Clean & Prosperous INSTITUTE

To: Surabhi Subedi
Environmental Planner

From: Kevin Tempest
Clean & Prosperous Institute

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RE: Comments on cap-and-Invest rulemaking on program updates and linkage

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General Comments

Clean & Prosperous Institute (CPI) appreciates Ecology's continued work to clarify and streamline the rule, smoothing the path to an eventual linkage agreement with the California-Québec carbon market. Linking these markets will provide substantial near-and long-term benefits aligned with the Climate Commitment Act (CCA) goals, including program durability, market stability, lower compliance costs, reduced leakage risk, increased investment predictability, and the potential for enhanced collective ambition across jurisdictions.

As part of the current rule updates, CPI supports extending the agricultural fuel exemption as provided in HB 1912. We also support clarifying that Tribal offsets may contribute toward an entity's full offset usage limit. At the same time, we ask Ecology to confirm how changes to the requirement that all offsets, including Tribal offsets, deliver direct environmental benefits following a linkage agreement will align with reciprocity provisions among linked jurisdictions, which have historically recognized Washington-based projects, even prior to the CCA.

Looking ahead, CPI encourages Ecology to move expeditiously to update the allowance budget and the Allowance Price Containment Reserve (APCR) rules, as required by HB 1975. Providing clarity on these elements is essential for covered entities to plan effectively, manage compliance obligations, and maintain confidence in the program's long-term integrity.

Key Benefits of Linkage

- **Enhanced Program Durability and Stability:** Reduced price volatility fosters sustained investment and predictable revenue.
- **Improved Compliance Opportunities:** Expanded market access lowers compliance costs, reducing economic and emissions leakage risks for emissions-intensive, trade-exposed (EITE) industries.
- **Greater Ambition and Collective Action:** Linked jurisdictions encourage further market expansion and collective emissions reduction commitments.
- **Economic Efficiency:** Lowered compliance costs help mitigate consumer price impacts, supporting economic resilience.
- **Practical Rule Adjustments**: CPI supports Ecology's proposed updates to compliance periods and purchase/holding limits, which are critical for seamless integration with California and Québec.

Importance of Implementing HB 1975

Ecology recognized price stability as a primary design consideration in its initial rulemaking by making a substantial allocation to the Allowance Price Containment Reserve (APCR). To date, allowance prices have remained below projected ranges that forecast a greater reliance on the APCR, demonstrating that the market is working efficiently and effectively to beat the most rigorous cost estimates.[1]

Given this track record, and especially in light of the continued steps towards linkage that offer a likely path to price moderation and stability, CPI continues to caution against overreliance on the APCR: "*CPI review of the preliminary regulatory analysis (PRA) indicates that the case for additional price containment mechanisms is less pressing than the scenarios presented by Vivid Economics may suggest. CPI finds that a more realistic set of assumptions significantly lowers the anticipated range of allowance prices,*" (Regulatory Analysis comments, 2022). This does not mean the APCR should be discarded, rather CPI encourages clarity and transparency on APCR use, including the parameters under which different volumes will be made available at the Tier 1 and Tier 2 price points.

[1] Prices estimated at $58.31 in 2023, $61.21 in 2024, $64.76 in 2025 including over 11M APCR allowances through 2024 (and another 7.6M estimated for 2025). Actual prices have been lower in each year to date (average of all allowances sold is $44.46) while APCR volumes have also been lower (7.1M).

Since the original CCA rulemaking and Regulatory Analysis, CPI has consistently emphasized that the most relevant action for price stabilization and moderation impact besides linkage is adjusting the alignment of the cap with statutory targets. As we noted in our initial comments on draft rulemaking: "*A primary consideration for the Department is ensuring the rate of decline in the annual allowance budget is consistent with statutory targets and the proportion of the covered emissions baseline. The cap decline rate is influential on program costs and compliance obligations. CPI's review indicates that a 7% rate of decline, as set in the proposed rule, exceeds the amount necessary for consistency with statutory targets based on a proportional reduction from baseline emissions levels. Nearly halving covered emissions over eight years is a 6.1% rate of decline and is consistent with the rate established in the OFM Fiscal Note for the enacting legislation and the intent of the law.*"

HB 1975 clarifies that the allowance budget must reflect the state limit of halving emissions over eight years (annual emissions through 2030) to meet the proportion of statutory target emissions reduction as covered under the cap. This adjustment in volume of allowances preserves the original legislative intent and integrity of state limits.[2] How Ecology chooses to distribute this volume of allowances given at least three years of an overly stringent allowance budget is highly relevant to investment planning, compliance purchases, secondary market activity, and revenue from the program.

Conclusion

Linkage represents a historic opportunity for Washington to strengthen its cap-and-invest program, moderate costs, and advance climate ambition. CPI supports Ecology's timely pursuit of linkage adjustments—ensuring that Washington's program remains a durable, predictable, and effective driver of climate progress.

Clarifying allowance supply and mechanisms aligned to HB 1975, which also match the original legislative intent and statutory limits on greenhouse gas emissions, is an important step for an efficiently functioning market that cost-effectively drives emissions down. We encourage Ecology to prioritize clearly setting the schedule for annual allowance cap adjustments and the availability of APCR allowances.

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[2] As we wrote in our 2022 Regulatory Analysis comments: "CPI calculations indicate a 6.1% rate of decline would result in a cumulative budget increase of 21.4 million allowances (19.8 million distributed through no-cost allocation and regular auction, 1.6 million placed in reserves), a volume greater than the frontloaded APCR allowances that Ecology has proposed. These are net additions in program supply rather than a shift in available supply that would be there through 2030 anyways through frontloading.