

September 3rd, 2025

Submitted Electronically

Adrian Young

Washington Department of Ecology

Re: Document 6: Draft Recommendations for EITE Allowance Allocation 2035-2050

Dear Adrian Young,

Thank you for the opportunity to comment on the Draft Recommendations to the legislature on EITE Allowance Allocation. The Nature Conservancy (TNC) has engaged on and supported the Climate Commitment Act since before its passage and is committed to ensuring the effective implementation of the law. TNC recognizes that it is critical to both decarbonize emissions intensive, trade-exposed industries (EITEs) and mitigate leakage risk. To that end, we make the following recommendations:

Clearly communicate that EITE no-cost allowances are under the cap, and EITEs must reduce emissions to maintain the integrity of the CCA cap

The key principle that Ecology should maintain in these recommendations and communicate to the legislature is the importance of the CCA's greenhouse gas emissions cap and the role EITEs must play to reduce emissions in-line with the cap. Ecology should emphasize the clarity of the law on this point. EITEs are covered entities under the CCA (RCW 70A.65.110), which by definition in law means that the cap applies to them (RCW 70A.65.010). Washington has rightfully recognized that EITEs compete with producers outside of Washington State, and that decarbonizing will require significant capital investments. To accommodate that, the legislature gave EITEs 12 years of no-cost allowances with an estimated value of at least \$5.4 billion, a public investment that other emitters do not receive.¹ Ecology should make clear in this report that as covered entities EITEs are required to reduce emissions and not entitled to break the cap with free pollution into perpetuity. The purpose of this public subsidy of industrial pollution is to assist EITEs in making the necessary investments to decarbonize while maintaining competitiveness. We recommend Ecology visually demonstrate how the EITEs' requests to remain at 94% of

¹ Drew Veysey, Valeriya Azarova, Camellia Moors, and Hannah Thonet, Opportunities for Industrial Modernization in Washington: Technical Pathways, Investments, Policy, and Decarbonizing Options for Emissions-Intensive, Trade-Exposed Industries, RMI, 2025, <https://rmi.org/insight/opportunities-for-industrial-modernization-in-washington>.

baseline no-cost allowances from 2035-2050 will break the cap, and how EITE no-cost allowances when combined with utility no-cost allowances will break the cap even earlier.

Recommend that the legislature take action to communicate industry is required to reduce emissions

Ecology should recommend that the legislature take decisive action on EITEs that requires them to reduce emissions in-line with the cap. Industry representatives repeated throughout the workgroup process that they need clear signals that they will be required to reduce emissions before making the necessary capital expenditures. Given Ecology's responsibility for implementing the cap and this request for certainty from industry, it is Ecology's responsibility to recommend reductions in no-cost allowances that brings industrial polluters the clarity they need to invest in decarbonization.

One way for the legislature to communicate this intent is requiring consignment of no-cost allowances and directing EITEs to spend the value of those allowances on decarbonization. We urge Ecology to recommend consignment of allowances beginning in the second compliance period. Please see more detailed recommendations on consignment below in response to Draft Recommendation 3.2.

Provide Examples of a Range of Suites of Specific Policy Options

TNC is concerned that Ecology's report continues to be too high-level to prepare legislators not already deep in the weeds on EITEs to make decisions about the future of EITE treatment in the CCA. TNC recommends that Ecology put forward a few examples of suites of policies that would achieve the goals of reducing emissions and mitigating leakage. That would provide the legislature with the framework they need to understand the scope of decisions available to them that will meet the needs of the cap and EITEs. For example, one scenario could include a) a step down of no cost allowances in 2035 to align with cap, b) a cap adjustment factor, and c) consignment of some no-cost allowances before 2035 and all no-cost allowance after 2035 with a requirement that the value of consigned allowances be spent on decarbonization. A second scenario could take a sector-by-sector approach to emissions reductions as described in the RMI report. By providing example scenarios without being prescriptive Ecology can help the legislature understand the realm of feasible policies to consider that would address both decarbonization and leakage risk. Knowing that the realm of recommendations requires decarbonization will also help provide EITEs the certainty they need to invest in electrification.

Consider Impacts of Linkage

Ecology has made clear that Washington intends to link with California. A linked market is likely to result in lower allowance costs. It also will bring California based competitors into the same market conditions as Washington EITEs, reducing the need for EITE protection for those facilities. Given these considerations, an EITE policy in a linked market should become more stringent to drive decarbonization, maximize investments in Washington, and support market function while still minimizing leakage. TNC recommends that Ecology consider linkage scenarios in its assessment of policy options.

Show detailed analysis

TNC encourages Ecology to include more detailed analysis in the report to the legislature for those who want to get deeper in the weeds. Ecology could do this by adding an additional section that provides the background information for each topic area and better explains the depth, reasoning, conclusions, and outstanding questions of Ecology's analysis. This is particularly important for the complex policy ideas addressed in the recommendations that legislators may not already be familiar with. An example of additional information needed is around the scoring matrix from Document 5. In multiple instances a proposed policy/strategy was not seen as viable due to a low or negative score on "Minimizes administrative / implementation costs and technical requirements." Insufficient information was provided on what perceived complexities or costs were considered in determining that score. Additional information is absolutely necessary for legislators to make their own determination on the value of a given proposal to achieve a needed end with its relative cost or administrative complexity.

Draft Recommendation 1.2

TNC appreciates the recommendation for monitoring developments in a carbon border adjustment mechanism, which would help prevent leakage for some EITEs and compliment a no-cost allowance policy that aligns with the cap.

Draft Recommendation 2.1 & 2.2

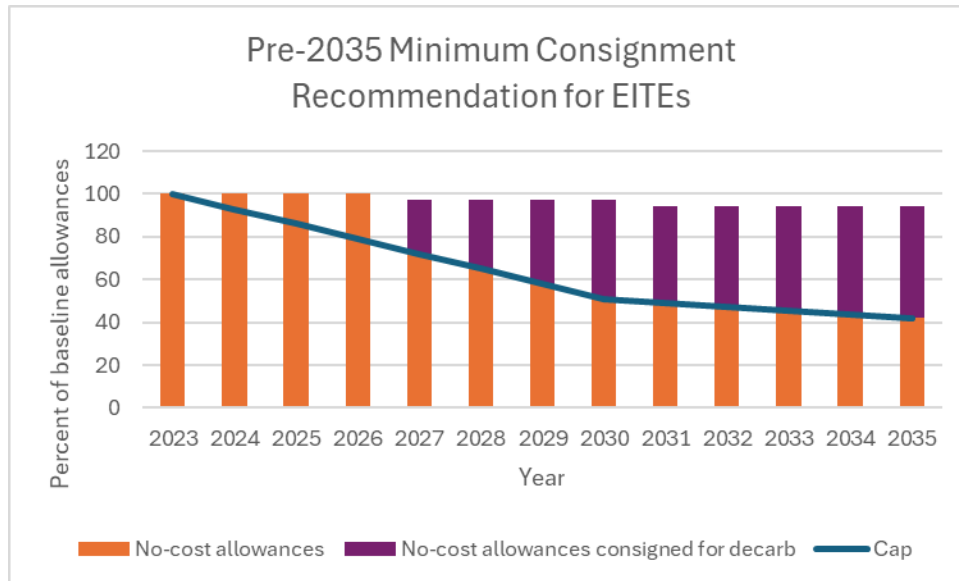
TNC appreciates that Ecology plans to assess leakage risk and tailor assistance based on that risk, since the purpose of no-cost allowances is to prevent leakage *while industrial emitters decarbonize*. If their leakage risk is low or emitters are not decarbonizing, they should not be getting fewer no-cost allowances.

Draft Recommendation 3.1: Clarify how product-based benchmarks or alternative methods for establishing allocation baselines will align with cap

While TNC is open to the idea of re-baselining, it is important that any re-baseline lead to emissions reductions and alignment with the cap. TNC recommends a step down in no-cost allowances in 2035 to align with the cap and sector specific decarbonization pathways. EITEs have been given high levels of no-cost allowances through 2034 in order to minimize leakage while they decarbonize. A step down in no-cost allowances in 2035 to align with the cap will provide EITEs with the certainty that they have requested in order to invest in decarbonization. It is also necessary to meet Washington's GHG emissions targets. Any re-baselining recommendation should align with such a step-down.

Draft Recommendation 3.2: Recommend consignment of no-cost allowances beginning in the second compliance period

We urge Ecology to change Draft Recommendation 3.2 to recommend that Ecology implement consignment beginning in the second compliance period and that EITEs must invest the value of consigned allowances in decarbonization. This should apply regardless of the recommendations Ecology makes in this report for allowances from 2035 to 2050. At a minimum Ecology should recommend that the legislature require consignment for allowances above the level that EITEs would receive if their no-cost allowances reduced directly proportional with reductions in the cap until 2035, and then consignment of all allowances after 2035. Ecology should also consider requiring full consignment of allowances beginning in the 2nd compliance period. This would provide EITEs more certainty as well as a direct financial incentive to invest in decarbonization. It would also strengthen market function by increasing the availability of allowances at auction.



Thank you for your consideration of these comments and dedication to effective implementation of the CCA. Please contact David Mendoza with questions at david.mendoza@TNC.org.

Sincerely,

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