September 2025

WASHINGTON STATE CAP-AND-INVEST AT A GLANCE

Years in operation	The first compliance period began on 1 January 2023. Ecology may suspend the programme in 2055 if it determines by 1 December 2055 that the 2050 emissions limit has been met for two or more consecutive years.
Overall cap and trajectory	Allowance budgets will decline by 7% reduction per year during the first compliance period, as follows: • 63.29 million tCO2e in 2023 • 58.52 million tCO2e in 2024 • 53.76 million tCO2e in 2025 • 48.99 million tCO2e in 2026
Emissions reduced to date	No official figures
Target(s)	• 45% below 1990 levels by 2023 • 70% below 1990 levels by 2040 • 95% below 1990 levels by 2050 and achieve net zero emissions by 2050 The programme covers approximately 75% of the state's emissions.
Sectors covered	The threshold for coverage is 25,000 tCO_2e, with certain exceptions. As of 2023: • Gasoline and on-road diesel • Electricity generation (including imports); SB 6058 lowers coverage threshold to zero for all unspecified electricity imports • Large stationary sources • Natural gas distributed to homes and commercial businesses As of 2027: • Waste to energy facilities As of 2031: • Railroads Landfills were removed from the programme after the passage of HB 1663, which establishes a landfill- specific methane-reduction programme. Fuels used for agricultural operations, aviation fuels, marine fuels combusted outside of Washington, emissions from exported fuels, emissions from solid waste, and entities that emit less than 25,000 tCO2e annually are not covered by the programme.
GHGs covered	• CO2 • CH_4 • N2O • SF_6 • HFCs • PFCs • NF3

	• Any other gas or gases designated by the department by rule.
Number of covered entities	Roughly 100 entities (there are roughly 100 general market participants)
Allocation method	Allowances are distributed through free allocation, free allocation with consignment, and auction. The programme distributes free ("no-cost") allowances to natural gas utilities, electric utilities, and emissions-intensive trade exposes (EITE) facilities. Allocation is determined on an individual facility basis using a variety of methods. No-cost allowance allocation to facilities designated as EITE based on carbon intensity baseline (or mass-based baseline where carbon intensity cannot be determined). EITEs receive allowances equal to 100% of their emissions based on a carbon intensity benchmark for their emissions for 2015-2019 for the first compliance period (2023- 2026). Allocations decrease by 3% of the allocation baseline for each of the second and third compliance period (2027 to 2030 and 2031 to 2034). Electric utilities receive one allowance for each tonne of emissions associated with the cost burden effect for each qualifying electric utility for each emissions year. Allowances must be consigned to auction for the benefit of ratepayers, transferred at no cost to an electric generating facility as described in WAC 173-446-4251, deposited for compliance, or a combination. Natural gas utilities received an initial free allocation equal to 93% of their allocation baseline, which declines in line with the cap decline factor through 2030 and by additional increments based on the 2030 allowance budget through 2049. No cost allowances allocated to natural gas utilities may be consigned to auction for the benefit of ratepayers, deposited for compliance, or a combination. The percentage of allowances that must be consigned at auction increases from 65% in 2023 to 100% in 2030.
Trading rules	The programme imposes holding and purchase limits that limit the overall quality of allowances that entities can hold or purchase. Third- party financial entities can also participate in trading if they meet certain prerequisites.
Use of offsets and linking	First compliance period (2023-2026): Offset usage is limited to 8% of an entity's compliance obligation. A maximum of 5% may come from projects not located on federally recognized tribal land (FRTL). A maximum of 3% may come from projects located on FRTL. Forthcoming programme updates seek to clarify that permitted FRTL projects must provide direct environmental benefits (DEBs) to Washington. Second compliance period (2027-2030): Offset usage is limited to 6% of an entity's compliance obligation. A maximum of 4% may come from projects not located on FRTL. A maximum of 2% may come from projects located on FRTL that, per the forthcoming update, provide DEBs to Washington. Third compliance period (2031-2034) and subsequent compliance periods. Offset usage is limited to 6% of an entity's compliance obligation. A maximum of 4% may come from a combination of projects located *on and off* of FRTL (forthcoming programme updates seek to make this provision applicable to the second compliance period, as well). A maximum of 2% may come from projects located on FRTL that, per the forthcoming update, provide DEBs to Washington. If Washington has linked with another jurisdiction, at least 50% of offsets must be sourced from projects that provide direct environmental benefits (DEBs) to the state during the first compliance period, with that number increasing to 75% during the second and subsequent compliance periods If Washington has not linked, 100% of offsets must provide DEBs to the state.

	Ecology may modify the offset usage limits "when appropriate" to ensure achievement of the proportionate share of statewide emissions limits or to align with other linked jurisdictions.
Price containment	The programme has a price floor and a price ceiling. The 2025 auction floor price was \$25.85 and will increase by 5% annually plus inflation (CPI-U). The 2025 price ceiling trigger was \$94.85. Ecology also maintains an allowance price containment reserve (APCR). Ecology will offer sales of allowances from the APCR in the quarter following any quarter in which the auction settlement price was at or above the Tier 1 price (\$60.43 in 2025) or when new covered and opt-in entities enter the programme or when allowances from the emissions containment reserve are exhausted. Bids at an APCR auction must be at either the Tier 1 price or the Tier 2 price (\$77.63 in 2025). Price tier values increase by 5% annually plus inflation. If the APCR runs out of allowances, Ecology will issue price ceiling units for sale immediately prior to the final compliance deadline for each compliance period. Covered entities can purchase allowances to meet their compliance obligation.
Emissions containment	Ecology will maintain an emissions containment reserve to ensure prices are kept above the floor and will seed the reserve through various mechanisms, including the transfer of 2% of the annual allowance budget for 2023-2026. Ecology will also withdraw allowances from auctions where the emission containment reserve trigger price is met. If it links with another jurisdiction, Ecology will set an emission containment reserve trigger price at a level equal to that of the other jurisdiction. Ecology has suspended its emissions containment reserve trigger price, which may be reinstated by rule.
Penalties for non-compliance	A covered entity must annually surrender allowances equivalent to 30% of emissions from the previous year within the current compliance period by 1 November annually. At the end of each four-year compliance period, a covered entity must surrender allowances equivalent to 100% of emissions for the compliance period, less allowances already surrendered. Failure to timely surrender allowances results in an immediate surrender obligation equivalent to four times the missing balance. Ecology must issue an order (involving a plan and schedule for coming into compliance), a penalty of up to \$10,000 per day, or both, to entities that fail to meet the surrender obligation. Ecology may issue a penalty of up to \$50,000 per day per violation for bidder collusion, providing false or withholding information, or violation of auction or registration requirements. For the first compliance period, as part of a "phased implementation" approach, Ecology may reduce the amount of the penalty by adjusting the monetary penalty or the surrender obligation.
Use of revenue	Revenue from consigning no-cost allowances given to electricity and natural gas utilities will be used for the benefit of ratepayers while all other revenue will further the state's emissions reduction targets, address the impacts of global warming on affected habitats, species, and communities, support industry sectors that sequester emissions, and increase investment in the clean energy economy. These investments will be managed through the following accounts: Carbon Emissions Reduction Account, capped at \$5.2 billion through FY2037 and half of auction proceeds thereafter, for emissions reduction programmes in the transportation sector (e.g., transportation alternatives, alternative fuel infrastructure, freight transportation improvements). Climate Investment Account, to support climate mitigation, adaption and resilience programmes. 75% is initially allocated to the Climate Commitment Account and 25% is initially allocated to the Natural Climate Solutions Account. Air Quality and Health Disparities Account, intended to direct at least \$20 million

	per biennium for programmes that improve air quality monitoring and outcomes.

MAJOR DEVELOPMENTS

Washington's market has continued to evolve since its launch in 2023, with a series of legislative and regulatory measures in 2024 and 2025 designed to lay the groundwork for linkage and foster greater stability.

Quebec, including provisions related to definitions, reporting requirements, purchase and holding limits, electricity sector coverage, and enforcement. Certain provisions went into effect while others will be implemented following an ongoing ECY rulemaking. Still others will go into effect after Washington links, including provisions related to holding limits and enforcement in the first compliance period. The full list of updates deriving from HB 6058 are available here: CCA Market Notice: Senate Bill 6058 implementation

Ecology Rulemaking (2024): In 2024, ECY carried out three emergency rulemakings to contain compliance costs by clarifying certain provisions related to the APCR, which was triggered three times throughout 2023 and 2024. Those emergency rulemakings resulted in the adoption of two rules establishing that (a) holding limits that apply to allowances with a vintage also apply to APCR allowances, which do not have a vintage (*see* WAC 173-446-150(2)(a)) and (b) any allowances purchased in an APCR auction must be deposited directly into a compliance entity's account, which prevents these allowances from being traded on the secondary market (*see* WAC 173-446-370).

HB 1975 (2025): In 2025, Governor Ferguson signed HB 6058 into law to address concerns about allowance price volatility and high allowance prices seen in the initial months of the program. The bill addressed these concerns by:

- Setting the price ceiling at $80 for 2026 and 2027, and enables ECY to amend the price ceiling if necessary to facilitate linkage;
- Requiring ECY to adjust the tier 2 APCR price to align with the price ceiling;
- Directing that 2–5% of allowances from 2027–2040 be placed in the APCR;

HB 6058 (2024): In 2024, Governor Inslee signed Washington's request legislation to facilitate linkage with California and Quebec through HB 6058, which took effect on January 1, 2025. HB 6058 further aligns certain provisions of Washington's program with that of California

- Shifting the emissions cap to align with year-end compliance; and
- Providing regulatory flexibility for future linkage scenarios.

As of August 2025, ECY is advancing a rulemaking process to implement recent legislation (including HB 6058 and HB 1975) and make additional updates to the program. The rulemaking is expected to conclude in Spring 2026 and involves dozens of topics touching most elements of the program. Given the ongoing nature of the rulemaking, it is advisable to consult the rulemaking page for the most up to date information: WAC 173-441 and -446 – Linkage - Washington State Department of Ecology

MARKET COMMENTARY

In its initial phase, Washington's Cap-and-Invest Program experienced higher-than-anticipated allowances prices and price volatility, driven by a steep cap decline, high allowance demand, and a ballot initiative to repeal the program, among others. Regulatory adjustments helped stabilize the program in 2025, and the passage of HB 1975 is expected to further stabilize prices and enable a more predictable price trajectory until linkage occurs.

In addition, state voters' decisive rejection of a repeal initiative in November 2024 removed a major source of policy uncertainty, reinforcing confidence in the program's public support and durability.

Looking ahead, the next phase of this market is centered on linkage with the California–Quebec market. Linkage would provide Washington access to a larger, more liquid pool of allowances, reducing price volatility and compliance risks. In addition to taking steps to further align its program with California-Quebec, Washington is working towards an eventual linkage agreement with those states and anticipates finalizing linkage in 2026 or 2027.

USEFUL LINKS

August 2023 Auction Public Proceeds Report

Cap-and-Invest Linkage Background

Washington's Linkage Decision

Mark Mullet Draft Legislation

Cap-and-Invest Repeal Ballot

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