CARBON MARKET BUSINESS BRIEF

WASHINGTON STATE

WASHINGTON STATE CAP-AND-INVEST

Years in operation	Legislated to begin in 2023; the first compliance period will run 2023-26 and the second 2027-30.
Overall cap & trajectory	NA
Target(s)	45% below 1990 levels by 2030 Net zero by 2050, with actual emissions to be 95% below 1990 levels, or 5 million tCO_2e
Emissions reduced to date	NA
Sectors covered	Industrial facilities, power stations, natural gas suppliers and fuel suppliers that emit more than 25,000 tonnes CO_2e a year. In the second compliance period, the system will extend to cover waste-to-energy installations and "first jurisdictional importers" of electricity into the state.
GHGs covered	Carbon dioxide, methane, nitrous oxide, perfluorocarbons, hydrofluorocarbons, and sulphur hexafluoride, and any other gas or gases designated by the Department of Ecology by rule.
# of covered entities	NA
Allocation method	Via auction, with free allocation for electricity and gas utilities, and emissions-intensive trade-exposed industries (metals, pulp & paper, aerospace parts manufacturing, wood products manufacturing, chemicals, computer and electronics manufacturing, cement, petroleum, food manufacturing, asphalt manufacturing).
Trading rules	NA
Use of offsets and linking	The programme is designed to be linkable. The Department of Ecology is authorised to enter into a linkage agreement with another jurisdiction after assessment, formal notice and public hearings. Offsets can be used for up to 5% of compliance obligations in the first period, provided at least 50% provide direct environmental benefit to the state. This drops to 4% in the second compliance period, with 75% to provide direct environmental benefits to the state (although this can be lowered if there is not enough supply). Eligible projects must either be in-state or a linked jurisdiction. Project protocols must align with existing regulations regarding forest protection and management. The programme will also feature a unique separate "carve-out" for offsets from federally recognised tribal lands which will not count against offset usage limits.

Other features (eg banking, borrowing, reserves, etc)	The system includes an emissions containment reserve to support prices, as well as an auction floor price and price ceiling. Emissions-intensive, trade-exposed facilities will be allowed to bank unused allowances, including for future sale and investment in best available technology when economically feasible.
Penalties for non-compliance	NA
Use of revenues	Monies will be invested in the state to further reduce emissions and reduce the burden on communities most impacted by pollution. Activities include public transportation initiatives, projects to reduce air pollutants in affected communities, distributed generation, energy efficiency, assistance for a just transition, and energy affordability assistance, among others.

MAJOR DEVELOPMENTS

The Washington State legislature passed the Climate Commitment Act (SB 5126) at the end of April 2021, committing the state to a cap-and-invest scheme from 2023. The system must be aligned with existing state policies and regulations, including long-term emissions trajectories, and has been designed to be linked with other systems – including the joint California-Quebec WCI market.

The Department of Ecology is to adopt the annual budgets for the first compliance period by 1 October 2022, and for the second by 1 October 2026. It also mandates the department to adopt the annual budgets for 2031-40 by 1 October 2028.

Auction proceeds will be transferred to two special accounts, the "Forward Flexible Account" and the "Climate Investment Account", from where they will be disbursed only for specific, climate-friendly projects.

The market will have an emissions containment reserve, into which allowances from auctions will be transferred whenever the open market price falls below a trigger level. In addition, a cost containment reserve will boost auction volumes to avoid "extraordinary" prices.

The legislation mandates for a review of the implementation of the programme by 1 December 2027, and every four years thereafter, to ensure progress is being made towards the long-term goals. Performance reviews are scheduled to take place by the end of 2027 and 2035.

Similar to the new Low Carbon Fuel Standard (LCFS) programme (HB1091 passed on 25 April), the Department of Ecology cannot enforce the cap-and-invest programme until Washington lawmakers pass a new transportation spending bill, which includes at least a 5-cent per US gallon increase in the state gasoline tax. Washington is under a US federal court order requiring the state to raise significant revenue for transportation improvement spending through 2030.

According to experts, the recent passage of both the cap-and-invest and LCFS legislation "clears the way" for lawmakers to focus on transportation revenue and adopting the funding bill, which is expected to occur during a special 2021 state legislative session or as part of the regular 2022 session.

REFERENCES

Climate Commitment Act

Revised Code of Washington – Chapter 70A.45- Limiting Greenhouse Gas Emissions

HB 1091 – (LCFS) Reducing greenhouse gas emissions by reducing the carbon intensity of transportation fuel

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