

EXECUTIVE SUMMARY

Washington's Cap-and-Invest Program began its first compliance period on 1 January 2023. The final 2026 rulemaking was adopted on 17 September 2026 and takes effect on 24 October 2026. The amended allowance budgets for 2023–2026 are 63.99, 59.73, 55.56 and 51.40 million tCO₂e, respectively; the cap then declines to 47.31 million tCO₂e in 2027 and 3.48 million tCO₂e by 2050. Washington signed a linkage agreement with California and Québec in June 2026, but linkage will become operational only after each jurisdiction completes its regulatory process and Washington sets a linkage effective date.

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Years in operation	The first compliance period began on 1 January 2023. Ecology (ECY) may suspend the program in 2055 if it determines by 1 December 2055 that the 2050 emissions limit has been met for two or more consecutive years. Washington signed a linkage agreement with California and Québec in June 2026, representing a major milestone toward joining the WCI market. Linkage will not be operationalized until all three jurisdictions complete the necessary regulatory processes and ECY determines a "linkage effective date," likely at some point in 2027.
Overall cap and trajectory	In the original regulations, allowance budgets decline by 7% reduction per year during the first compliance period, as follows: 63.29 MtCO₂e in 2023 58.52 MtCO₂e in 2024 53.76 MtCO₂e in 2025 48.99 MtCO₂e in 2026 Under HB 1975 legislation from 2025, Washington ECY is implementing a cap adjustment mechanism that shifts the statutory dates for reaching the 2030, 2040 and 2050 emissions-limit budgets from January 1 to December 31 of each year. This translates to a somewhat slower annual cap decline rate and retroactively enlarges the 2023–2026 annual budgets above. The final Cap-and-Invest rulemaking was adopted September 17, 2026, effective October 24, 2026. As adopted, the final 2023–2026 budgets are amended to: 63.99 / 59.73 / 55.56 / 51.40 MT CO₂e respectively. The total retroactive increase to the caps is +6.01 million MT CO₂e (+2.68%) across the four years. The total allowance budget continues declining after 2026; it falls to 47.31 Mt CO₂e in 2027, the first year of the second compliance period. By 2030, the cap reaches 34.80 Mt CO₂e. It continues stepping down to 26.80 Mt CO₂e in 2035, 18.79 Mt CO₂e in 2040, 11.14 Mt CO₂e in 2045, and 3.48 Mt CO₂e in 2050.
Emissions reduced to date	Baseline covered emissions from 2015 to 2019 used to set the program caps were around 68 Mt CO ₂ e. Regulatory data indicate covered emissions in 2024 of around 60 Mt CO ₂ e.
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 program covers approximately 75% of the state's emissions.
Sectors covered	The threshold for coverage is 25,000 tCO₂e, 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 starting 2025 - 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 program after the passage of HB 1663, which establishes a landfill-specific methane-reduction program. 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 program.
GHGs covered	- CO₂ - CH₄ - N₂O - SF₆ - HFCs - PFCs - NF₃ - Any other gas or gases designated by the department by rule.
Number of covered entities	Roughly 100 entities are covered entities with compliance obligations (in addition, there are roughly 100 general market participants)

Allocation method	Allowances are distributed through free allocation, free allocation with consignment, and auction. The program distributes free ("no-cost") allowances to natural gas utilities, electric utilities, and emissions-intensive trade expos (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 no-cost allowances calculated to mitigate the program's cost burden on ratepayers, based on utility-specific forecasts of retail electricity load and resource mix, using fixed emission factors by resource type (natural gas, coal, nonemitting/renewable, unspecified, and asset-controlling-supplier sources). These no-cost allowances may be consigned to auction for the benefit of ratepayers, transferred at no cost to a federal power marketing administration, transferred at no cost to an electric generating facility, deposited for compliance, or a combination of these uses. Natural gas utilities receive a no-cost allocation equal to 93% of their allocation baseline in 2023, declining by 7% of baseline annually from 2024 through 2026, by 6.1% annually from 2027 through 2030, and by a flat 2.3% annually from 2031 through 2050. No-cost allowances allocated to natural gas utilities may be consigned to auction for the benefit of ratepayers, deposited for compliance, or a combination of both; they may not be traded, transferred, or sold. The percentage of allowances that must be consigned at auction rises from 65% in 2023 to 100% in 2030 and thereafter, in 5-percentage-point annual steps
Trading rules	The program imposes holding and purchase limits that limit the overall quantity of allowances that entities can hold or purchase. The final 2026 rulemaking raises the per-auction purchase limit for covered and opt-in entities from 10% to 25%, and sets a new separate 4% per-auction purchase limit for general market participants. 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. Up to 5% may come from any offset project regardless of location on federally recognized tribal land (FRTL). An additional maximum of 3% may come specifically from FRTL projects that provide direct environmental benefits (DEBs) to Washington. All subsequent compliance periods: Offset usage is limited to 6% of an entity's compliance obligation. Up to 4% may come from any offset project regardless of FRTL location, and an additional maximum of 2% may come from FRTL projects that provide DEBs to Washington. Unless and until Washington reaches the rule's defined linkage effective date with an external GHG emissions trading system, covered and opt-in entities may only use offset credits from projects that provide DEBs to Washington. Upon linkage, at least 50% of offset credits used for compliance during the first compliance period, and at least 75% during the second and subsequent compliance periods, must still be sourced from Washington-DEB projects, with the remainder eligible to be sourced from projects in the linked jurisdiction. ECY 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 program has a price floor and a price ceiling. The 2026 auction floor price is USD 27.92 and rises by 5% plus inflation annually. HB 1975 legislation overrides the price-ceiling escalator for two years, setting the price ceiling at a flat USD 80.00 for both 2026 and 2027, and authorizes ECY to adjust the ceiling further by rule if needed to facilitate linkage. ECY also maintains an allowance price containment reserve (APCR). ECY 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 (USD 65.26 in 2026), when new covered and opt-in entities enter the program, or before each annual compliance deadline. The 2026 Tier 2 price is set as the midpoint between the Tier 1 price and the price ceiling unit price, USD 72.63. For 2027, the same midpoint method applies unless Washington reaches the rule's defined linkage effective date, when the APCR will align to the Tier 2 price set by the linked jurisdictions.
Emissions containment	ECY maintains an emissions containment reserve (ECR), seeded from several sources: 2% of the 2023–2026 annual allowance budgets (placed January 1, 2023); a second, later 2% of the additional allowances created by the HB 1975 cap increase to those same budget years (no sooner than January 1, 2027); allowances unsold after 24 months of auction offering; allowances from curtailed or closed EITE facilities; allowances from facilities that fall below the emissions threshold; and allowances withheld from auction under the trigger-price mechanism below. If an auction's settlement price would otherwise fall below the ECR trigger price, and the trigger price is not suspended, ECY withholds up to 10% of the allowances offered and places them in the ECR. The ECR trigger price itself has been suspended since October 1, 2022 and remains suspended until reinstated by rule. ECY held the program's first-ever ECR auction on September 16, 2026, offering 731,000 allowances to covered and opt-in entities only
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 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 (comprising the original shortfall plus a penalty of three times that shortfall). ECY must issue an order with a plan and schedule for coming into compliance, a penalty of up to USD 10,000 per day, or both, to entities that fail to meet the surrender obligation. ECY may issue a penalty of up to USD 50,000 per day per violation for bidder collusion, providing false or withholding information, or violation of auction or registration requirements. ECY has discretion to reduce these penalties during a "phased implementation" period for the first compliance period or until Washington enters into a linkage agreement.

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 USD 5.2 billion through FY2037 and half of auction proceeds thereafter, for emissions reduction programs in the transportation sector (e.g., transportation alternatives, alternative fuel infrastructure, freight transportation improvements). Climate Investment Account, to support climate mitigation, adaption and resilience programs. 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 USD 20 million per biennium for programs that improve air quality monitoring and outcomes.
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Major Developments

Washington's market has continued to evolve since its launch in 2023, with a series of legislative and regulatory measures in 2024, 2025, and 2026 designed to lay the groundwork for linkage and foster greater stability.

Senate Bill 6058 (2024): In 2024, Governor Inslee signed Washington's request legislation to facilitate linkage with California and Quebec through SB 6058, which took effect January 1, 2025. SB 6058 aligns certain provisions of Washington's program with those of California and Quebec, including definitions, reporting requirements, purchase and holding limits, electricity sector coverage, and enforcement, and provides regulatory flexibility for future linkage scenarios. Certain provisions took effect immediately, others were implemented through the subsequent ECY rulemaking, and others take effect only once Washington links.

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, 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

HB 1975 (2025): In 2025, Governor Ferguson signed HB 1975 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 USD 80 for 2026 and 2027, and enabling 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;
- Shifting the target dates for the 2030/2040/2050 emissions-limit budgets from January 1 to December 31, which slows the annual cap decline rate and retroactively enlarges the 2023–2026 annual budgets.

Ecology Rulemaking (2026): As of September 2026, ECY has formally proposed and adopted the final rule implementing recent legislation and making additional program updates, touching dozens of topics across most elements of the program. ECY filed the proposal (CR-102) on June 1, 2026; the public comment period, following two public hearings (July 7 and July 13, 2026), closed July 22, 2026 (extended from the original July 17 deadline). ECY signed the Order of Adoption (CR-103) on September 17, 2026; the amended Ch. 173-441 and 173-446 WAC is effective October 24, 2026.

Linkage with California and Quebec: Washington signed a linkage agreement with California and Quebec on June 25, 2026, a major milestone toward integrating Washington's market with the Western Climate Initiative (WCI). In a linked market, allowances issued by California and Quebec could be used by Washington businesses to cover their emissions, and vice versa. The three jurisdictions would host joint allowance auctions and share a common allowance price. Market participants could also trade allowances across jurisdictions.

According to ECY [publications](#), in Washington, the Climate Commitment Act establishes that the linkage agreement is the step that authorizes Washington to accept allowances and offset credits from California and Quebec, completing the linkage process, although ECY must determine and set an effective date. The final 2026 ECY rulemaking defines a "linkage effective date" as the date at which ECY will begin accepting compliance instruments from a linked jurisdiction to meet a compliance obligation, and the date ECY will allow compliance instruments issued by ECY to be used to meet a regulatory obligation in the linked jurisdiction. The rules require ECY to provide the initial public notice of the linkage effective date at least 90 days in advance. The public notice will list the names of the linked jurisdictions.

Therefore, the effective date also depends on coordination with linkage processes in California and Quebec. In California, linkage requires a rulemaking process expected to begin sometime in 2026. In Quebec, linkage requires a formal rulemaking which takes effect when the linkage agreement is ratified by an Order in Council. After each jurisdiction completes its process, the linked market can become operational, likely at some point in 2027.

Market Commentary

In its initial phase, Washington's Cap-and-Invest Program experienced high allowances prices and price volatility, driven by the ambitious starting cap and 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 HB 1975 legislation was designed 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.

In 2023, the February launch auction settled at USD 48.50, and demand stayed strong through the year, with the May auction settling at USD 56.01 for the current vintage, above the 2023 APCR trigger, and August higher still at USD 63.03. Regulatory interventions and news of the ballot initiative pushed pricing down, and the December auction settled at USD 51.89. APCR auctions were held in May and November. Prices cooled substantially in 2024, settling in the mid-to-high USD 20s across the March, June and September quarterly auctions on thinner demand. With the voters affirming the program in November 2024, the December auction settled at USD 40.26.

Prices extended their climb through 2025, amid legislation to strengthen cost-containment tools and ensure that enough supply would be available for businesses to meet their full first compliance obligations if linkage could not occur by the November 2027 compliance surrender deadline. Quarterly auction prices showed an increasing trend: USD 50.00 in March, USD 58.51 in June, and USD 64.30 in September. The year closed with the December quarterly auction settling at USD 70.86. Secondary-market pricing was mixed relative to the auctions: it ran a premium in March but dipped below the settlement price in June and September before flipping back to a premium in December. APCR auctions were held in October and November and sold out their full Tier 1 offerings at USD 60.43.

In 2026, prices held in the low-to-mid USD 60s through the first half of the year. The March quarterly auction settlement was USD 65.26 (just at the 2026 APCR trigger). APCR auctions were held in February (USD 60.43), March (USD 65.26) and May (USD 65.26). June's quarterly auction settled at USD 64.56, roughly in line with secondary market. The September 2 auction took the market by surprise, settling at USD 39.50. This result followed the conclusion of the Program Review processes in California and Quebec, which paves the way for the jurisdictions to take up rulemakings for linkage to Washington. Secondary market pricing in mid-September is in the low USD 40s, slipping after the auction results were released.

As linkage signals continue to firm, Washington allowance prices will continue to converge with WCI. If linkage does not occur, Washington prices will be highly reliant on cost containment.

Useful Links

[Cap-and-Invest - Washington State Department of Ecology](#)

[Cap-and-Invest Carbon Market Linkage Updates](#)

[Cap-and-Invest Program Linkage focus sheet](#)

[Details related to planned implementation of House Bill 1975 \(2025\) Update](#)

[CCA Market Notice: Washington, California and Québec sign linkage agreement](#)

[WAC 173-441-446 Linkage - Washington State Department of Ecology](#)

[CCA Market Notice: Order of Adoption \(CR-103\) Signed for Cap-and-Invest Program Updates and Linkage Rulemaking](#)

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