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Joint Comments of Avista Corporation, Cascade Natural Gas Corporation, NW Natural, and Puget Sound Energy Regarding Cap-and-Invest Linkage Agreement

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Washington State Department of Ecology
Air Quality Program
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Avista Corporation, Cascade Natural Gas Corporation, NW Natural, and Puget Sound Energy, Inc. (collectively, the “Utilities”) submit these comments in support of the Washington Department of Ecology’s preliminary decision to pursue linking Washington’s cap-and-invest program under the Climate Commitment Act (“CCA”) with the California-Québec carbon market. The Utilities provide comments on the current California-Québec linkage agreement as a model for an agreement with Washington.

The Utilities strongly support linking with California and Québec to cost-effectively accelerate emission reductions under the CCA program. The Utilities are generally supportive of the Washington Department of Ecology (“Ecology”) using the California-Quebec linkage agreement as a model. Further, the Utilities provide some comments for consideration relating to future policy changes or regulatory amendments to Washington’s program that will further align the CCA with other jurisdictions while ensuring effective emissions reductions.

I. The California-Québec linkage agreement provides a useful framework for Washington linkage.

The Utilities support using the California-Québec linkage agreement as a framework for Washington linkage because it would be an efficient and effective way to link each program.

The agreement commits the jurisdictions to key cap-and-invest program aspects that make linkage possible, such as holding joint auctions, accepting allowances and offset credits from linked jurisdictions, using a common registry and auction platform, and implementing a transparent and data-driven greenhouse gas emissions accounting mechanism. The agreement also outlines procedures for resolving differences, expectations for regular communication, important provisions regarding confidentiality obligations, and processes for amending the agreement, adding new jurisdictions, and withdrawing from the agreement.

However, the California-Québec agreement does not modify existing laws and regulations, nor does it obligate jurisdictions to create new ones. This underscores the legal reality that each jurisdiction must ensure it undertakes the necessary legal processes to effectuate linkage.

II. Linkage should lead to uniform allowance prices.

A linkage agreement should explicitly state that each jurisdiction will have uniform allowance prices. Such prices would not necessarily have to be in the agreement itself but should result from it. As Article 9 of the California-Québec agreement states, “In order to achieve harmonization and integration of the Parties’ cap-and-trade programs, the auctioning of compliance instruments by the Parties’ respective programs shall occur jointly and in accordance with harmonized procedures developed by the Parties, as provided for under their respective cap-and-trade programs.”¹ This provision lays the groundwork for uniform allowance prices in each jurisdiction’s regulations, including floor prices, ceiling prices, and allowance price containment reserve (“APCR”) tier prices.

In particular, price ceilings are an essential price containment mechanism in situations where no allowances remain in the allowance price containment reserve and covered or opt-in entities lack adequate compliance instruments. Establishing uniform price ceilings would create certainty and promote market integrity. Ecology has noted that its CCA regulations were written “to mirror [the California-Québec program’s] floor-and ceiling-price calculations.”² Ecology has also long anticipated that “[i]f Washington links with the California/Québec trading program, [Ecology] will need to set the floor price, ceiling price, and APCR tier prices at values that are compatible with the program.”³ As such, any linkage agreement should either explicitly state that and result in all three programs having uniform allowance prices.

III. The linkage agreement should create four-year compliance periods.

The Utilities agree that future compliance periods should align between linked jurisdictions and support maintaining the four-year compliance period for the first compliance period. Shortening the length of the first compliance period for linkage purposes would upend near-term compliance planning to the detriment of the Utilities and their customers.

Moreover, given the increasing energy demand with the rise of electric vehicles and data centers, the Utilities encourage Washington to maintain its four-year compliance periods and advocate that other jurisdictions adopt four-year rather than three-year compliance periods. Furthermore, increasing weather variability not only impacts energy demand, but also energy supply as well, especially with regard to hydropower availability. A longer compliance period will account for weather-related variability in energy demand and supply from year to year and help smooth out compliance costs for consumers over time. The Utilities encourage Ecology to advocate for four-year compliance periods as they coordinate with California and Québec on a linkage agreement.

¹ Agreement on the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions, Art. 9 (2017), https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/linkage/2017_linkage_agreement_ca-qc-on.pdf.

² Department of Ecology, *Cap-and-Invest Linkage*, <https://ecology.wa.gov/Air-Climate/Climate-Commitment-Act/Cap-and-invest/Linkage> (last visited Apr. 19, 2023).

³ Department of Ecology, *Concise Explanatory Statement Chapter 173-446 WAC Climate Commitment Act Program 198*, <https://apps.ecology.wa.gov/publications/documents/2202046.pdf> (Sept. 2022).

IV. The linkage agreement should contain strong confidentiality provisions.

Any linkage agreement should contain strong language protecting confidential business information. Article 15 of the California-Québec agreement states that parties “shall undertake to protect” the information they collect.⁴ Under this agreement, if confidential information “must be communicated by a Party to a non-Party to this agreement under law or following a court order, it shall notify the other Parties as soon as possible.”⁵ The Washington agreement should include this language as well as explicitly state that all information publicly posted will be anonymized to protect the integrity of the allowance market.

V. A linkage agreement will help advance environmental justice efforts.

Linkage would benefit environmental justice communities by enabling emissions reductions to be achieved while allowing programs in all three jurisdictions to dedicate significant resources to such communities.

Linking Washington’s CCA program with California and Québec would increase market liquidity, stabilize allowance prices, and continue to generate revenue that can be strategically invested in communities disproportionately impacted by pollution. Notably, proceeds from California’s Cap-and-Invest auction fund the California Climate Investments. At least 35% of California Climate Investments must benefit disadvantaged communities, low-income communities, and low-income households.⁶ From December 2023 through May 2024, California Climate Investments programs implemented nearly \$570 million through 5,872 projects that are expected to reduce greenhouse gas emissions by 3.6 million metric tons of CO₂e over project lifetimes. Over 75% in implemented funds from this period are benefiting disadvantaged communities and low-income communities and households.⁷ Québec’s program similarly channels revenues into the Electrification and Climate Change Fund, which funds initiatives that support renewable energy and public transit, ensuring tangible benefits for vulnerable populations.⁸ These models demonstrate that cap-and-invest systems can effectively address environmental and energy justice concerns.

In pursuing linkage, Washington has already adopted similar programs and should continue to do so, leveraging additional revenue resulting from linkage to increase support for communities disproportionately impacted by pollution and climate change. As of 2024, the Washington Office of Financial Management estimated that nearly \$1.4 billion, or 42%, of CCA investments were directed to overburdened communities, and nearly \$255 million, or 7.8%, of CCA investments

⁴ Agreement on the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions, Art. 15.

⁵ *Id.*

⁶ CARB, *California Climate Investments*, https://ww2.arb.ca.gov/our-work/programs/california-climate-investments/about?utm_source (last visited Jan. 26, 2025).

⁷ California Climate Investments, *2024 Mid-Year Data Update*, <https://www.caclimateinvestments.ca.gov/2024-mydu> (last visited Jan. 26, 2025).

⁸ Quebec, *The Carbon Market, a Green Economy Growth Tool*, https://www.environnement.gouv.qc.ca/changementsclimatiques/marche-carbone_en.asp (last visited Jan. 26, 2025).

were directed specifically to benefit Tribes.⁹ Projects included \$90 million in energy vouchers for low- and moderate-income residential electrical consumers, \$42.4 million for clean energy projects in vulnerable, overburdened, and Tribal communities, and \$25 million to improve air quality in overburdened communities highly impacted by air pollution, among dozens of other examples.¹⁰

VI. Linkage would strengthen Washington’s ability to reduce emissions.

Finally, the Utilities reiterate that a linkage agreement will strengthen Washington’s ability to reduce greenhouse gas emissions by maximizing cost-effective emissions reduction opportunities and helping to ensure continued public support for the program.

Linkage will allow for more entities to trade allowances with one another, improving market liquidity and efficiency, and it would also reduce carbon price volatility caused by regional variations, creating a more stable market. This is particularly important to California and Washington, where electric loads peak at opposite times of the year (summer peaking in California and winter peaking in Washington).

Absent linkage, the Utilities anticipate that compliance costs may be excessively high. In 2022, the Ecology-commissioned Vivid Economics modeling study of the CCA estimated that a linked cap-and-invest program would produce an initial emissions allowance price of \$41 per metric ton of CO₂e, whereas an unlinked program could result in initial prices of up to \$68—a 65% price increase.¹¹ Over this past summer, CCA allowance prices decreased as Initiative 2117 was introduced and placed on the ballot, which would have repealed the program. Specifically, allowance prices leading up to the November 2024 vote decreased to \$29.92 in June and \$29.88 in September.¹² However, when Initiative 2117 failed to pass, prices increased to \$40.26 in December, \$50.00 in March, and it is expected that prices will continue to increase going forward, absent linkage.¹³ High costs could harm public support for the program, as these costs increase the prices consumers pay for essential goods such as fuel and energy services. Linkage benefits Washington businesses by reducing program compliance costs, which subsequently lowers costs for consumers, mitigating risk to the program and helping to ensure the sustainability of the CCA.

Additionally, linkage may also moderate compliance costs by eliminating inefficiencies that depress wholesale electric sales from Washington generating facilities to California electricity markets. For example, because the Washington program is not linked to California, Washington

⁹ Washington Office of Financial Management, *2023-25 Biennium Climate Commitment Act investments to benefit overburdened communities and Tribes*, 1 (June 2024), <https://ofm.wa.gov/sites/default/files/public/budget/statebudget/24supp/CCAtoOBC-June24.pdf>.

¹⁰ *Id.* at 2-4.

¹¹ Department of Ecology, *Washington State Climate Commitment Act: Summary of market modeling and analysis of the proposed Cap and Invest Program*, 12 (June 2022).

¹² Department of Ecology, *Washington Cap-and-Invest Program, Auction #6 June 2024 Summary Report*, <https://apps.ecology.wa.gov/publications/documents/2414027.pdf> (June 12, 2024); Department of Ecology, *Washington Cap-and-Invest Program, Auction #7 September 2024 Summary Report*, <https://apps.ecology.wa.gov/publications/documents/2414050.pdf> (Sept. 11, 2024).

¹³ Department of Ecology, *Cap-and-Invest Program, Auction #8 December 2024 Summary Report*, <https://apps.ecology.wa.gov/publications/documents/2414063.pdf> (Dec. 11, 2024).

imposes a carbon price on power generated using carbon-based fuel within the state, and California imposes a carbon price for the same power sold into California. This double payment for the same carbon reduction sharply increases the cost of Washington power. Linkage would resolve this issue entirely, alleviating regulatory redundancy and eliminating the “double payment” for compliance for wholesale sales of electricity to California.

Thus, linkage would create a standardized financial carbon market that supports capital investment in decarbonization technologies while also reducing emissions leakage concerns between linked jurisdictions.

The Utilities appreciate the opportunity to engage with Ecology on linkage between Washington’s CCA program and other jurisdictions. If you would like to further discuss this letter or have any questions, please reach out to Lorna Luebbe (lorna.luebbe@pse.com), Jillian Caires (jillian.caires@avistacorp.com), Abbie Krebsbach (abbie.krebsbach@mdu.com), and Mary Moerlins(mary.moerlins@nwnatural.com).

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