To: Surabhi Subedi
Department of Ecology, Climate Pollution Reduction Program

From: Kevin Tempest
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RE: Comments on Cap-and-Invest Program Updates and Linkage Rulemaking

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General Comments

Clean & Prosperous (C&P) appreciates Ecology's continued work and collaboration with partner jurisdictions to advance efforts to link cap-and-invest programs in a timely fashion. Along with a formal submission for this comment period, C&P continues to stand by comments submitted in May.

The proposed rule language and Preliminary Regulatory Analysis (PRA) point to detailed efforts focused on maintaining the efficacy and integrity of the Climate Commitment Act (CCA) by aligning with statutory changes, improving program implementation, including greater clarity, improving program efficiencies, preventing unequal market advantages, ensuring consistent coverage, and strengthening market stability and confidence.

Staying on Track for Linkage

The proposed rule amendments come at a critical time, with the CCA approaching the end of the first compliance period (2023-2027) and California's passage of regulatory changes that strengthen and extend the program beyond the pre-existing baseline.[1] It also follows the signing of a historic linkage agreement between California, Quebéc, and Washington, which will establish the world's largest subnational carbon market. C&P is encouraged to see efforts remaining on track for timely linkage, which is an important advancement of climate leadership in North America. This leadership is all the more vital in a time of federal retrenchment. As we have previously noted, linking the only

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[1] Clean and Prosperous comments to CARB on the proposed amendments are available at the following link: https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/merged/x50iiie7boo_document.pdf?v=41784

economy-wide carbon markets in North America is very likely to provide substantial near-and long-term benefits aligned with 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.

Timely Implementation of HB 1975

In previous comments, C&P has requested clear and timely implementation of HB 1975. In particular, C&P emphasized the increase in allowance allocations to meet the original timeline of emissions reductions and compliance periods intended by the Legislature. The work advanced by this proposed rule along with market guidance via Implementation Guidelines related to 2025 HB 1975 (updated in June) align with our previous requests. 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.

Continued Stewardship of the CCA

Even as the markets proceed toward linkage, it will be critical to manage ongoing and emerging developments. This can be accomplished with periodic updates and through the use of mechanisms available in the program, even after linkage. Key considerations include early abatement opportunities and post-2034 allowance allocations for Energy Intensive, Trade Exposed (EITE) facilities, which Ecology is considering through public comment ahead of an upcoming EITE Industries Report to the Legislature, as well as preparing for the possibility of systemically low allowance prices in a linked market, which more recent modeling efforts have highlighted as increasingly possible without needed interventions.

The revenue implications of updated price forecasts underscore this challenge, despite a substantial increase in the volume of auctioned allowances due to HB 1975.[2] While achieving decarbonization goals at lower and more stable costs is a good thing, persistently low market prices risk shifting the performance burden onto higher cost programs while reducing state revenues that benefit communities and weakening the signal for long-term decarbonization investments by covered parties.

Prices at the floor, potentially exacerbated by auctions that are not fully subscribed but "undersold", would be indicative of a program in which the market does not determine the price necessary to meet the cap, and therefore a cap that is not guiding additional

[2] California's average auctioned allowance price since the start of its program in 2012 has been $20.51. Since the start of 2023, the average auctioned allowance price has been $31.63. Even with prices much closer to the floor on average than in the CCA, California continues to demonstrate the value of Climate Investments.

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. We encourage Ecology and its counterparts to plan for ways to manage a shared program, such as adjustments to allowance budgets and Emissions Containment Reserve utilization, so that tracking the price floor or undersubscribed auctions do not become a defining feature that curtails the catalytic effect of both private and public investments. A potential backstop to ensure the market continues to send a resonant price signal *might include* adjustments to the rate of increase in the price floor to ensure a stronger price signal. In terms of a best functioning market, such an approach is suboptimal relative to adjustments that allow the market to determine a price that satisfies the cap at a price above the floor.

Modeled Emissions Changes Under Linkage

One consideration of enduring interest, which is examined in the PRA, is the potential for increased emissions as a result of linkage. In May comments, C&P added context around market modeling performed by researchers from UC Berkeley. C&P found that the *cumulative increase* modeled in that study amounted to 0.3 years of 2030 covered emissions in Washington and 0.05 years of 2030 covered emissions across the linked jurisdictions.

Modeling for the PRA by a UC Team paints a similar picture. Examining a longer timeframe, 2027-2037, the net decrease in Social Cost of Carbon (SCC) benefits indicates between a 2 and 3 million metric ton increase in CCA covered emissions in a linked relative to unlinked market.[3] C&P reiterates that it is important to contextualize these results against higher risks inherent in an unlinked market: program durability (including implications to cumulative emissions reduction and revenue), decreased collective ambition, and negative influence on programs under consideration in other jurisdictions. While we cannot fully assign the increased risk of not linking, it is certainly above zero. A more volatile, less predicable, and lower durability program is also likely to lead to more myopic behavior; it is more likely entities will simply pay the price to pollute and pass it on rather than innovating and investing. Weighing this trade-off requires a more complete context:

- The updated 2027-2037 cumulative allowance shown in *Table 210-1: Total program allowance budget for each year* of the proposed rule is 363 million metric tons.
    - A 2-3 million metric ton increase equates to 0.55% to 0.83% of this cumulative allowance budget. Meanwhile, the annual allowance budget is forecast to decrease 50% from 2027 to 2037.

[3] In this case, the impact is generally inferred from SCC based loss of benefits (Tables 4 and 5 of the PRA).

- Relative to the 2037 allowance budget (23.6 million metric tons), the modeled increase in emissions equates to no more than 1.5 months of the 2037 allowance budget.

C&P firmly believes that this modeled short-term delay in emissions targets is small and manageable relative to the longer-term risk to program stability, ambition, and investment revenue of not linking or substituting more myopic behavior by covered entities.

Conclusion

Clean & Prosperous appreciates the continued effort of refinement and larger statutory updates undertaken by Ecology in this proposed rule and PRA. We will continue to weigh in on the conversation in support of effective program management and linkage as a historic opportunity for Washington to strengthen its cap-and-invest program, moderate costs, and advance climate ambition. Steps undertaken with respect to HB 1975 implementation prior to the completion of the first compliance period and continued progress towards the durability, shared ambition, and cost-effective benefits of program linkage for the longer-term transition are appreciated. C&P looks forward to continued progress on these aims and the opportunity to provide feedback and analysis on the stewardship of the CCA.