Donny Neel

Please see attached comment letter. Thank you

Donny Neel
Sr. Manager, Regulatory Affairs - Climate and Environmental Policy

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Sent via upload: CCALinkage@ecy.wa.gov

Washington State Department of Ecology
Attn: Stephanie Potts, Cap-and-Invest Program Linkage Planner
P.O. Box 47600
Olympia, WA 98504-7600

Re: Importance of Getting Program Basics Right Before Linkage of Washington's Cap-and-Invest Program

Dear Stephanie Potts,

The Western States Petroleum Association (WSPA) appreciates the opportunity to continue providing feedback on the rulemaking intended to enable linkage of Washington's Cap-and-Invest program with the existing linked carbon market programs in California and Quebec. As a non-profit trade association representing companies that create the energy that Washington needs today and for the future, while directly and indirectly employing tens of thousands of Washington residents, WSPA recognizes the importance of getting linkage done correctly.

WSPA acknowledges and appreciates the proactive steps Ecology has taken to support legislation that increased the auction purchase limit to 25% and updated the biofuels definition. We also recognize further adjustments may be necessary for full harmonization as the program evolves. WSPA's members are committed to continuing to work collaboratively with Ecology to ensure that linkage of the Cap-and-Invest program—if approved by the jurisdictions with whom it seeks to link—is successful.

Linking Washington's Cap-and-Invest Program with other established carbon markets presents significant opportunities for regional collaboration and carbon reduction. However, to ensure that linkage is successful and beneficial for Washington, it is essential to first focus on strengthening key elements of the Cap-and-Invest program. We propose the following recommendations:

Establish Feasible Caps Prior to Linkage

Washington must develop feasible emissions caps that reflect its long-term climate goals and provide pathways for compliance that avoid the necessity to utilize price ceiling units and/or result in significant leakage of allowance revenue out of the state. This is particularly important in the early years of the program when annual reductions are not aligned with the pace of implementation of key programs such as vehicle electrification. Such adjustments can be easily made now while respecting the state's ultimate 2050 climate goals.

- **Propose Phased Cap Stringency Increases**: Develop a revised trajectory for the annual reduction of the emissions cap, starting with a slower decline in the first compliance period and reducing more aggressively as supporting programs like vehicle electrification ramp up.

Ensure the Baseline Aligns with the Current Reporting Methodology

Transportation fuel emissions in the 2015-2019 baseline appear incongruous with the reported fuel volumes today.[1] This is likely arising from the change in reporting methodology as defined by WAC 173-441, which began in 2022.

- **Ecology needs to review and likely recalibrate the 2015-2019 baseline:** Evaluating data from the U.S. Energy Information Administration and similar datasets will help ensure the baseline represents an accurate starting point. Ensuring that the fuel volumes in the 2015-2019 baseline are adjusted to be consistent with the current accounting methodology for fuel emissions (while also adjusting the program's cap reduction trajectory to align with the pace of implementation of key programs) will direct the program to a place where it can harmonize well when linked with other jurisdictions.

  WSPA recognizes that the baseline was developed per the direction of SB5126 (2021), but the likelihood that this has created further unexpected stringency to the program is highly problematic. WSPA offers to work with Ecology to determine how to make such an adjustment that provides a baseline that better represents the level of emissions that would have been calculated in 2015-2019 using the new methodology.

Conduct a Comprehensive Economic Assessment with Linkage

A thorough economic impact assessment is essential to understand how a linked program will affect local businesses, especially small enterprises, energy-intensive industries, and consumers. California is considering tightening its emissions cap to align with its new climate targets, which could lead to higher allowance prices. This assessment will help inform whether linkage will be supportive of Washington's environmental goals while not impairing its economic growth. Policy makers need to understand these impacts to ensure optimal program design, particularly when considering linkage of the Cap-and-Invest program to a larger market.

- **Detailing Economic Impact Assessment Requirements**: The economic impact assessment should consider potential impacts on different sectors, such as energy-intensive / trade-exposed industries (EITEs), fuel suppliers, and small businesses. It should also evaluate possible effects on consumer prices due to changes in allowance prices or the introduction of new policies and assess risks of allowance price volatility and how it could affect market stability and compliance costs. Without a comprehensive economic impact assessment, Washington risks unintended market impacts, reduced competitiveness for energy-intensive industries, and higher compliance costs for small businesses and consumers. These outcomes could undermine the broader goals of the Cap-and-Invest Program and its public support.

[1] The program baseline based on 2015-2019 includes annual emissions of about 32 million tons from non-natural gas suppliers. The figure reported for 2022 under the new methodology is nearly 40 million tons. This directional difference notably conflicts with the lower fuel volumes for Washington in 2022 reported by other sources [e.g., Washington Transportation Revenue Forecast Council, US Department of Transportation and the US Energy Information Administration]. While some of this difference can likely be explained by exempt fuels, the magnitude of this gap cannot be easily explained by this; any disconnect that arises from the change in reporting methodology makes already aggressive annual targets in 2023-2030 even more severe.

Harmonization of Compliance Periods

We look forward to reviewing updated rule language and continuing our dialogue with Ecology for transitioning the program's compliance periods to harmonize with California and Quebec. It is fortuitous that all three jurisdictions would begin a new compliance period in 2027, which should make this program element easier to manage with linkage as harmonizing compliance periods and deadlines for allowance surrender and emissions reporting across jurisdictions will enhance market efficiency and ease compliance burdens for regulated entities operating in multiple states. Beginning linkage in 2026, if feasible, could provide more options for compliance in the first period of the Cap-and-Invest program by providing access to a larger pool of allowances. While this likely would provide the advantage of program stability, linkage at this time should not distract Ecology from addressing the key issues above that need to be proactively dealt with to ensure the program is set up for long-term success. Feasible caps are no less important in a linked program. Caps that reduce more aggressively when compared to the pace of technological implementation will result in unnecessary leakage of revenue to other jurisdictions.

Implement Monitoring and Review Mechanisms

To maintain alignment and effectiveness post-linkage, we recommend building upon the existing coordination mechanisms within the Western Climate Initiative (WCI), which already supports collaboration between California and Quebec. Periodic reviews of linkage impacts, such as those currently conducted in California under the Cap-and-Trade Regulation's program review process, could be a useful model for Washington to adopt to ensure ongoing alignment and adjustment.

Conclusion

Before considering linkage with California, Quebec, or other jurisdictions, Washington must prioritize getting key fundamentals of its Cap-and-Invest Program right. It is a program that contains many strong design elements; it can be set up for long-term success and then linked with other jurisdictions by implementing the key changes recommended above in this ongoing period during which linkage will be enabled and authorized.

We remain committed to ongoing engagement with Ecology and other stakeholders, and we are ready to collaborate further to ensure that Washington's Cap-and-Invest Program not only meets its climate goals but also serves as a model for successful multi-jurisdictional linkage.
Thank you for considering our comments. We welcome further discussions on these points and are ready to collaborate with Ecology to ensure the success of linkage and, most importantly, the Cap-and-Invest program itself.

Thank you for the consideration of these comments. If you have any questions or comments about the information presented in this letter, please do not hesitate to contact me via e-mail at dneel@wspa.org or by phone at (253) 525-0700.

Sincerely,

Donny Neel

Donny Neel
Sr. Manager, Regulatory Affairs - Climate and Environmental Policy
WSPA