

## IETA Submission to Washington's Department of Ecology: Washington C&I Linkage Rulemaking 27 September 2024

The [International Emissions Trading Association](#) (IETA) welcomes this opportunity to provide guidance as requested by Washington's Department of Ecology (ECY) on its draft rule language to facilitate cap-and-invest linkage with California and Quebec. IETA has long supported linkage and fungibility across compliance carbon markets. Linkage plays a central role in cap-and-invest/trade (hereafter referred to as C&I) programs by showcasing climate leadership, minimizing compliance costs, improving market functioning, and enhancing mitigation potential. **As such, IETA strongly supports Washington to establish formal program linkage with California and Quebec.**

IETA's comments are structured around three sections:

1. **High Level Comments:** High level comments providing broad feedback related to linkage while highlighting specific areas of focus for ECY's consideration.
2. **Specific Rule Language Proposed by ECY:** Comments on specific proposed rule language raised by ECY.
3. **Additional Considerations Outside of ECY's Rule Language:** Additional comments on amendments not raised in ECY's draft rule language.

### Section 1: High-Level Comments

**Necessary Flexibility to Adjust Program on an As-Needed Basis:** During the formal linkage process, it is important for Washington to be able to adjust the C&I program to best align with California and Quebec programs.

In the context of ongoing program reviews in both California and Quebec, IETA recognizes that Washington's legislature may not be able to perfectly account for future program changes in the other jurisdictions. As such, ECY should strive to adopt and implement the program with a focus on Adaptive Management where possible. The recent amendments have provided ECY with some discretion to update the program to accommodate linkage, therefore we recommend maximizing the use of that authority where appropriate.

IETA has worked with carbon pricing regulators all over the world. As such, we recognize that adaptive program management is necessary for the success of carbon pricing programs. ECY needs to be comfortable amending the program on an "as needed basis" and should not be averse to program changes when warranted. To that point, ECY has

outlined areas of the rule to be drafted in the future based on program activities in California and Quebec. Notably, program changes must be transparent, clearly defined and broadly communicated well in advance of implementation to avoid perverse market impacts. Any necessary program changes to facilitate linkage must be clearly communicated with adequate opportunities for stakeholder review and feedback to ensure entities can best adjust and manage compliance or market positions under the amended program.

**Degree of Alignment Necessary to Facilitate Linkage:** It is important to emphasize that program alignment does not need to be perfect, nor do individual programs need to be identical, to facilitate successful future linkage. In no way will/should remove Washington's autonomy to cater its C&I program to the specific needs, and goals of the state. We suggest that ECY educate interested parties on this program nuance when discussing linkage.

## **Section 2: Specific Comments on Draft Rule Language**

### **IETA's Position on Specific Amendments to Chapter 173-446 WAC (Climate Commitment Act Program Rule):**

- **Compliance Periods:** IETA strongly supports efforts to align compliance periods with Quebec and California. This is necessary for linkage.
- **Updating Corporate Associate Group (CAG) Treatment:** IETA supports Washington's intent to align CAG treatment with California and Quebec, pending the results of both jurisdictions' ongoing program review. Aligning CAG treatment supports robust linkage.
- **Biofuels definition:** IETA supports efforts to align as many program elements as possible with Quebec and California to best enable linkage. To this end, we support the updated biofuels definition.
- **Scope for unspecified electricity:** Requirement for all importers of unspecified electricity to be covered entities, regardless of the amount of unspecified electricity they import (previously 25,000 MT CO<sub>2</sub>e threshold) – This aligns with California, as such, IETA supports.
- **General Market Participant Treatment:** IETA supports Washington removing the restriction on General Market Participants (GMPs) to not hold more than 10% of the total allowances issued in a single year. As noted by ECY, other program measures adequately restrict GMPs from holding inappropriately large shares of allowances, in line with California and Quebec approaches.
- **Auction Purchase Limit:** Increasing allowance purchase limits in line with California and Quebec will immediately act as a cost-containment measure for the

program (even prior to linkage). Alignment in allowance purchase limits will be required to facilitate successful linkage.

- **Future Vintage Year Allowance Auctions:** IETA supports an increase to future vintage year allowance auctions, in alignment with Quebec and California. This amendment will help create greater price certainty for future years, supporting a more robust program with or without linkage.
- **Offset Treatment:** While IETA favours the offset approach employed in California and Quebec, as it better enables a wider range of abatement opportunities thereby driving down compliance costs, we recognize and support the need for Washington to design its C&I program to the specific needs of the state. In these regards, IETA is adamant that the differing approach for offset treatment will not negatively impact linkage prospects.

In general, we are favorable to all the proposed changes to the treatment of offsets as they are necessary to enable offsets from California and Quebec to be used for compliance. However, we strongly recommend additional changes to best enable the cost-saving benefits of linkage and to avoid unintentionally restricting offset usage from linked jurisdictions. IETA's additional recommendations are elaborated in section three below.

- **Discretion to Reduce Compliance Penalty:** IETA is strongly in favor of the proposed removal of ECY's discretionary power to reduce compliance penalties in the first compliance period if Washington links with other jurisdictions.

### **Section 3: Additional Considerations Outside of Draft Rule Language:**

#### **Additional Offset Considerations:**

- 1) The Climate Commitment Act (CCA) imposes restrictions on the usage of offsets under the C&I program which will reduce the availability of offsets from linked jurisdictions to be used for compliance within Washington, limiting the cost-containment benefits of linkage. While IETA understands that the C&I rulemaking has to align with the CCA, we would like to flag the following concerns with (RCW 70A.65.170 (5) Offsets) for further potential consideration:
  - 1.1) We view the restriction that offsets must come from reporting periods after or within two years prior to July 2021 to be troubling, as there are no substantial differences in California offset quality between pre-2019 and post-2019 offsets.
  - 1.2) Additionally, the CCA requires offsets from linked jurisdictions to be generated within the linked jurisdiction, which fails to recognize California offsets generated from projects outside of California.
- 2) ECY should implement a process to determine Direct Environmental Benefits (DEBs) from California carbon offset projects located outside of Washington that may provide



DEBs to the state, in line with the process for Washington offsets that occur out of state.

- 3) IETA views agency flexibility to amend the program on an as-needed basis as critical to supporting robust linkage with California and Quebec. We understand that there are complex nuances with the treatment of offsets in Washington versus the Quebec and California programs that highlight the importance that, to the extent possible, ECY address offset-related issues via rulemaking to implement linkage successfully.

**APCR Trigger Percentage:** California's Allowance Price Containment Reserve (APCR) auctions are triggered if the auction settles at a price equal to 60% of the lowest Reserve tier price. Washington's APCR auctions are triggered if the auction settles at 100% (or more) of the lowest Reserve tier price. IETA encourages ECY to explore potentially reducing the APCR trigger threshold in alignment with California to support enhanced cost-containment and equal treatment for regulated facilities under a linked market.

**APCR Methodology:** As part of the formal linkage process, IETA encourages ECY to align their APCR distribution methodology with California's. A firm methodology like California's would provide market participants with a greater sense of program stability and could boost confidence in Washington's program to other program regulators.

### **Conclusion:**

Once again, IETA appreciates this opportunity to provide feedback. Our community continues to dedicate significant effort to best leverage IETA's deep global and domestic carbon market expertise to provide ECY with constructive, solutions-oriented thinking. We aim to inform a pragmatic linkage pathway to support robust program development that drive both climate outcomes and broad socio-economic benefits.

If you have questions or require further information, please contact Joey Hoekstra at [hoekstra@ieta.org](mailto:hoekstra@ieta.org).