Submitted electronically

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Stephanie Potts
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Dear Stephanie Potts,

On behalf of The Nature Conservancy and our 310,000 supporters across the state, thank you for this opportunity to provide comments on how Washington should approach a potential linkage agreement of our Cap & Invest system to California and Quebec. The Nature Conservancy helped shape and strongly supports the Climate Commitment Act (CCA) as landmark climate legislation for Washington state. Strong implementation of the CCA will dramatically reduce greenhouse gas emissions, ensure that overburdened communities realize health benefits from reduced emissions and associated toxic pollution, and create investments in transitioning our state to a clean economy with climate resilient communities.

The Nature Conservancy sees important benefits from linking Washington's carbon market to the California and Quebec markets. A linked market is likely to lead to stabilized allowance prices that will mitigate price impacts on Washingtonians, allow for more predictable revenue generation for investments by the state towards climate action, and allow emitters to better plan their investments to lower greenhouse gas pollution. However, in addition to these market benefits, any linkage agreement must by law not yield net adverse impacts to either jurisdiction's overburdened communities, and protect Washington's ability to achieve the state's statutory GHG limits (RCW 70.65.210).

Washington's cap and invest system was developed with an eye towards lessons learned from the earlier enacted systems in California and Quebec, and also towards linkage. Washington for instance has a permanent program with ambitious greenhouse gas targets, limited offsets under the greenhouse gas cap, an authorized Emissions Containment Reserve, and an embedded air quality program but there are aspects in which our system could be improved as well. For example, California's program approach towards Emissions Intensive Trade Exposed industries (EITEs) appears better positioned in achieving emissions reductions from these critical businesses. We urge Ecology to strengthen the combined carbon markets by balancing

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the strengths of Washington's with California and Quebec, especially with regards to the treatment of EITEs under California's more robust approach.

Ecology has stated that the linkage agreement between California and Quebec is the starting place for drafting a linkage agreement that includes Washington. The California-Quebec agreement emphasizes harmonization, but does not provide a mechanism to ensure that overburdened communities will see benefits and not harms, nor would it inherently protect either the GHG or criteria emission reductions goals within Washington state. Modeling by Resources for the Future (RFF) shows that while linkage would lead to greater regional emissions reductions and a more affordable program, assuming no new state policy interventions, Washington's rate of emissions reductions were modeled to be moderately slower under linkage.[1]

While linkage carries positive impacts, there are risks associated with linkage to the CCA's core goals of GHG and criteria emissions reduction, especially in overburdened communities. As such, Ecology should consider undertaking the following proposals through linkage agreement negotiations, rulemaking, EJ assessment, and other CCA implementation activities to advance these goals.

Ensure that linkage does "not yield net adverse impacts to either jurisdictions' highly impacted communities or analogous communities in the aggregate, relative to the baseline level of emissions" (RCW 70A.65.210(3)(c)). The intent of the CCA is to address health disparities due to air pollution as well as lowering greenhouse gas pollution (RCW 70A.65.005). With modeling by RFF showing the potential for emissions abatement at point-source facilities to shift towards California in a linked market, without additional provisions, communities near these facilities in Washington may see potentially slower improvements in local air quality compared to an unlinked scenario. Further, EITEs receive free allowances to cover the vast majority of their baseline emissions through the third compliance period which does little to incentivize pollution reduction. Given the intent of the CCA is to address health disparities due to air pollution as well as lowering greenhouse gas pollution (RCW 70A.65.005), Ecology needs to ensure that linkage does not harm overburdened communities through increased air pollution. Therefore, we urge Ecology to address the potential negative air quality impacts of linkage, in the following ways:

- **Complete CCA air quality rulemaking before linkage**
  Ecology is currently responsible for implementing the air quality provisions of the Climate Commitment Act. In order to provide certainty and durability for air quality

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[1] Roy, Nicholas, Suzanne Russo, and Dallas Burtraw. "Considerations for Washington's Linkage Negotiations with California and Québec." March 17, 2025. https://www.rff.org/publications/reports/considerations-for-washingtons-linkage-negotiations-with-california-and-quebec/

improvements, Ecology should focus on completing strong air quality rules before linking, and then ensure that linking does not weaken the air quality impacts of those rules.

- **Align Washington's treatment of EITEs to California's more rigorous approach**
  One of The Nature Conservancy's main concerns around air quality and linkage is that the EITEs in Washington receive 94% of their annual emissions levels in free allowances through 2034, even as the annual cap drops by 63.2% over the same time period. This subsidizes EITE emissions in a way that threatens the health of Washington's overburdened communities as well as the state's ability to meet the cap. California's EITEs still receive free allowances, but they decrease in-line with the overall annual allowance cap.[i]

- **Implement Facility Specific Emissions Caps to improve air quality in overburdened communities**
  To ensure that linkage does not adversely impact overburdened communities relative to the baseline of an unlinked market, Ecology should consider commissioning an independent study to further investigate the potential of establishing facility specific emissions caps for facilities emitting in the 16 communities overburdened by air pollution that Ecology has identified, as well as facilities in other communities that meet environmental health disparities criteria. The facility specific emissions cap should require these facilities reduce their emissions and pollution on the same decline as the overall cap to ensure Washington meets its commitments under the CCA to improving air quality in overburdened communities while benefitting from the allowance price stability of a linked market. Ecology should have the ability to implement a facility specific emissions cap under RCW 70A.65.020 (2)(b)(iii).

- **Utilize current authority to remove Free Allowances from EITEs in overburdened communities**
  For EITE facilities in overburdened communities that are not meeting their air quality targets, reducing the amount of free allowances they are given could work to incentivize actions toward reducing air pollution and health disparities. Giving free allowances, for an extended period of time with no requirements, and especially at the high levels granted in the CCA, eliminates the market incentive for EITEs to reduce pollution in overburdened communities.

- **Conduct an Environmental Justice Assessment before linkage negotiations to guide the process, then reevaluate and finalize the EJ Assessment to guide the final decision**
  An Environmental Justice assessment of linkage should be done and published in draft form now to guide linkage negotiations. Once an agreement is on the table for evaluation Ecology can reevaluate and finalize the EJ assessment based on the impacts

of the negotiated terms of linkage. The environmental justice assessment must include a focus on the pollution burden and health disparities of communities in Washington, California, and Quebec – not just the potential economic burden of fuel and transportation costs. While economic burden for low-income communities is a consideration, it must not be an exclusive one. The air quality program and other environmental health benefits of Washington's Cap and Invest program are critical parts of the program. As such, Ecology should conduct the needed analysis to identify negative impacts on air quality in overburdened communities and other potential impacts to overburdened communities. With this analysis in hand Ecology can negotiate a linkage agreement that best serves Washington and meets the requirements of the CCA.

Ensure linkage does "Not adversely impact Washington's ability to achieve the emission reduction limits established in RCW 70A.45.020" (RCW 70A.65.210(3)(d))

- **Activate Washington's Emission Containment Reserve and work to ensure linking jurisdictions have matching Emission Containment Reserves**
  The Emissions Containment Reserve (ECR) serves two key purposes. First, it drives emissions reductions by maintaining a market incentive to reduce emissions when the auction price is low, ensuring that decarbonization continues. The ECR also raises revenue without impacting program affordability because it only activates when allowance prices are low. By lowering GHG pollution and stabilizing the state's investments in climate resilience and a clean economy, the ECR is a critical tool to meeting two of the top three priorities of the CCA. Because an ECR will only function if it is uniform across the market, it is critical that Ecology include the ECR in their linkage negotiations and ensure California and Quebec implement matching ECR policies.

- **All offsets in a linked market must be under the cap**
  Ecology must protect the integrity of Climate Commitment Act's impacts on greenhouse gas reduction (RCW 70A.65.210(3)(d). The use of any offset credit as a compliance instrument in a way that exceeds a cap on greenhouse gas emissions, and is not at least subsequently "trued up" in future allowance budgets, does not contribute to lowering emissions under the cap, does not meet the program's core objective and should not be allowed in a linkage agreement. Ecology should ensure more transparency for the public and market participants that indeed all used for compliance in a linked market are counted under the cap.

- **Engage with California on updates to their program**
  California's carbon market does not extend beyond 2030. As Ecology considers necessary changes to the Washington CCA rules required by the legislature via SB 6058 specifically to support linkage, Ecology should support California' consideration of the measures outlined in this letter and wait to proceed with linking until Washington has certainty of the ongoing stability of California's program.

- **Match or improve upon California's treatment of EITEs**
  Washington state's current treatment of EITEs – free allowances declining off-pace with the stringency of the cap, and without any required transparency around emission abatement investments – creates a major challenge in meeting climate targets and sufficiently reducing pollution in communities near those facilities. In California, EITE free allowance decline in alignment with the cap. Washington should adopt a similar system.

Through a strong linkage agreement and other associated steps Washington has the opportunity to strengthen climate action and air quality for communities across Washington, California, and Quebec. The programmatic elements of linked markets cannot weaken the climate, health, and resilience progress Washington is making. The Nature Conservancy urges Ecology to take the steps described above to ensure linkage strengthens Washington State's climate action.

Sincerely,

David Mendoza
Director of Policy & Government Relations
The Nature Conservancy in Washington

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[i] Allowance Allocation to Industrial Facilities | California Air Resources Board https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/allowance-allocation/allowance-allocation-industrial