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MAKING NET ZERO POSSIBLE

IETA Submission to Washington's Department of Ecology: Washington Cap-and-Invest Program Updates and Linkage 16 May 2025

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 (C&I) programs by showcasing climate leadership, minimizing compliance costs, improving market functioning, and enhancing mitigation potential. **As such, IETA strongly supports Washington in establishing formal program linkage with California and Quebec**.

IETA's comments are structured around three sections:

1. **High-Level Linkage Comments:** This section provides broad feedback related to linkage, highlighting specific areas 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 Linkage 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, ECY needs to have the flexibility to amend the program on an "as needed basis" when warranted through a public process that provides the market with sufficient notice to plan accordingly. 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, well 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.

Section 2: Specific Comments on Draft Rule Language

IETA generally supports ECY's intent to expand the linkage rulemaking to include additional C&I program implementation needs, covering statutory requirements, including allowance budgets for the second compliance period (2027-2030), the incorporation of new covered sectors (municipal waste, energy facilities), and the treatment of imported electricity. IETA is encouraged to see ECY implementing thoughtful clarifications and updates to the program rule, informed by operating experiences learned over the past two years. Given IETA's support for the expanded rulemaking scope, IETA's comments focus primarily on the linkage-related amendments.

Additionally, ECY has indicated that the rulemaking will update the program based on legislative requirements from the current session, but has provided limited detail on specific legislative alignment. We recommend that ECY clarify and clearly signal its intent to align the Cap-and-Invest program with the recently passed HB1975, assuming gubernatorial approval. Such clarity would provide stakeholders greater regulatory certainty and demonstrate alignment with anticipated statutory direction.

IETA's Position on Specific Linkage-Related 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:** IETA supports the removal of the 25,000 MT CO_2e compliance threshold for imported unspecified electricity, as this would align with California's compliance requirements.
- **Consignment of Allowances:** IETA supports the introduction of a requirement on electric and natural gas utilities to notify Ecology of number of allowances for consignment 75 days prior to auction, as this aligns with California.
- **General Market Participant (GMP) Treatment:** IETA supports Washington removing the restriction on GMPs to not hold more than 10% of the total allowances issued in a single year. As noted by ECY in the past, 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 the number of 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.
- **Unsold Allowances:** IETA supports the proposal to limit the amount of unsold allowances from undersubscribed auctions for offer at a subsequent auction to 25 percent of the quantity of units initially designated for that auction, as this aligns with California.
- **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.
- **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 this regard, IETA is adamant that the differing approach for offset treatment will not weaken 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. Regardless of ECY's final choice on the treatment of offsets, IETA strongly encourages ECY to use this rulemaking process to clarify offset program rules rather than clarifying offset rules through other informal measures at a future date.

<u>Section 3: Additional Considerations Outside of Draft Rule Language:</u>

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 located within the linked jurisdiction, which fails to recognize California offsets generated from projects outside of California, but those that still provide Direct Environmental Benefits to California and in some cases are located in Washington or closer to Washington state (i.e. projects in Washington and Oregon).

2) ECY should implement a process to determine Direct Environmental Benefits (DEBs) from California carbon offset projects located outside of Washington (and separately, outside of California) that may provide DEBs to the state, in line with the process for Washington offsets that occur out of state.
3) We encourage ECY to use this rulemaking process to clarify offset program rules rather than clarifying offset rules through other informal measures, i.e. the changes to the APCR tier allocation that were communicated via auction result email. Clarifications and interpretations done via informal means lead to market confusion.

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: To enhance market predictability and support future linkage, Washington should align its APCR distribution methodology with California's by establishing clear, pre-determined allowance volumes for each APCR price tier. This structured approach would boost market confidence and ensure consistent cost-containment signals.

<u>Conclusion:</u>

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 drives both climate outcomes and broad socio-economic benefits.

If you have questions or require further information, please contact Joey Hoekstra at **hoekstra@ieta.org.**