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Washington Department of Ecology

Via email to: CPRRulemaking@ecy.wa.gov

RE: Chapters 173-441 WAC and 173-446 WAC, Cap-and-Invest Program Updates and Linkage Rulemaking Formal Comment Period

To the Washington Department of Ecology:

Shell Energy North America (US), L.P. ("Shell Energy") markets and trades natural gas, power and environmental products and provides risk management support to wholesale and retail customers throughout North America. Shell Energy is also a covered entity under the Climate Commitment Act ("CCA"). Shell Energy welcomes the opportunity to comment on Chapter 173-446 WAC, Climate Commitment Act Program Rule and Chapter 173-441 WAC, Reporting of Emissions of Greenhouse Gases (Cap and Invest Program Update and Linkage).

Per the amendments to WAC 173-446-370, WA Department of Ecology ("Ecology") is re-establishing a Tier 2 price for the Allowance Price Containment Reserve ("APCR"). The April 29, 2026 Implementation Guidelines related to 2025 HB 1975 states that the distribution of allowances between Tier 1 and Tier 2 at APCR auctions will be based on the settlement price at the prior WA quarterly allowance auction:

- "If the prior quarterly auction settlement price is at or above the Tier 1 price, but below the Tier 2 price (i.e., between the tiers), then the supply for that auction will be offered 50% at Tier 1 and 50% at Tier 2.
- If the prior quarterly auction settlement price is at or above the Tier 2 price, then 100% of the supply at that auction will be offered at the Tier 2 price.

- If the quarterly auction settlement price at the June 2027 quarterly auction is below the Tier 1 price, (i.e., an APCR auction was not triggered), then 100% of supply will be offered at Tier 1 price at the pre-compliance APCR event."

Shell Energy recommends that instead, Ecology replicate the California Air Resources Board (CARB) methodology and offer all Tier 1 APCR price volume first, and when the volume attributed to Tier 1 is exhausted, then offer volume at the Tier 2 price. As the Detailed Reserve Sale Requirements and Instructions issued by CARB on January 30, 2026, states, "[a]llowances from Reserve Tier 1 must be depleted before allowances from Reserve Tier 2 can be purchased. If an entity bids for Reserve Tier 2 allowances, but there are still unsold Tier 1 allowances, then this will result in a tier roll-down, where qualified bids for Tier 2 allowances are filled at the Tier 1 price until all available Tier 1 allowances are exhausted."

Ecology should revise the APCR allocation methodology to require that Tier 1 allowances be fully allocated before Tier 2 allowances are distributed. This approach, which is used in California, would better support the APCR's cost-containment purpose by ensuring that the lowest-priced reserve allowances are utilized first. Requiring Tier 1 allowances to clear before Tier 2 allowances are awarded would improve market efficiency, provide more predictable compliance costs for regulated entities, and avoid situations in which higher-priced reserve allowances are sold while lower-priced allowances remain available. In addition, because Washington and California are actively pursuing linkage of their cap-and-invest programs, Ecology should seek to align its APCR design with California wherever practical. Adopting CARB's Tier 1-first allocation methodology would eliminate an unnecessary programmatic difference between the jurisdictions and support a smoother transition to a linked market.

Shell Energy appreciates the opportunity to comment and looks forward to future engagement.

Respectfully submitted,

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