Chapter 173-446 WAC – Climate Commitment Act Program Rulemaking
Air Quality Program
January 11, 2022
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We will begin recording at this time.
Chapter 173-446 WAC – Climate Commitment Act Program Rulemaking

Air Quality Program

January 11, 2022
Ecology Staff

• Claire Boyte-White – Technical host
• Martha Hankins – Policy and Planning Section Manager
• Luke Martland – CCA Implementation Manager
• Joshua Grice – Climate Rule Unit Supervisor
• Derek Nixon – Auctions Unit Supervisor
• Bill Drumheller – Technical Lead
• Neil Caudill – GHG Reporting Lead
• Emily Bruns – EITE Facility Lead and GHG Reporting Lead
• Kay Shirey – Rule Development Lead
• Cooper Garbe – Rulemaking Lead
Rulemaking Timeline

Rule development
- Stakeholder meetings
- Informal public comment period: November 8, 2021 – January 26, 2022

Proposal Phase
- Draft rule proposal: Spring 2022
- Formal public comment period
- Public hearing

Adoption Phase
- Fall 2022
Comments and Feedback

Public participation

• We are presenting a work-in-progress view of rule language
• Input during the development phase is critical to a successful program
• Informal public comment period
  • November 8, 2021 – January 26, 2022
  • Submit comments: https://aq.ecology.commentinput.com/?id=mgir9
Agenda

1. General notes
2. Allowance flows and adjustments
3. Draft timeline of events under the CCA
   Break
4. Auctions
   Break
5. Price containment mechanisms
General Notes

Ecology is now a member of WCI, Inc.

• WCI, Inc. will be the auction administrator. WCI, Inc. administers the California – Quebec GHG trading program auctions.

• Ecology will be using WCI, Inc.’s web-based Compliance Instrument Tracking System Service (CITTS) and auction platform.

• Look for upcoming training about how to use platform.
General Notes

Ecology has received 10 new comments since December 16, 2021 meeting.

• Keep commenting. It’s helping us draft language.
• We have updated draft rule language in response to comments about electricity.
Allowance Flows and Adjustments

- Electric Utilities
- Natural Gas Utilities
- Emissions Intensive Trade Exposed Facilities
- Voluntary Renewable Electricity
- Use of Offset Credits for Compliance
- Progress Toward GHG Limits
- Other Uses Not Discussed
Electric Utilities

• The point of allocation for allowances in the electricity sector (utilities) is different than the point of regulation (first jurisdictional deliverer).

• All electric utilities (regardless of size) are potentially eligible for the allocation of allowances, even if they are not covered entities.

• To receive allowances, utility must be registered in the program.

• Prior language only had mechanism for covered entities to register.

• Language has been added (WAC 173-446-053) for that registration process for electric utilities.

• All natural gas utilities receiving allowances are covered entities.
Voluntary Renewable Electricity (VRE)

- CCA requires establishment of voluntary renewable energy reserve.
- Retirement of allowances to recognize green power programs (VRE) is necessary because VRE doesn’t reduce emissions. The cap does. So need to retire allowances beyond the cap to ensure GHG reductions.
- Section 230 (2) allocates 1/3 of one percent of allowances for VRE.
- Section 250 (6) establishes procedures for VRE allowance retirement.
  - Generation-based approach consistent with WCI design and California
  - Renewable electricity that is directly delivered to Washington
  - Western Renewable Energy Generation Information System (WREGIS) RECs
- Provision to return allowances from VRE account if it builds over time
Adjustments for EITE Production

• Allocation to Emissions Intensive Trade Exposed (EITE) facilities is based on carbon intensity:
  • Emissions intensity
  • Production

• CCA requires allowance allocation be based on “actual” production, which is impossible to know until after verification.

• To address this issue, a two-step approach is taken.
  1. Initial allocation based on prior year’s production
  2. A “true-up” allocation, based on actual production
Use of Offsets for Compliance

• Annual allowance budgets must be set such that the use of offsets as compliance instruments, consistent with RCW 70A.65.170, does not prevent the achievement of the emissions limits established in RCW 70A.45.020. In so setting annual allowance budgets, the department must reduce the annual allowance budget relative to the limits in an amount equivalent to offset use, or in accordance with a similar methodology adopted by the department. (RCW 70A.65.070 (2))

• For every offset credit used for compliance, an allowance is removed from the total pool of allowances to compensate.

• Offset invalidations and interactions with the forestry offset buffer account through involuntary reversals are also accounted for.
Adjustments for GHG Limits

• Ecology is required to:
  • Track progress toward the statewide greenhouse gas limits set (RCW 70A.45.020) and report on that progress
  • Assess implementation of the cap-and-invest program relative to the statewide greenhouse gas limits and report on that every four years.

• Language added to allow Ecology to reduce the total pool of allowances if insufficient progress toward GHG limits is evident through either of those reporting processes.
Allowance Flows and Adjustments (again)

- Electric Utilities
- Natural Gas Utilities
- Emissions Intensive Trade Exposed Facilities
- Voluntary Renewable Electricity
- Use of Offset Credits for Compliance
- Progress Toward GHG Limits
- Other Uses Not Discussed
Hierarchy for Removing Allowances

• Where Ecology is required, or elects, to reduce the total pool of allowances, what is the best method?

• Different methods have different implications for timing and market signals, and may have different impacts on different entities.

• Options include, but are not limited to:
  • Removing and retiring allowances that are unsold at auction
  • Removing and retiring allowances sold at future auctions
  • Reducing the annual allowance budget of future years

• Interested in feedback on these options, and the order in which they might be implemented. (Putting the hierarchy in rule seems logical.)
Questions?

• Allowance flows
• Allowance adjustments
Draft Timeline

2022
- March 31 – First reporting of GHG emissions under revised WAC 173-441
- November–December – Registration/Corporate Disclosures/Account Reps to Ecology

2023
- January – Accounts finalized
- February 15 – Distribution of 2023 no cost allowances to electric and natural gas utilities
  - first half of the year – 2 auctions
- March 31 reporting of GHG emissions
- second half of the year – 2 auctions
- October – distribution of 2023 no cost allowances to EITE facilities based on 2022 production
Draft Timeline

2024

first half of the year – 2 auctions

January 15 – distribution of 2024 no cost allowances to electric and natural gas utilities

March 31 - reporting of 2023 GHG emissions

second half of the year – 2 auctions

October – distribution of 2024 no cost allowances to EITE facilities based on 2023 production; true-up of 2023 no cost allowances

November 1 – Annual compliance deadline; surrender compliance instruments to cover 30% of 2023 GHG emissions

2025

Early 2025 – true-up of allowance allocations to account for offset credits used for November 2024 compliance
The Basics

The cap-and-invest program is a trading program.

- The commodities traded in the program are compliance instruments.
  - Two types of compliance instruments
    - Emission allowances – each worth 1 MTCO2e
    - Offset credits – each worth 1 MTCO2e (not covered today)
  - Allowances may be obtained by:
    - Direct distribution from Ecology – for some covered entities as specified in Chapter 70A.65 RCW (not covered today)
    - Trades with others in the program (not covered today)
    - Purchase at allowance auctions (covered today)
Allowances

- Ecology sets the baseline. (WAC 173-446-200)
- Ecology reduces the baseline as required to meet the 2030, 2040, and 2050 GHG emission reduction requirements. (WAC 173-446-210)
- Ecology creates annual allowance budgets based on the annual reductions in the baseline. (WAC 173-446-210)
- Ecology creates a sufficient number of allowances each year to cover the annual allowance budgets. (WAC 173-446-080)
Allowances

• Each allowance has a different serial number. (WAC 173-446-080(2))
• Each serial number reflects the “vintage” of the allowance (the year the allowance was issued). (WAC 173-446-080(2))
• Only allowances from the current year and past years may be used for compliance purposes. (WAC 173-446-600)
• But Ecology makes some future vintage allowances available for auction. (RCW 70A.65.100(2)(b))
Allowances for Auction

The number of allowances available for auction is the annual allowance budget for the year minus:

- No cost allowances distributed to:
  - EITE facilities
  - Electric utilities
  - Natural gas utilities

- Allowances placed in the:
  - Emissions Containment Reserve
  - Allowance Price Containment Reserve
  - Voluntary Renewable Electricity Reserve

- Allowances subtracted to compensate for offset credits used for compliance
Allowances for Auction

Ecology has discretion in determining how many of the allowances available for auction to offer for each auction.

RCW 70A.65.100(11):

In setting the number of allowances offered at each auction, the department shall consider the allowances in the marketplace due to the marketing of [no cost] allowances issued .... The department shall offer only such number of allowances at each auction as will enhance the likelihood of achieving the goals of RCW 70A.45.020.
Allowances for Auction

• Natural gas utilities are required to consign 65% of their no cost allowances to auction in 2023, with that percent increasing each year until it reaches 100% (2030). (WAC 173-446-300(2)(b)(ii))

• Electric utilities may also consign allowances to auction. (WAC 173-446-300(2)(b)(i))

• The proceeds from auctioned allowances consigned by natural gas utilities and electric utilities must be used for the benefit of the ratepayers of those utilities.
Types of Auctions

- Current and prior vintage allowances
- Future vintage allowances
- Emissions Containment Reserve auctions
- Allowance Price Containment Reserve auctions
- 4 per year
- 2 per year
- When new covered and opt-in entities
- When auction price reaches Tier 1 APCR price
- When new covered and opt-in entities and no allowances in ECR
- Once/year between final auction and compliance deadline
Who Can Participate

• Auctions of current and prior vintage allowances (WAC 173-446-315)
  • Any registered entity
    • Covered entities
    • Opt-in entities
    • General market participants

• Auctions of future vintage allowances (WAC 173-446-365)
  • Any registered entity
    • Covered entities
    • Opt-in entities
    • General market participants
Who Can Participate

• Emissions Containment Reserve auctions (WAC 173-446-375)
  • Covered entities
  • Opt-in entities

• Allowance Price Containment Reserve auctions (WAC 173-446-370)
  • Covered entities
  • Opt-in entities
Auction Process

• Generally the same process for all auctions (WAC 173-446-365, -370, -375)

• With variations for Allowance Price Containment Reserve auctions and Emissions Containment Reserve auctions (WAC 173-446-370, -375)
Auction Process

• Not your usual “the item goes to the highest bidder” auction
• Single round, single price auction process
• We are selling multiple units of the same item to a diverse market.
Auction Process

Other reasons

• Single round, single price auction process
  • Understood by potential participants
  • Discourages collusion and manipulation
  • Reduces the uncertainty associated with multiple round, multiple price auctions
  • Easier for risk averse and/or less sophisticated firms
  • Easy for regulators to conduct
  • Single price auctions better suited than multiple price auctions to aid price discovery.

• Other jurisdictions we might link to also use this auction process.
Auction Process – Preparing for Auctions

• Must register for each auction to participate (WAC 173-446-315)
  • At least 30 days before each auction

• Must provide a bid guarantee for each auction you want to participate in (WAC 173-446-325)
  • At least 12 days before each auction
Auction Process – Bidding

• Each auction will have a time set for bidding (auction window). (WAC 173-446-310(1)(a))
• Submit bids during the auction window. (WAC 173-446-310(1)(a))
• Submit as many bids for whatever price. (WAC 173-446-350(1) - (3))
• Bid in lots of 1000 allowances. (WAC 173-446-340(1))
Auction Process – Bidding

• No covered or opt-in entity may purchase more than 10% of the allowances offered at an auction. (WAC 173-446-330(1))

• No general market participant may purchase more than 4% of the allowances offered at an auction. (WAC 173-446-330(2))

• No general market participant may hold more than 10% of the allowances issued in a calendar year. (WAC 173-446-330(3))
Auction Process – Evaluating Bids

• Ecology will reject bids if accepting them would
  • Violate a bidder’s holding limit (WAC 173-446-350(4))
  • Violate a bidder’s purchase limit (WAC 173-446-350(4))
  • Exceed a bidder’s bid guarantee (WAC 173-446-355(1))
Auction Process – Evaluating Bids

After rejecting unviable bids, Ecology will

• Rank all remaining bids from highest to lowest (WAC 173-446-357(2))

• Accept all bids starting from the highest price and moving down (WAC 173-446-357(2))
  • As long as allowances remain to be sold; and
  • As long as prices are above the floor and the ECR trigger price

• Determine the settlement price for the auction (WAC 173-446-357(6))
  • The lowest price of a viable bid above the floor price
Auction Process – Settlement Price

• Auction settlement price is the lowest accepted bid price
• All bidders pay the auction settlement price for all accepted bids, regardless what the bidder bid for allowances (WAC 173-446-357(6))
Auction Example

• Auction of 1 million allowances
• Purchase limit is 100,000 allowances for covered and opt-in entities; 40,000 allowances for general market participants
• All bids shown are acceptable bids. They have gone through preliminary vetting for holding limits, purchase limits, and bid guarantees.
• Simplified example: No Emissions Containment Reserve trigger price
• Auction floor price is $22.50
• Settlement price is $22.80
## Auction Example

<table>
<thead>
<tr>
<th>Bidder Name</th>
<th>Bid Price</th>
<th>Bid Quantity</th>
<th>Cumulative Allowances</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bidder E</td>
<td>$25.00</td>
<td>21,000</td>
<td>21,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$24.95</td>
<td>18,000</td>
<td>39,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$24.80</td>
<td>23,000</td>
<td>62,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder D</td>
<td>$24.70</td>
<td>21,000</td>
<td>83,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder B</td>
<td>$24.40</td>
<td>17,000</td>
<td>100,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder E</td>
<td>$24.10</td>
<td>12,000</td>
<td>112,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder C</td>
<td>$23.85</td>
<td>10,000</td>
<td>122,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder E</td>
<td>$23.80</td>
<td>12,000</td>
<td>134,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder B</td>
<td>$23.75</td>
<td>15,000</td>
<td>149,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder C</td>
<td>$23.25</td>
<td>20,000</td>
<td>169,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$23.20</td>
<td>25,000</td>
<td>194,000</td>
<td>Accepted</td>
</tr>
<tr>
<td><strong>Bidder E</strong></td>
<td><strong>$22.80</strong></td>
<td><strong>40,000</strong></td>
<td><strong>239,000</strong></td>
<td>Settlement price</td>
</tr>
<tr>
<td>Bidder D</td>
<td>$22.10</td>
<td>11,000</td>
<td>250,000</td>
<td>&lt; floor price</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$22.05</td>
<td>13,000</td>
<td>263,000</td>
<td>&lt; floor price</td>
</tr>
<tr>
<td>Bidder D</td>
<td>$20.50</td>
<td>30,000</td>
<td>293,000</td>
<td>&lt; floor price</td>
</tr>
</tbody>
</table>
Auction Example

• Settlement price is $22.80 per allowance.
• All bidders pay $22.80 per allowance.
• All bids at and above $22.80 accepted

• Example: Bidder A’s three bids above $22.80 are accepted:
  • 18,000 @ $24.95
  • 23,000 @ $24.80
  • 25,000 @ $23.20

• Total of 66,000 allowances
• Bidder A’s Payment = $22.80 x 66,000 = $1,504,800
Auctions Process – Recap

- Register for auctions.
- Provide bid guarantee.
  - Must cover all accepted bids.
- Submit bids during the bidding window.
  - As many as you like
  - Can be at different prices
  - Can be for different numbers of allowances
- Bid for lots of 1,000 allowances.
Auctions Process – Recap

• To be accepted
  • Bids must not violate bidder’s holding limits
  • Bids must not violate bidder’s purchase limits
  • Total cost of accepted bids must be covered by a bid guarantee

• Settlement price is the price of the lowest viable bid that is at or above the floor price

• All bidders pay the settlement price

• All viable bids accepted that are above the settlement price
  • Until allowances run out
Auctions – Future Year Allowances

• Generally the same process as auctions of current year allowances (WAC 173-446-365)
  • Same floor price, ceiling price, etc.

  but...

• Auctions held twice a year at the same time as two of the regular auctions (WAC 173-446-365(1))

• Bids have to be separate; no mixed current/future vintage bids (WAC 173-446-365(4))

• Bid guarantees have to be separate; one for current allowances; one for future allowances (WAC 173-446-365(4))
Questions?

• Auction process
• Auction example
Price Containment Measures

• To minimize allowance price volatility
• Measures to keep auction prices from remaining too low
  • Price floor
  • Emissions Containment Reserve trigger price
• Measures to keep auction prices from going too high
  • Price ceiling
  • Allowance Price Containment Reserve
Price Floor

• Purpose: To minimize allowance price volatility by keeping prices from going too low

• Set by Ecology by rule
  • Not set yet for 2023 (WAC 173-446-335(1))

• Increases each year (WAC 173-446-335(2))

• No allowances will be sold at auction at a price below the price floor (WAC 173-446-357(1))
Emissions Containment Reserve

Purpose

• To help ensure the price of allowances remains high enough to incentivize reductions in GHG emissions

Mechanism

• Ecology sets a trigger price a reasonable amount above the floor price
• If the trigger price is met during an auction, Ecology will
  • Withhold allowances as needed to keep the auction price from going so low that there is no incentive to reduce GHG emissions
• Proposing to withhold up to 10% of the allowances available for auction (WAC 173-446-357(3))
• Withheld allowances go to the Emissions Containment Reserve (WAC 173-446-357(3))
ECR trigger price is not met.

Final settlement price is above the ECR trigger price. Ecology takes no action.
ECR trigger price is met.

Ecology withholds allowances from auction until the final settlement price is the ECR trigger price.

No limit on number of allowances that can be withheld.
Auction Example: Emissions Containment Reserve Trigger Price

- Auction of 100,000 allowances
- Floor price is $20
- ECR trigger price is $23
- All viable bids are ranked by bid price from highest to lowest
  - Cumulative demand is noted at each bid
- Awards made until supply of allowances is exhausted
- ECR trigger price is met
- No limit on the number of allowances that can be withheld once ECR trigger price is met
# Auction Example: ECR Triggered

<table>
<thead>
<tr>
<th>Bidder Name</th>
<th>Bid Price</th>
<th>Bid Quantity</th>
<th>Cumulative Allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bidder E</td>
<td>$24.00</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$23.95</td>
<td>11,000</td>
<td>19,000</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$23.80</td>
<td>9,000</td>
<td>28,000</td>
</tr>
<tr>
<td>Bidder D</td>
<td>$23.70</td>
<td>11,000</td>
<td>39,000</td>
</tr>
<tr>
<td>Bidder B</td>
<td>$23.50</td>
<td>13,000</td>
<td>52,000</td>
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<tr>
<td>Bidder E</td>
<td>$23.00</td>
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<td>64,000</td>
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<tr>
<td>Bidder C</td>
<td>$22.85</td>
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<td>72,000</td>
</tr>
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<td>Bidder E</td>
<td>$22.80</td>
<td>9,000</td>
<td>81,000</td>
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<tr>
<td>Bidder B</td>
<td>$22.75</td>
<td>11,000</td>
<td>92,000</td>
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<tr>
<td>Bidder C</td>
<td>$22.25</td>
<td>8,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$22.05</td>
<td>12,000</td>
<td>112,000</td>
</tr>
<tr>
<td>Bidder C</td>
<td>$22.00</td>
<td>40,000</td>
<td>152,000</td>
</tr>
</tbody>
</table>

- **Final settlement price**: 64,000
- **Below ECR**: 72,000, 81,000, 92,000
- **Interim settlement price**: 100,000
- **Above number of allowances for sale**: 112,000, 152,000
Auction Example: Emissions Containment Reserve Trigger Price

• All bids are above the floor price

• Step 1: The interim settlement price
  • Bidder A’s bid causes cumulative demand to exceed supply
  • Interim settlement price is the lowest viable bid price above the floor price = Bidder C’s bid at $22.25

• Step 2: The ECR and the final settlement price
  • The interim settlement price ($22.25) is lower than the ECR trigger price ($23.00)
  • ECY withholds allowances until the final clearing price is at or above the ECR trigger price ($23.00)
  • Allowances are awarded to all bids with a bid price greater than or equal to the final settlement price
  • Ecology removed 36,000 allowances from the auction
ECR trigger price met

Ecology withholds allowances until the limit on withheld allowances is met. The final settlement price is below the ECR trigger price and above the auction floor price.
Auction Example:
ECR Allowance Withholding Limit Met

- Sample auction for 100,000 allowances
- Floor price is $20
- ECR trigger price is $23
- All viable bids are ranked by bid price from highest to lowest
  - Cumulative demand is noted at each bid
- Awards made until supply of allowances is exhausted
- ECR trigger price is met
- Ecology may withhold up to 10% of the allowances being auctioned = 10,000 allowances
## Auction Example: ECR Allowance Withholding Limit Met

<table>
<thead>
<tr>
<th>Bidder Name</th>
<th>Bid Price</th>
<th>Bid Quantity</th>
<th>Cumulative Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bidder E</td>
<td>$24.00</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Bidder A</td>
<td>$23.95</td>
<td>11,000</td>
<td>19,000</td>
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<tr>
<td>Bidder A</td>
<td>$23.80</td>
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<td>28,000</td>
</tr>
<tr>
<td>Bidder D</td>
<td>$23.70</td>
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<td>39,000</td>
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<td>72,000</td>
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<td>81,000</td>
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<td>Bidder B</td>
<td>$22.75</td>
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<td>92,000</td>
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<tr>
<td>Bidder C</td>
<td>$22.25</td>
<td>8,000</td>
<td>100,000</td>
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<td>12,000</td>
<td>112,000</td>
</tr>
<tr>
<td>Bidder C</td>
<td>$22.00</td>
<td>40,000</td>
<td>152,000</td>
</tr>
</tbody>
</table>

- **Below ECR**
- **Final settlement price**
- **Interim settlement price**
- **Above number of allowances for sale**
Auction Example: ECR Allowance Withholding Limit Met

• Step 1: The interim settlement price
  • Bidder A’s bid causes cumulative demand to exceed supply.
  • Interim settlement price is the lowest viable bid price above the floor price = Bidder C’s bid at $22.25.

• Step 2: The ECR and the final settlement price
  • The interim settlement price ($22.25) is lower than the ECR trigger price ($23).
  • Allowances are withheld until the final clearing price is at or above the ECR trigger price ($23), or until Ecology has withheld the maximum number of allowances authorized — in this case, 10% of the allowances at auction.

• Step 3: Ecology can only withhold 10,000 allowances
  • Ecology eliminates Bidder C’s bid for 8,000 allowances at $22.25, plus 2,000 allowances of Bidder D’s bid at $22.75. This raises the final settlement price to $22.75 – which is below the ECR trigger price.
Questions?

• Emissions Containment Reserve
• Emissions Containment Reserve example
Emissions Containment Reserve

Allowances go into the Emissions Containment Reserve account

• Ecology puts 2% of the allowances in each annual allowance budget into the ECR for 2023–2026. (WAC 173-446-375(1)(a))

• When the Emissions Containment Reserve trigger price is met and Ecology withholds allowances from auctions (WAC 173-446-375(1)(e))

• When allowances are unsold after regular allowance auctions and future allowance auctions (WAC 173-446-375(1)(b))

• When EITE facilities are curtailed or close (WAC 173-446-375(1)(c))

• When facilities fall below the emissions threshold (WAC 173-446-375(1)(d))
Emissions Containment Reserve

Ecology distributes allowances from the Emissions Containment Reserve account

• By auction when new covered and opt-in entities enter the program (WAC 173-446-375(3)(a))

• At no cost to a new or expanded EITE facility with CO₂e emissions greater than 25,000 MT/yr (WAC 173-446-375(2)(b))
  • For the first compliance period applicable to the new or expanded facility
  • These allowances must be retired by the facility
Emissions Containment Reserve Auctions

Follow the same process as auctions of current and past vintage allowances (WAC 173-446-375(3)(b))

except...

Only covered entities and opt-in entities may participate
Allowance Price Containment Reserve

• Purpose
  • To contain unanticipated high compliance costs for covered and opt-in entities by keeping allowance prices from getting too high (RCW 70A.65.159(2))

• Mechanism
  • When the settlement price in an auction gets high, Ecology will auction allowances from the Allowance Price Containment Reserve. (WAC 173-446-370(2))
  • Allowance Price Containment Reserve auctions offer allowances at two different tier prices that are between the ECR trigger price and the ceiling price. (WAC 173-446-370(5))
    • These tier prices will increase each year. (WAC 173-446-370(5))
    • We have not set them yet.
Allowance Price Containment Reserve

• Ecology is required to put into the Reserve
  • A number of allowances equal to at least 2% of each annual allowance budget (RCW 70A.65.150(2))

• We are proposing to put into the Reserve
  • 5% of the annual allowance budgets for the first compliance period (WAC 173-446-370(1))
  • To reduce pressure on price ceiling units, which are more expensive and expand the cap
Allowance Price Containment Reserve

Ecology distributes allowances from the Allowance Price Containment Reserve by auction when

- The auction settlement price at the previous auction is at or higher than the Tier 1 Allowance Price Containment Reserve price (WAC 173-446-370(2))

OR

- New covered entities and opt-in entities join the program.
  - Only if the Emissions Containment Reserve is empty (WAC 173-446-370(3))

OR

- Once a year after the final regular auction of the year and before the compliance deadline (not included in the draft language we emailed)
Allowance Price Containment Reserve Auctions

- Follow the same process as auctions of current and past vintage allowances
  - except...
  - Different price structure (WAC 173-446-370(5))
    - Two tier prices
    - Bids must be at one of the tier prices
  - Only covered entities and opt-in entities may participate (WAC 173-446-370(4))
Price Ceiling

Purpose

• To limit extraordinarily high prices (RCW 70A.65.150(1))

Mechanism

• Provides an upper benchmark
  • Against which to set tier prices for Allowance Price Containment Reserve auctions
  • To help determine when to hold Allowance Price Containment Reserve auctions
• Provides the price of last resort for price ceiling units
Price Ceiling Units

Price ceiling units

• Are sold at the auction ceiling price (WAC 173-446-385(2))
• Are sold only to covered and opt-in entities with insufficient compliance instruments to meet the next compliance deadline (WAC 173-446-380(3))
• Are sold only in sufficient number to cover covered and opt-in entities’ need for compliance instruments for the next compliance deadline (WAC 173-446-380(3))
• Are sold only when there are no more allowances in the Allowance Price Containment Reserve (WAC 173-446-380(1))
• Cannot be traded and must be retired for compliance at the next compliance deadline (WAC 173-446-385(8))
Price Ceiling Unit Sales

• Only held if there are no allowances in the Allowance Price Containment Reserve (WAC 173-446-380(1))

• Only held by request from a covered or opt-in entity (WAC 173-446-385(3))

• Only held between the last auction of the year and the compliance obligation deadline for the year (WAC 173-446-385(1))

• Participation limited to covered and opt-in entities that can demonstrate to Ecology’s satisfaction that they tried, but were unable to acquire sufficient compliance instruments to meet their compliance obligations for the immediately upcoming compliance deadline (WAC 173-446-385(4))
Price Containment Mechanisms – Recap

• Price floor – Can’t sell allowances at auction for less than the floor price
• ECR trigger price – Ecology withholds allowances from auction to raise the settlement price to the ECR trigger price
• APCR – Ecology to offer allowances for auction when the settlement price in the previous auction reaches the Tier 1 APCR price
• Ceiling price – Ecology to sell price ceiling units at the ceiling price as necessary
Questions?

• Allowance Price Containment Reserve
• Allowance Price Containment Reserve Auctions
• Price ceiling units
• Price ceiling unit sales
• Other?
Feedback Welcome

• Stakeholder meetings are designed to provide you with the information you need to give Ecology your considered feedback.
  • The informal public comment period for this rulemaking is November 8, 2021 – January 26, 2022 (extended).

• The most effective way for you to submit your comments and suggestions is through https://aq.ecology.commentinput.com/?id=mgir9.

• Contact Cooper Garbe at cooper.garbe@ecy.wa.gov or 360-485-7216.
Wrap Up

• After informal comment period ends, we will be working on the proposed rule.
• Recordings are available on request
  • cooper.garbe@ecy.wa.gov
Questions?

Cooper Garbe
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360-485-7216