



October 25, 2025
Washington Department of Ecology
P.O. Box 47600
Olympia, WA 98504-7600

Re: Cap-and-Invest Program Updates and Linkage Rulemaking - APCR Adjustments

Environmental Defense Fund (EDF) appreciates the opportunity to provide comments on the Department of Ecology's October 15 workshop regarding implementation of House Bill 1975. We commend Ecology's proactive engagement with stakeholders as it works to align Washington's Cap-and-Invest Program with statutory updates and future linkage opportunities.

EDF's comments focus on three elements central to program stability and environmental integrity: (1) the percentage of allowances placed in the Allowance Price Containment Reserve (APCR); (2) the method for setting the Tier 2 price; and (3) the timing of when new APCR allowances for 2027-2040 are introduced. Across all three, our priority is ensuring the program remains environmentally rigorous, minimizes the risk of hitting the price ceiling, and maintains the most stable environment possible for prospective linkage with California and Québec.

Percent Allocation of APCR for 2027-2040

HB 1975 authorizes Ecology to place between two and five percent of 2027-2040 allowances into the APCR. In its 2022 rulemaking, Ecology selected the 5 percent level, enabling the maximum prioritization of near-term cost containment for this new and ambitious program. As Ecology considers their options for allocating allowances to the APCR from the 2027-2040 allowance budgets, EDF encourages maintaining the current 5% set-aside. Utilizing the full extent of this important program mechanism provides the best outcomes for allowance cost containment and for the environmental integrity of this program. If there is sufficient market demand and the full 5% of total budget allowances are exhausted at the APCR Tier prices, then they function as an important speed bump to slow the market's approach to the price ceiling - but since all allowances in the APCR come from under the emissions cap, their sale does not threaten the environmental integrity of the cap. If market demand slows and the full APCR is not needed, then those allowances will be retired and ultimately contribute to fewer total emissions. Using the full extent of the APCR will put Washington on track to achieve the best allowance-cost outcomes and the best environmental outcomes.

Method for Setting the Tier 2 Price

HB 1975 directs Ecology to adjust the Tier 2 price to "reflect" the new \$80 Price Ceiling Unit (PCU) price established for 2026-2027, since under the current Tier schedules, the 2026 Tier 2

APCR price would exceed the new price ceiling. EDF recommends that Ecology set the Tier 2 price at the midpoint between Tier 1 and the \$80 price ceiling, maintaining the same methodology as was used to determine the Tier 2 price prior to the adjustment of the price ceiling. Continuing to use this midpoint structure preserves the internal logic of Washington's original system, and aligns with the approach taken by the California-Quebec market, while maintaining as much certainty and transparency in the market as possible - both of which are essential to maintain market confidence as Washington moves towards linkage.

Timing of Introducing New APCR Allowances

In its October 15 workshop, Ecology presented two options for the timing of introducing the APCR allowances for 2027-2040:

- **Option A:** Introduce HB 1975 APCR allowances **before** the 2027 compliance event, expanding the reserve ahead of the first full quadrennial compliance deadline.
- **Option B:** Introduce them **after** the compliance event, preserving more APCR allowances for price containment for later years.

Option A would create a much larger 'speed bump' prior to the first quadrennial compliance event, giving covered entities the opportunity to purchase additional allowances to meet their compliance obligations and reducing the likelihood of the program hitting the price ceiling. If Washington links with California and Quebec by the end of 2027, Washington entities will have access to a much larger pool of allowances, further reducing the likelihood of triggering the APCR and needing to draw on those frontloaded allowances later in the program.

The inverse presents the primary drawback to option A; if linkage does not occur, Washington covered entities will not have access to a larger pool of allowances from the linked market. In that case, an early introduction of all APCR allowances could deplete Washington's cost-containment reserves earlier in the program, raising the risk of hitting the price ceiling in later years. Since Price Ceiling Units (PCUs) are sold above the overall emissions cap, triggering their sale would pose integrity issues for the cap overall. The best approach to avoiding this outcome is to both make some portion of the 2027-2040 APCR allowances available prior to the 2027 compliance event (Option A), but no more than 5% of the allowance budget for each year, **and** ensure that Washington's program is linked with the California-Quebec system by the end of 2027. However, more information is needed to meaningfully comment on either of these options.

To that end, EDF also seeks clarity on Ecology's discretion under HB 1975 regarding the timing and volume of allowances placed in the APCR. The statute requires Ecology to "place no less than two percent and no more than five percent of the total number of allowances from the allowance budgets from 2027 to 2040 in the allowance price containment reserve," and to "make available, in the second compliance period of the program, all allowances scheduled to be placed in the APCR through 2040". We interpret this language as granting Ecology flexibility over when and how much of that total reserve is made available in each APCR auction throughout the second compliance period. EDF requests that Ecology confirm this authority and clarify how it plans to sequence the introduction of the 2027-2040 allowances, in either Option A or Option B.

The implications of Option A depend critically on linkage being achieved. Since this process is ongoing and requires action from both potential linkage partners in order to proceed, EDF recommends that Ecology revisit this decision in 2026, when Washington's progress toward linkage will be clearer. If linkage with California and Québec is advancing, introducing additional APCR supply prior to the 2027 compliance event could enhance stability and minimize the likelihood of a price ceiling sale. If linkage is delayed, staggering the introduction after the compliance event would better preserve reserve capacity for future years.

EDF appreciates Ecology's leadership in implementing HB 1975 and its ongoing commitment to transparency. We encourage the Department to adopt design choices that safeguard environmental integrity, minimize market volatility, and maintain alignment with the Western Climate Initiative framework. These steps will position Washington's Cap-and-Invest Program for successful, stable linkage and continued emission reductions.

Sincerely,

Caroline Jones
Manager, Energy Transition & Carbon Markets
Environmental Defense Fund