

Appendix A

Designing Washington's Post-2034 EITE Allocation Framework

*Recommendations for Leakage
Protection, Industrial Decarbonization,
and Sectoral Approaches for Ecology's
Report to the Legislature under SB 6246*

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Prepared for the Western States Petroleum Association (WSPA)

This assessment was prepared by Michael Carr of Carr Bon-Neutral Consulting for WSPA. Although WSPA members were provided an opportunity to review and comment on the document, the research, analysis, conclusions, and final editorial decisions are solely those of the author and do not necessarily reflect the views of WSPA or its members.

Executive Summary

In March 2026, the Washington Legislature passed SB 6246, which – among other requirements – directs the Washington Department of Ecology (“Ecology”) to *“provide recommendations for the consideration of the legislature regarding the schedule of allowances to be provided to emissions-intensive, trade-exposed (EITE) facilities specified in RCW 70A.65.110 from January 1, 2035, through January 1, 2050.”*¹ This report is due on December 1, 2026.

Ecology’s report will build on its January 2026 EITE allocation report² and its May 2026 discussion document³ identifying four focus areas for recommendations to the Legislature. Although the Legislature will make the ultimate policy decisions, Ecology’s recommendations will substantially frame the available options and should account for both emissions outcomes and the competitiveness of Washington industry.

These considerations address the four focus areas identified by Ecology and provide further analysis of sector-specific treatment and potential sector-based allocation mechanisms.

The key recommendations share a common theme: allowance allocation to EITEs is part of a broader package of policies that protect against leakage and support investment. Any allocation adjustment factor should be evaluated based on the resulting carbon-cost exposure of Washington facilities and should not be mechanically derived from the overall program-cap trajectory. Because market, technology, infrastructure, and policy conditions will change over the 2035–2050 period, Ecology should recommend a transparent default trajectory paired with objective criteria for tightening, pausing, or recalibrating that trajectory. If complementary policies are modest, then no-cost allocation must remain the principal leakage protection mechanism for EITEs in the state.

Consignment can support accountability, planning, and incremental projects, but it should not be treated as the principal financing mechanism for transformational industrial decarbonization. Complementary policies must instead be durable, bankable, and scaled to the capital, financing, infrastructure, operating-cost, technology, and market barriers facing major industrial projects.

¹ <https://lawfilesexult.leg.wa.gov/biennium/2025-26/Pdf/Bills/Session%20Laws/Senate/6246.sl.pdf>, at page 10 lines 8-12

² *Report to the Legislature on EITE allowance allocation 2035 - 2050 Leakage mitigation policies for facilities classified as Emissions-Intensive, Trade-Exposed Industries under the Cap-and-Invest Program*, at <https://apps.ecology.wa.gov/publications/documents/2514113.pdf>

³ <https://ecology.wa.gov/getattachment/708e9c3b-e1b7-444f-b0ad-1e5dc8ef11ad/Report-and-recommendations-to-Legislature-on-EITE-allowance-allocation-for-2035-2050.pdf>

Finally, sector-specific treatment and, where appropriate, sector-based allocation may be warranted. In sectors with multiple facilities producing competing or related products, a carefully bounded sector-level allocation mechanism could better preserve competitive in-state production by allowing allocation to be recalibrated when an individual facility closes or materially curtails operations, while maintaining production- and performance-based safeguards.

The objective of the recommendations should be to reduce emissions through investment and improved performance at Washington facilities, not through the unintended displacement of production, employment, and emissions to other jurisdictions.

Introduction

Ecology's discussion document entitled "Report and recommendations to Legislature on EITE allowance allocation for 2035-2050", published in May 2026, identifies four focus areas for recommendations to the Legislature:

- *A method for annual reductions to EITE allowances;*
- *Criteria and methods for as-needed adjustments;*
- *A method requiring EITEs to invest a portion of no-cost allowance value in decarbonization projects; and*
- *Additional state policies or strategies to support EITE emission reductions.*

This discussion document is found on Ecology's landing page for "EITE Allocation: 2035-2050",⁴ where Ecology provides background information regarding the process, opportunities for stakeholder involvement and the timeline for next steps to address the requirements directed to Ecology in March 2026 upon passage of SB 6246 by the Washington Legislature. In this legislation, Ecology is directed to "*provide recommendations for the consideration of the legislature regarding the schedule of allowances to be provided to emissions-intensive, trade-exposed (EITE) facilities specified in RCW 70A.65.110 from January 1, 2035, through January 1, 2050.*"⁵ This report is due on December 1, 2026.

This assessment provides considerations for these four focus areas and adds a fifth topic addressing sector-specific treatment and potential sector-based allocation mechanisms. These five considerations should be evaluated as an integrated policy

⁴ <https://ecology.wa.gov/air-climate/climate-commitment-act/cap-and-invest/emissions-intensive-trade-exposed-industries/allocation-for-2035-2050>

⁵ <https://lawfilesexternal.wa.gov/biennium/2025-26/Pdf/Bills/Session%20Laws/Senate/6246.sl.pdf>, at page 10 lines 8-12

framework because they are interdependent. Allocation adjustment factors determine carbon-cost exposure;⁶ adjustment criteria determine whether that exposure remains appropriate over time; consignment influences how allowance value is directed toward investment; complementary policies determine whether industrial decarbonization is financeable and achievable; and sector-specific and sector-based approaches help ensure that these policies appropriately reflect differences in industrial processes, markets, facility structures, and leakage risk. Evaluating any one element in isolation risks producing a policy framework that is ineffective in achieving Washington's dual objectives of reducing emissions while maintaining competitive in-state production.

Focus Area 1 — Method for annual reductions to EITE allowances

No-cost allowances are provided to EITEs by Cap-and-Invest programs to protect against leakage. The statutory definition of leakage in the Climate Commitment Act narrowly defines leakage as an in-state reduction in greenhouse gas emissions that is offset by a directly attributable increase in emissions outside Washington and outside linked jurisdictions.⁷ While that statutory definition addresses emissions leakage, it misses the parallel phenomenon that is equally important and should not be ignored, which is economic leakage that considers the movement of production, investment and employment to facilities outside Washington.

An allocation adjustment factor⁸ may be necessary to reconcile the quantity of no-cost allowances that are distributed to EITEs with declining statewide allowance budgets, but it may not be appropriate for it to follow the program's overall emissions cap. It is important to note that an adjustment factor of any size does not by itself mitigate leakage, finance decarbonization, or ensure that technologies are commercially available. It is primarily a mechanism for reconciling future allocation with the declining allowance budget; it is not, by itself, a leakage-mitigation or project-financing instrument.

Its design must therefore be calibrated to the other tools available to protect against leakage and support investment.

Ecology should recommend that any allocation adjustment factor be evaluated not only against allowance-budget arithmetic, but also against the resulting carbon-cost exposure for EITE facilities. The relevant policy question is not simply the nominal

⁶ Carbon-cost exposure is the overall cost of compliance of an EITE facility, most simply characterized as the net allowance exposure (i.e., obligation less the quantity of no-cost allowances received) times the cost of the facility to procure allowances for compliance

⁷ RCW 70A.65.010(44)

⁸ This term refers to a multiplier that establishes the rate of decline for which an EITE facility will receive no-cost allocations versus its baseline amount. Often, the term "cap decline factor" is used to describe this, but such terminology is arguably limiting and insinuates that the rate of decline is following (or should follow) the rate of overall program decline, which is often not the case.

percentage of allowances allocated at no cost, but the effective carbon-cost exposure imposed on Washington facilities versus those in competing jurisdictions. That exposure is a function of several variables: the allowance price, the share of emissions not covered by no-cost allocation, the extent of consignment, the availability of complementary funding, and the carbon-cost exposure faced by competitors from outside Washington.

For example, a facility receiving a substantial percentage of its allowances at no cost may nevertheless face significant cost exposure if allowance prices are high or if allocation declines faster than feasible emissions reductions. Conversely, a lower allocation percentage in a jurisdiction with lower allowance prices, stronger complementary support, or border protections may impose a vastly different competitiveness burden. Ecology should therefore avoid comparing allocation percentages across jurisdictions without also comparing allowance prices, industrial support mechanisms, and other leakage-protection measures.

Ecology should recommend that the Legislature authorize an allocation adjustment factor only as part of an integrated framework that includes:

- transparent modeling of resulting carbon-cost exposure under a range of allowance-price scenarios;
- comparison of Washington EITE exposure to competing jurisdictions;
- consideration of sector-specific decarbonization pathways and leakage risks;
- recognition of capital-planning timelines for large industrial projects;
- preservation of sufficient no-cost allocation to serve its core leakage-mitigation function unless complementary measures are robust enough to substitute for that protection.

Finally, Ecology should recognize the significance of Washington's statutory 2050 framework. Washington's requirement to reduce gross statewide greenhouse gas emissions by 95% below 1990 levels, combined with a separate net-zero requirement,⁹ creates a more binding long-term constraint than many other jurisdictions that rely principally on net-zero formulations. That statutory stringency makes it even more important that Ecology distinguish between inventory reductions attributable to production contraction or facility closures, versus real reductions achieved through investment at Washington facilities.

⁹ RCW 70A.45.020(1)(a)(iv) and (1)(c).

Focus Area 2 — Criteria and methods for as-needed adjustments

Because the 2035–2050 period is characterized by substantial uncertainty, no single trajectory can reasonably anticipate all relevant developments. Technology costs, electricity availability, federal policy, allowance prices, permitting timelines, and competitor carbon policies could all change materially over time. Ecology should recommend a default allocation trajectory only if it is paired with objective and predictable adjustment criteria.

The adjustment mechanism should allow Ecology or the Legislature to tighten allocation if leakage risk materially declines or if commercially viable decarbonization pathways become available. Conversely, it should also allow the trajectory to be slowed, paused, or recalibrated if leakage risk increases. This can be the case when complementary policies are not funded or implemented, infrastructure is unavailable, or major decarbonization projects are delayed for reasons outside the control of EITE facilities – such as permitting delays.

Objective adjustment criteria could include:

- material changes in carbon pricing or equivalent policies in competing jurisdictions;
- federal legislation or regulation affecting industrial competitiveness;
- adoption of carbon border adjustment measures, or lack thereof;
- demonstrated commercial availability and financeability at scale of sector-specific decarbonization technologies;
- permitting timelines for major industrial decarbonization projects;
- changes in allowance prices and market liquidity;
- evidence of production curtailment, facility closure, or import substitution; and
- material changes in product demand, trade flows, or industrial output.

Ecology should also recommend that any adjustment process includes regular review intervals and transparent data. An adjustment mechanism that is too discretionary will undermine investment certainty. One that is too rigid will fail to respond to changing circumstances. The appropriate balance results in a default trajectory with clearly defined adjustment triggers, review procedures and decision criteria – often colloquially referred to as off- and on-ramps.

New Zealand's emissions trading system combines production-based assistance with a transparent long-term phase-out schedule and statutory mechanisms for adjusting phase-out rates.¹⁰ Although Washington's circumstances differ, this approach illustrates the value of pairing a predictable default trajectory with objective review mechanisms that can respond to changing market, policy, technology, and infrastructure conditions.

Focus Area 3 — Consignment

Consignment refers to the requirement that a portion of no-cost allowances that are allocated to a covered entity (obligated party) in a climate program must be relinquished and auctioned, with auction proceeds being returned to the covered entity for prescribed uses. In California's Cap-and-Invest program – as well as Washington's program to date – consignment requirements have applied to utilities,¹¹ rather than industrial facilities.

Québec is the first jurisdiction to extend the consignment concept to EITEs; under its approach, a modest percentage of the no-cost allowances allocated to an EITE must be offered at auction, with the resulting proceeds available to fund qualifying decarbonization projects.

Consignment could be a useful component of Washington's EITE policy, but Ecology should clearly define its purpose before recommending its scale. At modest levels, consignment can create accountability, establish administrative procedures, support decarbonization planning, fund engineering studies, and contribute to smaller energy-efficiency or emissions-reduction projects. It can also create a more transparent link between no-cost allowance value and facility-level decarbonization activity.

However, modest consignment of no-cost allowances should not be characterized as a primary financing mechanism for transformational industrial decarbonization. ***Scale determines function: modest consignment is properly seen as an accountability tool, not a transformational financing mechanism.***

The scale of industrial decarbonization investments should be compared against both the allowance value associated with the reduced emissions and the facility's remaining compliance exposure. A project that reduces 100,000 metric tons of emissions per year could represent a meaningful reduction at a covered facility. At a \$50 allowance price, however, the avoided allowance value would be only \$5 million per year. If the project required hundreds of millions of dollars in capital, annual capital recovery alone could substantially exceed the avoided allowance value, before considering operating costs, permitting, infrastructure, reliability requirements, or remaining compliance obligations.

¹⁰ New Zealand Climate Change Response Act 2002, §§ 84A–84C; New Zealand Environmental Protection Authority, "Changes to the Emissions Trading Scheme since 2020," under "Industrial allocations phase-out."

¹¹ Cal. Code Regs. tit. 17, §§ 95892(c), 95893(c); WAC 173-446-300(2)(b)(i)–(iii).

This illustrates why consignment should not be treated as a stand-alone financing mechanism. Even after a meaningful project, most facility emissions are likely to remain, and the facility may continue to face substantial carbon-cost exposure. Consignment can support planning and contribute to an overall project-financing package, but it does not replace the leakage-protection function of no-cost allocation or the need for complementary policies that materially improve project economics.

If Washington adopts a modest consignment requirement, Ecology should describe it accurately as a tool for accountability, planning, and incremental progress. If Ecology intends for consignment to materially finance major projects, it should estimate the level of funding needed and evaluate whether the proposed consignment percentage is sufficient to meet that objective.

Any consignment policy should also provide flexibility. Industrial decarbonization does not occur on annual budget cycles. Projects may require multi-year accumulation of funds, staged engineering, permitting, procurement, turnaround alignment, and coordination with utilities or fuel suppliers. Ecology should recommend that consigned funds remain available long enough to support real projects rather than forcing short-term spending on smaller measures simply because they are administratively easier.

Ecology should also ensure that eligible uses are broad enough to reflect facility realities. Eligible uses should include feasibility studies, front-end engineering and design and other project development costs, permitting, utility interconnection, infrastructure and workforce training activities. Project types should include but not be limited to energy efficiency, fuel switching, electrification, carbon capture, low-carbon hydrogen, process changes, fugitive-emission reduction, and other sector-specific measures. Reporting requirements should verify that funds are directed at approved uses, but should not be so rigid that they could discourage participation or favor low-impact “safe” projects over more consequential investments.

Québec’s program¹² provides a relevant administrative precedent and should be monitored carefully as it develops. It demonstrates that consignment can direct a portion of allowance value toward decarbonization, but the precedent should not be overread. At its current modest level – equivalent to approximately 1.7% of the no-cost allocation – it remains an incremental policy instrument. It does not demonstrate that consignment can replace no-cost allocation or finance deep industrial transformation without broader complementary support.

Focus Area 4 — Complementary policies and strategies

¹² Québec Advisory Committee on Climate Change, *Inscrire le SPEDE dans une réelle démarche de décarbonation de la société québécoise* [Integrating Québec’s Cap-and-Trade System into a Genuine Decarbonization Strategy], at 18–19 (2024) (French only).

Complementary measures should be treated as central to Ecology’s recommendations, not as an appendix to allocation policy. If Washington reduces no-cost allocation more quickly, it must provide other tools that reduce leakage risk and support investment. ***If those tools are modest, then no-cost allocation must remain the principal leakage protection mechanism for EITEs in the state.***

Ecology should evaluate complementary policies based on the specific barrier each policy is intended to address. Different barriers require different tools. Grants and tax credits can reduce capital costs. Low-interest loans and loan guarantees can reduce financing barriers. Carbon Contracts for Difference (CCfDs) – which are agreements between a public entity and a project developer – can provide long-term carbon-price certainty for qualifying decarbonization projects, reducing investment risk and improving project financeability.¹³

Permitting reform can reduce schedule risk. Electrical transmission and distribution infrastructure planning can address clean electricity deliverability constraints. Public procurement or product standards can support demand for lower-carbon products. Technical assistance can support project identification, but it cannot substitute for capital.

The following framework for considering complementary policies may be useful:

- **Permitting and siting risk:** coordinated permitting pathways, clear timelines, interagency review, expedited review for qualifying decarbonization projects.
- **Infrastructure constraints:** transmission, clean firm power, hydrogen infrastructure, CO₂ transport and storage, utility planning.
- **Capital cost:** grants, tax credits, industrial decarbonization funds, public-private cost-sharing.
- **Financing risk:** low-interest loans, loan guarantees, green bank mechanisms.
- **Carbon-price uncertainty:** CCfDs or other revenue-certainty tools.
- **Operating cost risk:** production credits, electricity-rate mechanisms, contracts for low-carbon fuels, or other ongoing support.
- **Technology performance risk:** demonstration funding, cost-sharing, and/or performance guarantees.
- **Market demand risk:** procurement standards, product standards or advance market commitments.

¹³ German Federal Ministry for Economic Affairs and Climate Action, “First Round of Carbon Contracts for Difference Launched” (Mar. 12, 2024).

Ecology should also recognize that complementary policies must be durable and bankable to influence investment decisions. A one-time grant opportunity may support a discrete project, but it may not be sufficient to support long-lived industrial planning. Facilities considering major investments need confidence that the policy framework will remain stable over the life of the project.

This is particularly important for capital-intensive facilities such as refineries. Major projects are evaluated against corporate capital allocation processes and **risk-adjusted** hurdle rates. These projects compete for capital against investments in other jurisdictions that may have lower regulatory risk, lower energy costs, fewer permitting barriers, or no comparable carbon cost. Complementary measures must therefore be evaluated not only for their nominal dollar value, but for whether they materially change the economics of projects subject to substantial technology, execution, market and regulatory risk.

Ecology should also consider how any complementary measures would interact with other Washington programs and state and local requirements. These could include, among others, the:

- **Clean Fuel Program** for transportation energy;
- **Clean Electricity Transformation Act (CETA)** for electrical energy;
- Air and other permitting requirements;
- Utility regulations; and
- Local and state facility siting requirements.

EITE facilities experience these policies cumulatively. The question is not whether any one policy is manageable in isolation, but whether the combined policy package supports continued in-state production while enabling emissions reductions.

Finally, Ecology should evaluate impacts on Tribes, overburdened communities, and vulnerable populations in a way that distinguishes real decarbonization from leakage. Projects that reduce greenhouse gas emissions and criteria pollutants at Washington facilities can provide local and statewide benefits. But facility closures that reduce Washington's inventory while shifting production to jurisdictions do not achieve the same outcome. Ecology's recommendations should therefore prioritize feasible on-site emissions reductions and associated co-benefits while separately evaluating leakage consequences.

Sector-Specific and Sector-Based Allocation Considerations

The four focus areas also raise a cross-cutting issue that merits inclusion as another area for focus: whether a uniform approach can reasonably apply across all EITE

sectors. Sectoral considerations affect allocation adjustment factors, adjustment criteria, consignment expectations, and complementary-policy needs. Ecology should therefore consider both evaluation of sector-specific trajectories and, where appropriate, sector-based allocation mechanisms.

A sector-specific trajectory recognizes that different EITE sectors may warrant different allocation adjustment factors, adjustment criteria, or complementary policy needs. A sector-based allocation mechanism addresses how allowances are distributed within a specific sector and how allocation should continue to support in-state production when an individual facility reduces output or closes. Both concepts are important, but they solve different problems.

Sector-specific trajectories

Ecology should not assume that all EITE sectors can follow the same reduction pathway. EITE sectors differ materially in their emissions profiles, product markets, process constraints, technology readiness, electricity needs, capital cycles, and exposure to out-of-state competition.

Refineries, pulp and paper mills, cement facilities, glass manufacturers, food processors, aerospace facilities, and other EITEs do not face the same decarbonization options. Some facilities have significant combustion emissions. Others have process emissions that are difficult to eliminate using currently commercial alternatives and may require carbon capture or fundamental process changes. Some may have near-term energy-efficiency opportunities. Others may require access to large quantities of zero-carbon electricity, low-carbon fuels, hydrogen, or CO₂ transport and storage infrastructure that may not be available on the timeline implied by a uniform allocation decline.

A uniform allocation adjustment factor may appear equitable, but it may not be equitable in practice. The same percentage reduction can impose quite different burdens depending on sector-specific abatement options and market conditions. Ecology should therefore evaluate whether sector-specific trajectories are necessary to avoid arbitrary outcomes.

At a minimum, Ecology should recommend that sector-specific analysis consider:

- the share of emissions from combustion versus process sources;
- commercially available emissions-reduction technologies;
- expected timing of major capital replacement or turnaround cycles;
- access to zero-carbon electricity or low-carbon fuels;
- exposure to imports or out-of-state competitors;

- ability to pass through carbon costs;
- interaction with other policies such as the Clean Fuel Standard;
- risk of production leakage or facility closure; and
- potential local air-quality co-benefits from feasible projects.

Where the evidence shows materially different circumstances, Ecology should recommend that the Legislature authorize sector-specific treatment. This could include different allocation reduction trajectories, different review criteria, different consignment expectations, or different complementary policy priorities.

Sector-based allocation

Ecology should also evaluate whether sector-based allocation mechanisms may better protect against leakage than purely facility-specific allocation in certain sectors. The purpose of EITE allocation is to preserve in-state production and prevent emissions leakage. That objective is not necessarily served if allocation declines automatically when one facility reduces output or closes, even though demand for the product remains and production may shift to facilities outside Washington.

A sector-based approach would recognize that the policy objective is not simply to preserve historical emissions at each individual facility. The objective is to preserve competitive in-state production while reducing emissions intensity and supporting investment. In some sectors, especially those with multiple facilities producing related products, it may be appropriate to maintain a sectoral allocation pool and distribute allowances based on current production, benchmarks, or other objective criteria.

This concept may be particularly important where closure of one facility would not eliminate demand for the product but would instead shift supply to facilities in other jurisdictions. In that circumstance, reducing the sector's allocation because of a Washington facility closure could compound leakage risk by increasing the compliance burden on remaining in-state facilities, making them less competitive and increasing the likelihood of further contraction.

A sector-based allocation framework could help avoid that result by establishing an allocation amount for the sector that continues to support remaining in-state production if an individual facility closes or materially curtails operations. Under such an approach, the allocation factor applicable to the remaining facilities could be recalibrated to redistribute some or all of the sector allocation formerly associated with the affected production, subject to clearly defined limits and appropriate safeguards. Those safeguards could include:

- output-based allocation (*i.e., allocation is distributed among operating EITE facilities in proportion to actual covered production*) to maintain the production incentive and prevent allocation unsupported by production;
- benchmark-based allocation (*i.e., allocation reflects facility- or sector-specific emissions-performance benchmarks*) to preserve incentives for emissions-intensity improvement;
- clearly defined eligibility criteria for sectors and facilities receiving sector-based treatment;
- a defined sector-level allocation limit governing the total amount that may be distributed among eligible facilities;
- transparent rules governing the redistribution of sector allocation following facility closures, curtailments, restarts, or transfers of production;
- safeguards against windfalls, double counting, or allocation in excess of qualifying production and applicable benchmark levels;
- standardized monitoring, reporting, and verification requirements sufficient to support allocation and redistribution decisions;
- periodic review of sectoral leakage risk, production patterns, benchmark performance, and continued eligibility; and
- consistency with the annual allowance budget, statewide emissions limits, and other program-integrity requirements.

A sector-based approach could also strengthen decarbonization incentives. If remaining facilities can retain access to allocation based on production and performance, they may have greater certainty to support capital investment. At the same time, benchmarked output-based allocation can preserve incentives to reduce emissions per unit of production.

Ecology should therefore recommend that the Legislature authorize Ecology to evaluate and, where appropriate, implement sector-based allocation mechanisms for sectors where product markets, leakage risk, and facility structure support such an approach. This is especially relevant for sectors in which Washington has multiple facilities producing products that compete in regional, national, or international markets.

Relationship between sector-based allocation and program integrity

Sector-based allocation mechanisms must still be reconciled with the allowance budget and statewide emissions limits. But this is an argument for careful design, not for rejecting sector-based allocation. If allocation reductions are imposed mechanically at the facility level without regard to leakage, Washington may achieve lower reported in-

state emissions while increasing emissions elsewhere. That outcome would not advance the environmental purpose of the program.

Ecology's report should therefore recommend a sectoral framework that distinguishes between:

- emissions reductions from actual decarbonization at Washington facilities;
- emissions reductions from production declines or closures;
- emissions shifts to facilities outside Washington; and
- changes in emissions intensity within remaining in-state production.

This distinction is essential. Closure-driven reductions should not be treated as equivalent to decarbonization. A policy framework that reduces Washington's inventory by exporting production and emissions would undermine the Legislature's leakage-protection objective.

Recommended sectoral framework

Ecology should recommend that the Legislature authorize a sectoral framework with three components:

1. Ecology should conduct sector-specific analysis before applying any uniform allocation adjustment factor.
2. Ecology should identify sectors where sector-based allocation may better protect against leakage than strictly facility-specific allocation.
3. Ecology should establish transparent criteria for applying sector-specific or sector-based treatment, including emissions profile, trade exposure, abatement feasibility, product-market competition, and the availability of complementary policies.

Together, these recommendations would establish a structured framework for determining when sector-specific treatment or sector-based allocation is appropriate, while preserving administrative discipline and recognizing industrial reality.

Conclusion

Ecology has a challenging assignment from the Legislature: to recommend a post-2034 EITE allocation framework that advances Washington's emissions objectives while continuing to provide meaningful protection against leakage. That assignment cannot be reduced to an allowance-budget exercise. The allocation trajectory, adjustment process, consignment provisions, complementary policies, and potential sectoral approaches are

interdependent and should be designed as a coherent framework. A policy that reduces Washington's reported emissions primarily by shifting production, employment, and emissions to other jurisdictions would not constitute a successful outcome.

Any allocation adjustment factor should therefore be evaluated based on the resulting carbon-cost exposure of Washington EITEs and should not be mechanically derived from the overall program-cap trajectory. The appropriate level of no-cost allocation will depend on the competitiveness pressures facilities face, the availability of commercially viable decarbonization pathways, and the strength of other leakage-protection and investment-support mechanisms. Because those conditions cannot be predicted with confidence for the entire 2035–2050 period, Ecology should recommend a transparent default trajectory paired with objective review criteria and the authority to tighten, pause, or recalibrate that trajectory as circumstances change.

The scale and effectiveness of consignment and complementary policies will materially influence how much no-cost allocation must be maintained over time. Aggressive allocation reductions should not precede durable and bankable policies that provide meaningful access to grants, tax incentives, financing support, infrastructure, and mechanisms that reduce carbon-price or revenue uncertainty. Consignment can create accountability, support planning, and contribute to incremental projects, but modest consignment should not be treated as a substitute for leakage protection or as the principal financing mechanism for transformational industrial investments.

Finally, Ecology should consider sector-specific treatment and, where supported by the evidence, sector-based allocation mechanisms. Different sectors face different emissions profiles, technologies, markets, infrastructure needs, and leakage risks. In sectors with multiple facilities producing competing or related products, a carefully bounded sector-level allocation mechanism could preserve competitive in-state production by allowing allocation to be recalibrated when an individual facility closes or materially curtails operations. A well-designed post-2034 framework should reduce emissions through investment and improved performance at Washington facilities, not through the unintended displacement of production, employment, and emissions to other jurisdictions.