningful engagement with communities overburdened by pollution and works to address the concerns of environmental justice advocates. This includes using the tools at Ecology's disposal, such as adopting standards and regulations to improve air quality in communities with high cumulative pollution burdens and eliminate disparities between overburdened communities and neighboring communities that are not overburdened. Ecology should make clear their intent to utilize these tools, and ensure that any potential changes to the CCA to better facilitate linkage must maintain or strengthen Washington's existing program.

In summary, EDF supports ECY's effort to pursue program alignment and facilitate linkage through these proposed changes. EDF encourages ECY to consider any changes recommended by California and Quebec, as long as those changes do not compromise the environmental integrity of the program or result in adverse effects to overburdened communities. We appreciate the opportunity to engage in this process and look forward to following ECY's next steps towards linkage.

Sincerely,

Caroline Jones

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