Jessica Spiegel
Vice President, Northwest Region

October 31, 2025

Sent via email to: CPRRulemaking@ecy.wa.gov

Washington Department of Ecology
Climate Pollution Reduction Program
Attn: Surabhi Subedi
P.O. Box 47600
Olympia, WA 98504-7600

Re: **Comments on Cap-and-Invest Public Workshop: House Bill 1975**

Dear Surabhi,

The Western States Petroleum Association (WSPA) sincerely thanks you for the opportunity to comment on the Department of Ecology's (Ecology) workshop regarding implementation of HB1975 that was held on October 15. WSPA represents covered fuel suppliers and refiners that are central to Washington's economy, energy security, and workforce and will be impacted by the design of HB1975 implementation.

WSPA and its members support the success of Washington's Cap and Invest program and have invested significant resources into working through design conflicts that may affect the program's success in future. WSPA will continue to provide Ecology with the best information our organization has available to assist with the assessment of the program for long-term success.

This letter has two main elements. First, it provides responses to the questions in the Ecology workshop held on Oct 15. Second, it provides additional information to consider when implementing HB 1975.

Summary of Responses to Questions from the October 15 Workshop

In response to the questions Ecology presented in the October 15 workshop, below are WSPA member recommendations:

- Place 5% of the added allowances from 2023-2030, as well as 5% of the allowances available in 2031-2040, into the APCR.
- Make the full quantity of additional allowances available before settlement of CP1, to reduce the likelihood that the sale of PCUs would be required (i.e., Option A).
- Compliance entities need certainty and clarity on when the new APCR allowances will be introduced. This needs to be a decision that is made and is communicated very quickly.
- Use the same methodology to establish APCR Tier 1 and Tier 2 prices in 2026 and 2027 with use of an $80 price ceiling, resulting in a Tier 1 price of ~$54 and a Tier 2 price of ~$67 in 2026.

- Prior year vintage allowances that are created by the revised methodology should be ratably introduced as soon as possible across all remaining quarterly auctions in the first compliance period. If their introduction doesn't require rulemaking, these should be made available beginning with the first quarterly auction in 2026.

- Release ECR allowances before settlement of CP1 through rule if a qualifying event doesn't occur that triggers their availability to covered entities.

Updated Allowance Availability

Moving the annual emission goals to the end of a calendar year, versus being an average across the year, does provide a meaningful increase in the quantity of allowances in the annual budget. We look forward to seeing Ecology's precise quantification of the increase; in our estimation, this provides about 9.5 million additional allowances for CP1.

In addition, front-loading APCR allowances from 2027-2040 for compliance would also provide the opportunity for a meaningful increase in the quantity of allowances in the budget. WSPA notes that in the original rulemaking that established WAC 173-446, all APCR allowances quantified for 2023-2030 were made immediately available on a "vintageless" basis. For this analysis, WSPA assumes that the characterization of this tranche of APCR allowances would remain the same and that incremental APCR allowances that arise are from the increased allowance budgets in 2023-2030, as well as additional APCR allowances from 2031-2040.

Given the above, Ecology asked stakeholders to contemplate what quantity of new APCR allowances to make available, and when. The range to consider is between 2% and 5%, and the timing to consider is their provision before or after settlement of CP1. An assessment was made that considers the minimum and maximum outcomes of additional APCR allowances based on these variables, which result in assumptions of:

- Diversion of 5% of the total number of front-end loaded allowances from 2031-2040 as well as 5% of new allowances in 2023-2030 made available per direction of HB1975, provided prior to settlement of CP1 (Option A); or,

- Diversion of 2% of the total number of front-end loaded allowances from 2031-2040 as well as 2% of new allowances in 2023-2030 made available per direction of HB1975, provided after settlement of CP1 (Option B).

In addition to the minimum direction provided by HB1975, WSPA also notes that an increasing and significant quantity of allowances are now tied up in the Emissions Containment Reserve (ECR). While a qualifying event can release these to new and existing covered entities, there has been no such qualifying event in the nearly three years of the program's existence. If no such event occurs before settlement of CP1, nearly 5 million allowances that could be available for compliance would remain sequestered. WSPA strongly encourages Ecology to consider releasing these allowances before settlement of CP1 through rule if no qualifying event occurs that triggers their availability.

Based on the above, three scenarios can inform decision-making for Ecology's implementation of HB1975. The following table summarizes allowance availability outcomes and the minimum rate of further emission reductions in CP1 that would be required under the Cap-and-Invest program to avoid the sale of PCUs:

Scenario	Premise	Increase in available allowances for CP1	Minimum theoretical year-on-year reduction in 2024-2026 required to avoid the need to sell PCUs for compliance
Maximum allowance availability	Divert 5% of all new 2023-2030 and 2031-2040 allowances to the APCR, made available for compliance in CP1 (Option A). ECR allowances made available by rule if required.	27.1 mln	2.8%
More limited allowance availability	Divert 2% of all new 2023-2030 and 2031-2040 allowances to the APCR, made available for compliance in CP1 (Option A). No provision to release ECR allowances.	14.7 mln	6.2%
Minimum allowance availability	Divert 2% of all new 2023-2030 and 2031-2040 allowances to the APCR but not make them available until after settlement of CP1 (Option B). No provision to release ECR allowances.	9.5 mln	7.7%

Based on the above outcomes, it appears that the sale of PCUs is most likely avoided in only the scenario that provides the maximum possible quantity of allowances available for compliance in CP1. Even this is uncertain, when considering future compliance banking. Given this assessment WSPA recommends that Ecology provides the maximum quantity of allowances in CP1, which WSPA believes recognizes the goal of HB1975 related to affordability.

Allowance Costs

While the legislature gave explicit guidance regarding the price for PCUs and APCR Tier 2 allowances, it did not provide direction regarding APCR Tier 1 pricing.

In order to minimize current and future disconnects of allowance prices in the program, WSPA recommends that Ecology continue to use the same formulas to establish both the APCR Tier 1 and Tier 2 allowance prices. That is, with utilization of an $80 price ceiling in both years, the cost of these allowances should be based on Tier 1 being at 50% between floor and ceiling prices, while the Tier 2 price would be at the midpoint between the Tier 1 and ceiling prices. The resulting recommendations for setting the prices in 2026 and 2027 would be:

	2025	2026 original	**2026 revised**	**2027 revised**
Ceiling	$94.85	$102.63	**$80.00**	**$80.00**
APCR Tier 2	$77.63	$84.00	**$67.00**	**$67.57**
APCR Tier 1	$60.43	$65.39	**$53.99**	**$55.13**
Floor	$25.85	$27.97	**$27.97**	**$30.26**

Note that under this proposal the revised cost of an allowance in 2026 at the Tier 1 price remains significantly (>$20) above the current market price for a California Carbon Allowance (CCA), which currently trades at about $32. This should ensure Ecology can provide allowances to the market within the current program allowance price range. Maintaining a consistent methodology for tier pricing gives Ecology maximum flexibility to manage the program through an uncertain period when the details and timing for potential linkage with other jurisdictions are being managed.

Thank you again for the opportunity to provide feedback. As a final comment, WSPA would like to emphasize that covered entities urgently need certainty and clarity regarding when the new APCR and regular auction allowances will be introduced so they can develop compliance plans for CP1. These decisions therefore need to be made and communicated quickly.

We look forward to further dialogue on this important issue for the long-term success of the Cap-and-Invest Program.

Sincerely,

Jessica Spiegel
Vice President, Northwest Region

WSPA