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RE: Feedback on Cap-and-Invest: EITE Industries report to the Legislature

Background

The Washington State Department of Ecology is developing a new report to the Legislature on allowance allocation policies for emissions-intensive, trade-exposed (EITE) industries centered on four focus areas.

In each of these four key focus areas, Ecology has offered specific areas for feedback:

1. A proposed method for making annual reductions to EITE allowances that ensures against emissions leakage and will ensure that the total number of no-cost allowances does not conflict with annual allowance budgets or prohibit the achievement of statewide emission limits.
2. Proposed criteria and methods for making as-needed adjustments to EITE allowance allocation to address changes in leakage risk and achieve statewide emissions limits.
3. The proposed design of a method that requires EITEs to invest a portion of the value of their no-cost allowances in decarbonization projects.
4. Additional state policies or strategies to support the reduction of emissions and decarbonization of EITEs.

General Comments

C&P would like to reiterate key messages from previous comments while advancing some additional and evolving thoughts on the focus areas raised in the request for comments. We look forward to continuing to refine our thoughts for more substantial feedback once the draft report is available for review.

C&P appreciates the depth of options and the policy considerations that have been defined for emphasis. The policy and technical considerations being outlined in this request for comments show progress towards a defined, certain, and well-managed pathway for EITEs within the framework of a declining allowance budget. C&P leans on insights from the RMI *Opportunities for Industrial Modernization in Washington* report as a useful template for recommendations, including decarbonization pathways presented by sector and a distilled set of recommendations ordered by preference.¹ The key concepts we would like to see clearly communicated and elevated in any recommendations to the Legislature are:

- Recognition of both the time (12 years or three full compliance periods) and value of near baseline no-cost allowances as a transitional on-ramp and safeguard against emissions leakage or upheaval of the workforce while planning for longer-term deep decarbonization. EITEs that decarbonize ahead of the no-cost allowance schedule provide value in insulating against leakage risk and fuel price volatility while freeing up additional allowances for other sectors. Early decarbonization actions should be recognized as valuable and not used for a more restrictive allocation in 2035 and beyond through facility-specific allocations. Given this context, there is a strong basis for overall EITE cap adjustment factors aligning with a reasonable share of program allowance budgets that contribute towards net-zero emissions limits (*Recommendation 1 and 1.1* of the draft report to the Legislature).
- The availability of necessary clean energy to make the work of EITE emissions reductions possible cannot be understated. According to the Northwest Power and Conservation Council, the demand for clean power in the Pacific Northwest [is set to double by 2046](#), and yet, Washington has been unable to develop clean power capacity. Since our prior comments, C&P has published the Build Sustainable High Impact Infrastructure Together (Build SHIT) [report](#) and [map](#) to identify clean energy projects currently stuck in Washington's development pipeline and the economic, workforce, and energy capacity that they represent. To achieve the 39 percent reduction in emissions across EITEs, RMI's scenario finds that the growth in power will be 35 percent above baseline power consumption by 2030 and 65 percent by 2050. Given other demand drivers and the clean power shares required by the Clean Energy Transformation Act, this presents a significant hurdle for opportunities to reduce EITE emissions. Another potential hurdle may be "new large load" policies considered by utilities or required by the Bonneville Power Administration that could substantially raise the cost and feasibility of timely electrification. These conditions are why RMI identified as *essential*

¹ <https://rmi.org/insight/opportunities-for-industrial-modernization-in-washington/>

complementary policies: (1) Expedite electrical grid enhancements for industrial electrification, and; (2) Accelerate permitting procedures for critical decarbonization projects.

- C&P believes that Ecology should continue to assess the opportunity to include or require consignment of no-cost allowances in a manner that unlocks more decarbonization projects (*Recommendation 1.4* of the draft report to the Legislature). This could include voluntary consignment through 2034 in concert with leveraging of state funds from specific Climate Commitment Act (CCA) programs designed for clean energy supply, hard-to-decarbonize sectors, the Washington Builds Green Bank, or other industrial decarbonization investments. These types of state-directed investments have proven to be among the most cost-effective in both California and Washington's programs to date.

Specific Focus Area Comments

Previous recommendations to the Legislature have adequately contextualized the strain on the CCA allowance budget absent changes to future no-cost allocations. While the prospect of linkage and the increased supply due to HB 1975 help push that timeline back somewhat, this is counterbalanced by rapidly evolving power sector constraints due to clean power development bottlenecks and surging demand. If clean power deployment does not keep up with both demand and emissions reductions, allowance budgets may face a double hit where EITEs lose cost-effective pathways at the same time the power sector demands more of the allowance budget than anticipated.

Early action to reduce EITE emissions remains critical, but it must be linked to power grid and clean power supply permitting and siting improvements. Without certainty on both the long-term decarbonization requirements and clean power availability, capital investments are less likely to occur within the EITE sectors.

Within this context, C&P endorses strategies that map onto the four identified focus areas:

- **Relevant to Focus Area 1:** Establish clear market signals sooner, rather than later, with a no-cost allocation pathway that is consistent in moving EITEs towards a proportional share of the allowance budget. Proportionality could utilize the emissions limits in statute that guide the overall CCA budget to target with a linear ramp towards reductions by a certain year *or* implement a reasonable threshold of the remaining cap in a given year that can be allocated at no cost to EITEs, such as 35% by 2036 and beyond. Sending a clear market signal for industries facing long planning horizons with long, one-time capital investment is critical to motivate investment. C&P strongly encourages the approach taken with the broader CCA

program implementation of determining a trajectory in the near-term and managing necessary changes for course correction as the program evolves.

- **Relevant to Focus Areas 1 and 2:** Absent compelling evidence indicating markedly different sector exposure, C&P prefers to let the cap portion of the CCA work across sectors as designed and not impose different cap adjustment factors while leaving flexibility to respond to evolving conditions. The RMI report indicates similar enough near-term emissions reduction opportunities in all sectors for the foreseeable future to dissuade implementing more heavy-handed regulatory approaches. Within that framework, C&P views the following important consideration.
 - As the likelihood of linkage increases, aligning sector-specific cap adjustments with other jurisdictions may be necessary to establish a level playing field and effective program implementation (**Relevant to Focus Area 2**).
 - Given the risks of permitting timelines and the availability of clean power or other clean fuels or feedstocks, geographic consideration of clean energy supply and increased assistance to unlock on-site opportunities is worth considering (**Relevant to Focus Area 2**).
 - Certain sectors make up orders of magnitude different contributions to covered emissions. A handful of refineries, for example, are the majority of EITE emissions. Refineries produce fuels with parallel, cost-exposed, obligations. Given the scale of point-source emissions and the scope of investments and additional exposure and opportunities to CCA allowance budgets, certain sectors may have investment capabilities and opportunities that are considered independent of smaller facilities.
 - Smaller-scale emitters that do not have parallel obligations that must be satisfied through auctions may offer a leverage point for more targeted state investments with a limited revenue stream.² In California, which has more than a decade of robust data collection, the \$127 million in implemented funds for the *Food Production Investment Program* has been one of the most cost-effective emissions reduction strategies, projected to avoid an estimated 3.1 million tons of emissions at an average cost of \$41 per ton. Other programs showing clear, cost-competitive emissions reductions in California include *Organics and Recycling Loans*, *Recycled Fiber, Plastic, and Glass Grant Program*, *Low-Carbon Fuel Production Program*, and *Industrial Decarbonization and Improvement of Grid Operations*. Under the CCA, data from early years of the program indicates that *Hard-to-Decarbonize Sector & Economic Development Grants* are within

² In the case of transportation fuel manufacturers, who often are also suppliers, market incentives for fuels are a major factor in capital investment more so than the facility level incentives. For example, clean fuel or SAF incentives are likely more influential to refiners than something like an on-site boiler retrofit.

the top two investments for both overall GHG reduction and cost-effectiveness.

- **Relevant to Focus Areas 1 and 2:** C&P remains cognizant of Best Available Technology (BAT) considerations. Within BAT benchmarking, awareness of continued innovation opportunities and avoiding long-term lock-in of emissions with soon-to-be-surpassed BAT is important. In situations where facilities are demonstrating clear BAT and global best practices with no better technology or fuel supply on the horizon, it may make sense to consider other opportunities for localized emissions reduction projects instead of on-site reductions. It is important that these projects provide additional, quantifiable reductions and ideally establish a strong nexus with local air quality improvements as well.
- **Relevant to Focus Area 1, 3, and 4:** Key policy considerations alongside no-cost allocations include those seen as essential in the RMI report: (1) Expedite electrical grid enhancements for industrial electrification, and; (2) Accelerate permitting procedures for critical decarbonization projects.

As mentioned above, key industrial-focused programs utilizing auction revenue have proven to be some of the most cost-effective uses of funds in California and Washington. These are specifically worth maintaining and leveraging, especially as annual program revenue is anticipated to decrease over time.

Connecting consignment, including voluntary opportunities initially and as necessary under Ecology's authority, to these and other investment programs such as those targeting air quality improvements or grid enhancements could be an effective way to leverage private capital.

A final policy area of interest that appears in the Comprehensive Climate Action Plan (CCAP) recommendations is *Buy Clean, Buy Fair* which, if successful and scaled, could boost demand for lower-GHG products manufactured by in-state EITEs. California's Manufacturing Decarbonization Incentive will be worth monitoring for guidance on what types of efficiency, technology, or fuel-switching investments end up being available and utilized.

C&P looks forward to upcoming opportunities to review and comment on the draft report as we refine and evolve our analysis of the questions listed for each of the focus areas. The C&P team welcomes any opportunity to discuss the above points or additional questions Ecology may have in order to advance effective stewardship of industrial decarbonization and the Climate Commitment Act together.