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From: Kevin Tempest
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Date: May 6, 2026

RE: Comments on Cap-and-Invest: Draft Washington-California-Québec linkage agreement

General Comments

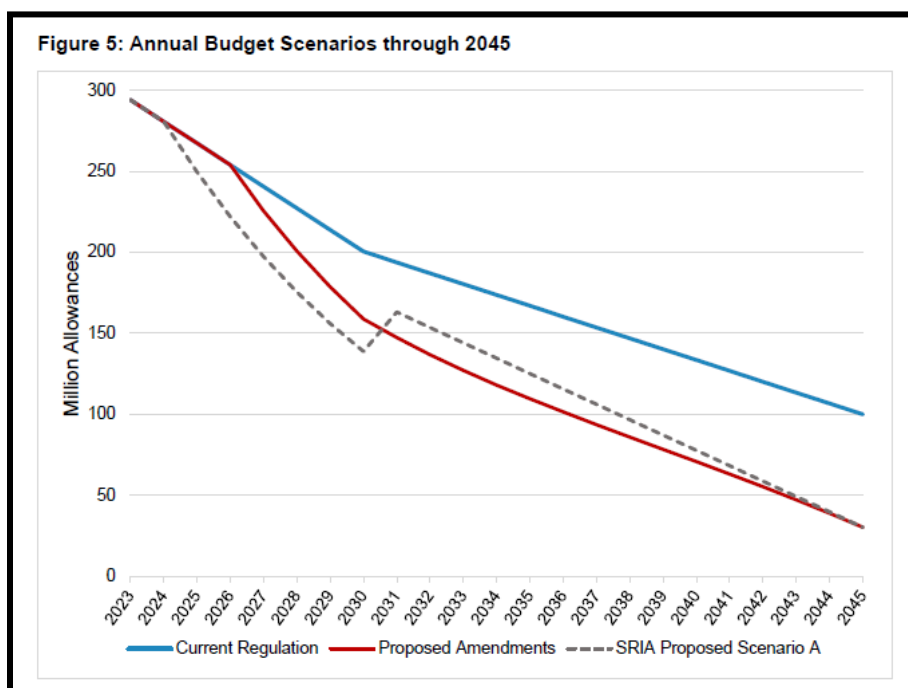
Clean & Prosperous (C&P) appreciates Ecology's continued work and collaboration with potential partner jurisdictions to advance efforts to link cap-and-invest programs in a timely fashion. Since our last comments in early September 2025, key developments have unfolded in both markets. These efforts point towards a strengthening of program clarity, longevity, and alignment of allowance budgets that make linkage as high a priority as ever. C&P agrees with the overarching assessment that "a stable and durable Cap-and-Invest Program over the long term is critical for the state to efficiently achieve greenhouse gas reduction limits." This likelihood and ambition are improved by well-designed linkage.

Key Benefits of Linkage

- **Enhanced Program Durability and Stability:** Reduced price volatility fosters sustained investment and predictable revenue while improving foresight and confidence for businesses and facilities making long-term capital investments.
- **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.

On September 19, California’s AB 1207 and SB 840 were signed into law, extending their “Cap-and-Invest” program through 2045. These laws also provided direction to align the cap trajectory with the 2030 and 2045 targets, place offsets “under the cap” as in the Climate Commitment Act, review price containment design, and update the spending framework of auction revenues through the Greenhouse Gas Reduction Fund.¹ The California Air Resources Board (CARB) issued an Initial Statement of Reasons (ISOR) with proposed rule-making in January, followed by a 15-day notice of proposed amendments in mid-April for which [comments](#) just closed on May 4.

CARB is set to vote on the proposed amendments before the end of May, and ideally keep the programs on track to link in 2027. Taken together, these rulemakings have tightened the overall allowance budget from 2027-2045 by *at least 900 million allowances*, with additional tightening depending on the efficacy and uptake of new Manufacturing Decarbonization Incentives and offset usage under the cap.^{2,3} This is *at least a 29% reduction* from the 3.1 billion originally planned for California’s cumulative allowance budget from 2027-2045 (see chart below, taken from the January CARB ISOR).



¹ California extends cap-and-trade to 2045, renames program “Cap-and-Invest”. International Carbon Action Partnership. September 29, 2026 (<https://icapcarbonaction.com/en/news/california-extends-cap-and-trade-2045-renames-program-cap-and-invest>)

² Staff Report: Initial Statement of Reasons. CARB. January 20, 2026. (https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf).

³ Between 115 and 224 million allowances through 2045 according to analysis shared by Clean & Prosperous California, assuming up to full offset usage. Each offset used for compliance would remove an allowance from the budget.

In Washington, the Department of Ecology recently released *Details related to planned implementation of House Bill 1975 (2025)* that clarify allowance budget and Allowance Price Containment Reserve allocations and availability starting in 2027. This is necessary to align the specific dates by which annual targets are to be achieved with legislative intent and precedent in potential partner jurisdictions. C&P has been advocating for this correction since initial rulemaking in 2022.⁴ Washington's cap trajectory remains ambitious and scientifically grounded, but additional allowance supply will be welcome to ensure price and revenue stabilization prior to anticipated linkage in 2027.

These are welcome developments that offer greater certainty and predictability of shared benefits between aligned and linked carbon markets. As we have previously noted, linking the only economy-wide carbon markets in North America is very likely to 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. Increased ambition is visible in California's extension, placement of offsets under the cap, and tightened allowance budgets.

At the same time, it will be critical to manage ongoing and emerging developments. This includes post-2030 allowance allocations and treatment of EITE facilities as well as the possibility of systemically low allowance prices in a linked market, which more recent modeling efforts have highlighted as increasingly possible without needed interventions.

Additional Context on Draft Findings

Ecology has considered and given proper weight to prior public comments on linkage as evidenced by the additional research and supporting material contained in the Draft Findings. This includes evaluating specific concerns raised by the Environmental Justice Council - some of which California's substantial tightening of allowance supply and placement of offsets under the gap helps to mitigate. C&P concurs with Ecology's assessment that facility-specific emissions caps are not feasible under Ecology's current authority.

C&P has spent time reviewing provisions around benefits to overburdened communities across potentially linked jurisdictions, and appreciates the detailed background and

⁴ As noted in our previous comments from September: C&P continues to caution against overreliance on the APCR: "*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 C&P 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.

comparison out of Western Washington University in Appendix E (Washington Cap-and-Invest Linkage Criteria Qualitative Analysis, Center for Economic and Business Research). Further insights into price and emissions modeling (UC Berkeley, including Appendix F) and evaluation of different methods to treat banked allowances from other jurisdictions (Monitoring Analytics, including Appendix G) are important contributions to the conversation.

C&P would like to draw forward a couple of points related to these components of the draft findings:

Modeled Emissions Changes under Linkage: One repeated concern is that a linkage agreement would lead to increased emissions in either Washington or across the combined jurisdiction. With the CARB rule-making and the new modeling for these Draft Findings from Bushnell and Smith (UC Berkeley) we have an updated picture of the magnitude: a 2.43% increase in the 2023-2030 budget of Washington and a 0.46% increase jurisdiction-wide. Counter-weighted against this potential increase against unlinked emissions is the threat to program durability and stability. A more volatile, less predictable, and lower durability program will act more myopically; it is more likely entities will simply pay the price to pollute and pass it on rather than innovating and investing. Given these tradeoffs, it is important to understand these percentages in a fuller context.

Based on C&P estimates of allowance budgets in each jurisdiction from 2023-2030, we can estimate how the modeled expansion of emissions relates to total covered emissions in 2030.⁵

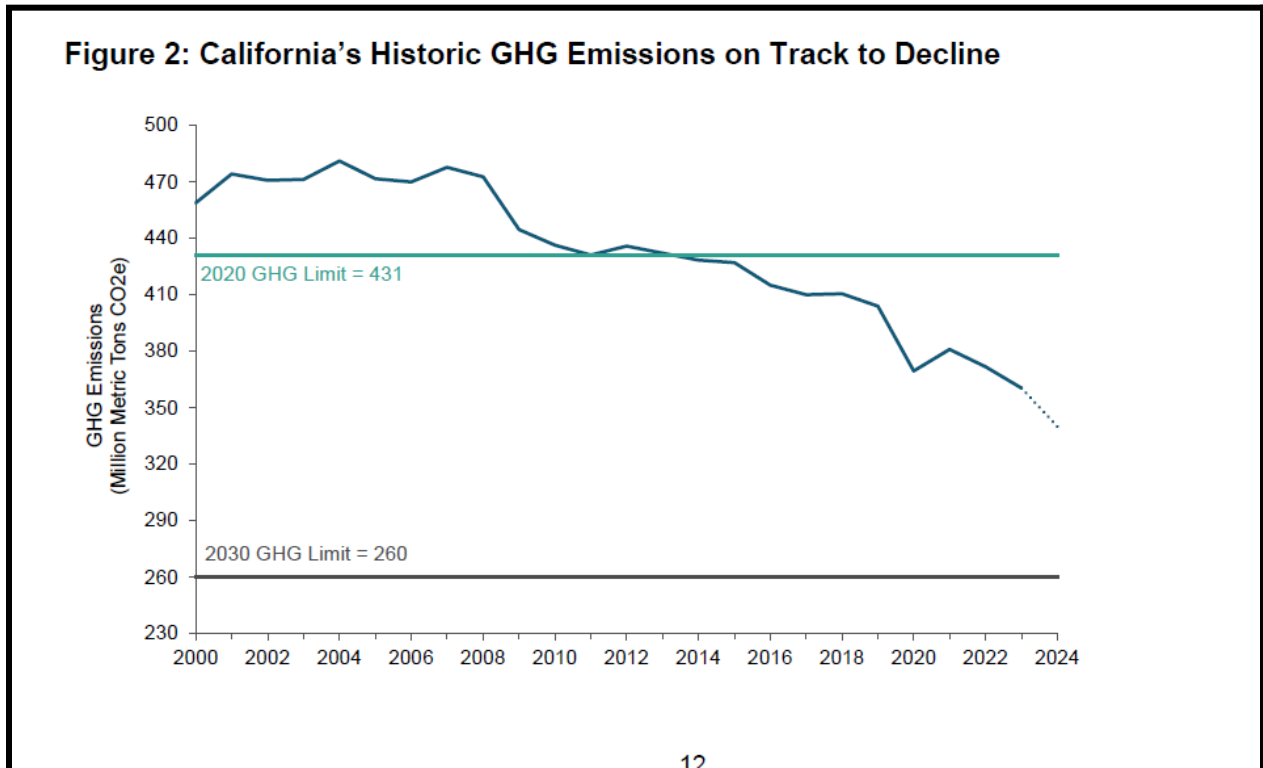
- For Washington, a 2.43% expansion of the 2023-2030 budget **is equal to 0.3 years of 2030 covered emissions** (9.1 MtCO₂e versus an annual limit of 34.7 MtCO₂e);
- Combined, a 0.46% expansion of the 2023-2030 budget **is equal to 0.05 years of 2030 covered emissions** (12.1 MtCO₂e versus an annual limit of 234.3 MtCO₂e). Put another way, the proposed reduction in the 2030 annual budget for California in the ongoing program update (41.7 MtCO₂e) is 3.45 *times* greater than the modeled expansion of emissions if the Draft Findings.

Notably, this modeling does not account in any way for the impact of state-directed investments. These could reasonably be anticipated to reduce an amount of emissions of this scale or greater within this timeframe.⁶

⁵ We use the January ISOR allowance budget from CARB which the UC Berkeley model reflects, but not implementation in Washington of HB 1975. However, given that HB 1975 increases the Washington allowance budget, we anticipate the inclusion would move these estimates to a lower share of annual emissions.

⁶ Ecology's Draft Findings note this point about New York modeling: "For example, in January 2024 New York presented a preliminary analysis overview as part of the process of considering implementing a cap-and-invest program. The analysis modeled investments of auction revenue

Understanding California’s Recent Progress: California continues to be a national leader in reducing greenhouse gas emissions while growing the economy and embedding climate equity (see figure below, taken from CARBs January ISOR). This is in no small part due to its long-standing carbon market, and provides important context as Washington moves closer to a larger, combined carbon market.



The emissions reductions under the cap and the investments enabled by the auction revenue have also demonstrated a strong nexus to equity and environmental justice:

- A 2024 [Greenlining Institute and USC Equity Research Institute Report](#), noted that, *The majority of implemented CCI dollars—73% of the \$9.2 billion implemented as of November 2022—are landing in and providing some benefit to, what the State calls “Priority Populations”, and that, the majority of investment types within the CCI portfolio—transportation, transit-oriented affordable housing, urban greening, solar, weatherization, air quality improvement, water infrastructure—are those that were identified as being desired and helpful by the environmental justice and community-based organizations interviewed for the report.*

focused on boosting residential and commercial heat pumps and electric vehicles in New York State. It found that those investments drive a 10% reduction in emissions relative to the reference case by 2030 and a 14% reduction in emissions by 2035.”

- The State of California Office of Environmental Health Hazard Assessments [Impacts of Greenhouse Gas Emission Limits Within Disadvantaged Communities: Progress toward Reducing Inequities](#) (2022) found that: ***In 2017, emissions of greenhouse gases, PM2.5 and air toxics from facilities subject to the Cap-and-Trade program were less than in 2012 in the most impacted communities identified by CalEnviroScreen, as well as in most other California communities. The decrease in PM2.5 exposure stemming from these facilities was 45 times greater in the state’s most impacted communities than the communities with the lowest overall impacts from pollution.***

With statewide emissions reductions accelerating since 2017 relative to 2012-2017 (see figure above), California Climate Investments continuing to emphasize “priority populations”, and a trend of [Cleaner Vehicles Lead to Healthier Air for All Californians](#), it is likely that more recent data will indicate at least a continuation of these trends and momentum to build from in a linked market.

Ongoing Program Management

Even linked, additional interventions are needed to meet long-term emissions targets. This can be accomplished with periodic updates and through the use of mechanisms available in the program. Key among these are the intersection of industrial emissions with leakage and affordability concerns, and the importance of a strong market signal that does not simply track the price floor.

How post-2030 treatment of EITE facilities interacts with a backdrop of federal retrenchment, affordability concerns, the remaining allowance budget, and common considerations of emissions leakage potential are not questions isolated to a single jurisdiction. No-cost allowance supply to these entities, along with determinations of assistance factors, designated use of revenues, and potential new mechanisms like the Manufacturing Decarbonization Initiative under consideration by CARB are among the potential options for Ecology to evaluate.

An additional area to monitor concerns the possibility of systemically low allowance prices in a linked market. Price and revenue projections have consistently pointed to lower compliance costs for covered Washington entities under a linked market.

However, recent and emerging modeling including that conducted by researchers at UC Berkeley for the draft linkage findings indicate that linked prices may follow the price floor rather than sit between the price floor and cost containment levels as previously modeled.⁷ This has important implications for planned revenue for investments in programs that benefit communities throughout the state.

Prices at the floor are consistent with a program in which the market does not determine the price necessary to meet the cap, and therefore a cap that is not motivating additional emissions reductions. By contrast, auction prices that fall between the price floor and ceiling are consistent with a market that is working efficiently and responding to a binding emissions cap. While achieving decarbonization goals at lower costs is a positive, persistently low market prices risk shifting the performance burden onto higher cost programs while reducing state revenues that benefit communities. We encourage Ecology and its counterparts to plan for ways to manage a shared program, including allowance budgets and Emissions Containment Reserve utilization, so that tracking the price floor or undersubscribed auctions do not become a defining feature.

Conclusion

Linkage represents a historic opportunity for Washington to strengthen its cap-and-invest program, moderate costs, and advance climate ambition. Clean & Prosperous continues to support Ecology's timely pursuit of linkage adjustments—ensuring that Washington's program remains a durable, predictable, and effective driver of climate progress. Developments since the last comment period in September 2025 point to increased confidence that linkage with California and Québec will satisfy the required criteria including increasing cost-effectiveness, stringency of the Climate Commitment Act on meeting greenhouse gas emissions reduction limits, and ensuring benefits with no net adverse impacts to vulnerable populations and overburdened communities or analogous in Washington or other jurisdictions.

⁷ Analysis provided by [Greenline Insights for the California ISOR](#) and proposed amendments indicate that the allowance budgets proposed in the ISOR may not be sufficient to lift auction prices above the price floor in the years ahead while a more stringent allowance budget would still keep prices well below any containment reserve or price ceiling through 2045 while still providing affordability benefits to California households.