

Washington Conservation Action



WASHINGTON CONSERVATION ACTION

March 31, 2025

Washington Department of Ecology
Climate Pollution Reduction Program
PO BOX 47600
Olympia, WA 98504-7600

Re: Cap-and-Invest: Linkage Agreement

Dear Stephanie Potts:

Thank you for the opportunity to provide comments on Ecology's pursuit of a linkage agreement with the California-Québec carbon market. As a statewide organization, Washington Conservation Action works to develop, advocate, and defend policies that ensure environmental progress and justice by centering and amplifying the voices of the most impacted communities. We worked to help pass the Climate Commitment Act in 2021, have engaged in many rulemakings, and are committed to realizing a just and equitable implementation of the law.

Based on the February 27, 2025, public meeting hosted by Ecology, it is our understanding that this public comment process is intended to focus on: a) feedback about the existing linkage agreement between California and Québec; b) input regarding how a linkage agreement will address environmental justice; and c) identifying factors Ecology should consider in its analysis of linkage criteria. We understand that public input will inform Ecology's linkage agreement negotiations and environmental justice assessment. Our comments highlight topics and approaches we hope to see reflected in these processes.

Our comments are also informed by our collaboration with many partner organizations and our work with Resources for the Future (RFF), in partnership with Climate Solutions and The Nature Conservancy. A report based on this work was recently published by RFF and submitted to Ecology for consideration during this comment period.



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INPUT ON EXISTING LINKAGE AGREEMENT BETWEEN CALIFORNIA AND QUÉBEC

Recognition of sovereign Tribal nations is missing from the existing agreement. While Tribal nations are not party to the agreement, recognition of the sovereignty of Tribal nations participating in the program and impacted by the agreement should be included in any linkage agreement Washington negotiates. This is suggested in keeping with the intent described in RCW 70A.65.005(7), RCW 70A.65.110(8), RCW 70A.65.180 and RCW 70A.65.305, as well as the Centennial Accord.

We are supportive of the intent in Article 5 (Offsets) for jurisdictions to discuss changes to protocols in order to harmonize and integrate programs. While we recognize that Washington does not have the authority to determine what other jurisdictions will adopt, we strongly encourage Ecology to advocate for linked jurisdictions to improve their protocols to align with Washington's. The details of and rationale for this recommendation are outlined below.

OFFSETS

Potential adverse EJ impacts and DEBS in linked jurisdictions

The Climate Commitment Act's requirement for offsets projects to provide direct environmental benefits to the state (DEBS) is one of its most important characteristics, particularly to mitigate environmental injustice. The CCA intentionally set a more stringent requirement for DEBS than California to achieve program goals and contribute to improved environmental justice outcomes.

Strong DEBS requirements in all linked jurisdictions can help to mitigate harm, and Washington must ensure that a linked market does not contribute to adverse outcomes for people in those jurisdictions – or elsewhere. We appreciate that Washington's program already makes some effort to encourage DEBS in linked jurisdictions by requiring that all offsets used for compliance in Washington that are not based in Washington must be from projects *located in* linked jurisdictions. Ideally linkage negotiations can encourage linked jurisdictions to adopt similar approaches.



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Protocols with different requirements for same project type across linked jurisdictions

To maintain the integrity of a linked program, it is important that Ecology analyze the potential consequences of a linked system in which different protocols exist for the same project type.

For example, as Ecology pursues updates to the U.S. Forests Offsets protocol, we anticipate that Washington's protocol will begin to substantially diverge from California's current forest offset protocol. Washington's version of the protocol will hopefully become more effective because of these updates. In contrast, California's protocol may not be updated until the 2030 expiration of the current version of California's program. We are concerned this could incentivize Washington-based offset projects to pursue offset credits using California's less rigorous protocol. This concern is compounded by the fact that California already has lower DEBS requirements – and regulated entities in California can comply with emissions reductions requirements by purchasing more offset credits from out-of-state projects than entities in Washington, including from projects based in Washington.

Linkage negotiations must compare overlapping offset protocols, analyze potential impacts, and seek consistency whenever possible. Otherwise, divergent protocols will generate additional complexity and undermine Ecology's efforts to enhance offset protocol rigor and the state's commitment to improved environmental justice outcomes in Washington. This dynamic could also emerge outside of a linked market as the California and Washington market run in parallel over time.

The following are proposed solutions we recommend Ecology explore:

- Conduct analysis of the potential for demand and prices of offset credits to be affected by differences in rigor of two protocols governing the same project type.
- Negotiate with California and Québec to align divergent protocols governing the same project type, taking into account input from stakeholders in each jurisdiction and environmental justice goals.



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Market factors related to linking offsets

We strongly recommend that Ecology evaluate the impacts on demand for offsets as compliance instruments in preparation for negotiating a linkage agreement with California and Québec. We encourage Ecology to conduct an analysis of the potential for demand and offset prices to be affected by linking markets.

Reporting consistency

Equivalent reporting for linked jurisdictions is necessary for the Department of Ecology to be able to analyze and adjust rules in a linked program. While Washington joined the Western Climate Initiative, Inc (WCI) in December 2021 and is using WCI's Compliance Instrument Tracking System Service (CITSS), we are not aware of publicly available compliance instrument reports for Washington equivalent to those published for the California-Québec program. The quarterly CITSS Compliance Instrument Report for California and Québec published by the CARB¹ provides information about the volume of both allowances and offsets in entity and jurisdictional accounts.

If Ecology is tracking equivalent compliance instrument accounts using CITSS, the reports should be made available to the public in addition to or in place of the current quarterly Ecology Offset Issuance Table.² It would be valuable for Ecology to provide a single report for all compliance instruments that reflects when allowances are retired due to offsets being used as compliance instruments. We encourage Ecology to ensure Washington information is included in the quarterly CITSS Compliance Instrument Report under linkage, including showing total, summarized entity and jurisdictional accounts for both allowances and offsets.

¹ CARB Linked California and Québec Cap-and-Trade Programs Compliance Instrument Report - Aggregated by Type and Account

https://ww2.arb.ca.gov/sites/default/files/2024-07/nc-2024_q2_complianceinstrumentreport.pdf

² Ecology Offset Credit Issuance Table

<https://apps.ecology.wa.gov/publications/documents/2314026.pdf>





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HARMONIZATION OF PROGRAMS

Emissions Containment Reserve

Linkage of Washington's program with the California-Québec market has the potential to provide many benefits, including cost containment, overall emissions reductions, and sending a positive signal to other states and international jurisdictions. At the same time, there are risks, including lower revenues to Washington, which could result in fewer investments to drive equitable emissions reductions.

A functional Emissions Containment Reserve in a linked market could mitigate some of these risks, by providing a backstop for allowance prices. This is a simple strategy already in Washington's statute. An ECR in a linked market would provide assurance that Washington communities – especially overburdened communities – will continue to benefit from sufficient market revenues. **For this reason, we also encourage Ecology to pursue an Emissions Containment Reserve as an integral element of a California-Québec-Washington linked market, in order to balance objectives and ensure linkage can meet all the requirements of RCW 70A.65.210.**

Treatment of Emissions Intensive Trade Exposed Industries

The manufacturing facilities covered by the Climate Commitment Act are treated as emissions-intensive, trade-exposed (EITE) industries. RCW 70A.65.110 requires Ecology to allocate no-cost allowances to EITE facilities based on each facility's unique carbon intensity benchmark or mass-based baseline and the actual production of that facility each year.

For the first compliance period, facilities will receive no-cost allowances equal to 100% of their compliance obligation. For the second compliance period, facilities will receive 97%, and for the third compliance period, facilities will receive 94%. Barring future legislative action, facilities will continue receiving no-cost allowances equal to 94% of their compliance obligation each year in perpetuity – even if the allocation to all EITE facilities in the program eventually exceeds the overall program cap. This could create significant problems in coming years, and linkage provides a powerful opportunity to avoid some of these problems by harmonizing with California's treatment of EITE facilities.





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For example, California uses a cap adjustment factor to determine its allocation of no-cost allowances to industrial facilities. The cap adjustment factor declines each year with the overall annual allowance cap. Because of this, facilities have a greater incentive to decrease their emissions each year, and there is less risk of the overall allocation of no-cost allowances to industrial facilities exceeding the program cap in future compliance periods.

California also uses sector-specific benchmarks in its allowance calculations, whereas Washington uses facility-specific carbon intensity benchmarks or mass-based baselines. This means that facilities in the same sector in Washington – and under linkage, in linked jurisdictions – are held to different and unequal standards for emissions efficiency. Harmonization with California’s program could help Washington resolve these issues and promote more effective decarbonization of industrial sector emissions under linkage.

For these reasons, we encourage Ecology to seek greater harmonization with California’s program in the allocation of no-cost allowances to manufacturing facilities as a core part of any linkage agreement.

Thank you for your consideration of these comments. Washington Conservation Action looks forward to continued participation in linkage conversations and appreciates Ecology’s ongoing work.

Sincerely,

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